
IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



KWAN ON HOLDINGS

均安控股

KWAN ON HOLDINGS LIMITED

均安控股有限公司

(incorporated in the Cayman Islands with limited liability)

**LISTING ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF PLACING**

**Number of Placing Shares : 240,000,000 Shares (comprising
120,000,000 New Shares and
120,000,000 Sale Shares)**

**Placing Price : HK\$0.30 per Share, plus brokerage fee of
1%, SFC transaction levy of 0.0027%,
and Stock Exchange trading fee of
0.005% (payable in full on application
in Hong Kong Dollars)**

Nominal value : HK\$0.01 per share

Stock Code : 8305

Sponsor



大有融資有限公司
MESSIS CAPITAL LIMITED

Bookrunner and Lead Manager



CNI[®] SECURITIES GROUP LIMITED
中國北方證券集團有限公司

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Placing Shares should note that the obligations of the Underwriter under the Underwriting Agreement are subject to termination by the Underwriter upon the occurrence of any of the events set forth under the subparagraph headed "Grounds for termination" of the paragraph headed "Underwriting arrangements and expenses" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out in the section headed "Underwriting" in this prospectus.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

2015
(Note 1)

Announcement of the level of indication of interest in the Placing to be published on the GEM website at www.hkexnews.hk and our Company's website at www.kwanonconstruction.com	Thursday, 26 March
Allotment of the Placing Shares on or about	Thursday, 26 March
Deposit of share certificates for the Placing Shares into CCASS on or about (Note 2)	Thursday, 26 March
Dealings in the Shares on GEM to commence at 9:00 a.m. on (Note 3 & 4)	Friday, 27 March

Notes:

1. All times and dates refer to Hong Kong times and dates, except as otherwise stated.
2. The Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on or about Thursday, 26 March 2015 for credit to the relevant CCASS Participants' or the CCASS Investor Participants' stock accounts designated by the Lead Manager, the placees or their respective agents (as the case may be). No temporary documents or evidence of title will be issued.
3. For details of the structure of the Placing, including conditions thereof, please refer to section headed "Structure and Conditions of the Placing" of this prospectus.
4. If there is any change to the above expected timetable, a separate announcement will be made by our Company (for ourselves and on behalf of the Vendors).

Share certificates will only become valid certificates of title provided that, no later than 8:00 a.m. on the Listing Date, the Placing has become unconditional and the Underwriting Agreement has not been terminated in accordance with its terms. If the Underwriting Agreement does not become unconditional or is terminated in accordance with its terms and conditions, our Company will make an announcement as soon as possible.

No dealing in the Placing Shares should take place prior to the Listing Date. Investors who trade the Placing Shares on the basis of publicly available allocation details prior to the receipt of the Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sponsor and the Underwriter have not authorised any persons to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Underwriter, any of their respective directors or affiliates of any of them, or any other persons or parties involved in the Placing. The contents on our Company's website at <http://www.kwanonconstruction.com> do not form part of this prospectus.

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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

SUMMARY

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.

SUMMARY

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

SUMMARY

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				

SUMMARY

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\$55.53 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	

SUMMARY

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.

SUMMARY

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	
	2013	2014	30 September	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.

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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,

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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

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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.

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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.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Articles”	the articles of association of our Company adopted on 16 March 2015 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under Rule 20.06(2) of the GEM Listing Rules
“Bridge Land”	Bridge Land Development Limited, a company incorporated in Hong Kong with limited liability on 15 August 1991 which is beneficially owned as to approximately 0.04% and 99.96% by Mr. Tony Wong and Fortune Peace respectively
“Bright Link”	Bright Link Co., Ltd., a company incorporated in the BVI with limited liability on 18 June 1999 which is wholly and beneficially owned by Mr. Andy Wong
“Board”	the board of Directors
“Bookrunner” or “Lead Manager”	CNI Securities Group Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under SFO, being the underwriter, the bookrunner and the lead manager to the Placing
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 839,000,000 Shares to be made upon capitalisation of part of the amount standing to the credit of the share premium account of our Company referred to in the paragraph headed “3. Written resolutions of our Shareholders” under the subsection headed “Further information about our Company” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

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“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“China Geo”	China Geo-Engineering Corporation, a state-owned enterprise established in the PRC in 1982 and an Independent Third Party
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”	Kwan On Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 6 December 2012, or where the context refers to any time prior to its incorporation, those businesses and operations which were assumed by it pursuant to the Reorganisation, or where the context requires, any of the businesses and operations that is or was carried on by any member of our Group
“connected person(s)”	has the meaning ascribed thereto under Rule 20.06(7) of the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and in the context of this prospectus, refer to Decade Success, Fortune Decade, Success Ally, Twilight Treasure, Mr. Tony Wong, Ms. Chiu, Mr. Andy Wong, Mr. Newton Wong and Mr. Kwong
“core connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of our Company

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“Decade Success”	Decade Success Investments Limited, a company incorporated in the BVI with limited liability on 23 August 2012 which is wholly and beneficially owned by Mr. Kwong
“Deed of Indemnity”	the deed of indemnity dated 20 March 2015 given by the Indemnifiers, namely our Controlling Shareholders, in favour of our Company, pursuant to which our Controlling Shareholders jointly and severally provide certain indemnities for the benefit of our Company (for itself and as trustee for our subsidiaries)
“Deed of Non-competition”	the deed of non-competition dated 20 March 2015 given by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the section headed “Controlling Shareholders” in this prospectus
“Employees’ Compensation Ordinance”	the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), as amended, supplemented and modified from time to time
“Fortune Decade”	Fortune Decade Investments Limited, a company incorporated in the BVI with limited liability on 23 August 2012 which is wholly and beneficially owned by Mr. Tony Wong
“Fortune Peace”	Fortune Peace Limited, a company incorporated in Hong Kong with limited liability on 4 June 2007 which is wholly and beneficially owned by Mr. Andy Wong
“Garwealth”	Garwealth Investment Limited (previously named Univic Energy Limited and Four Seas – Univic Joint Venture Limited), a company incorporated in Hong Kong with limited liability on 24 April 1981 which is wholly and beneficially owned by Mr. Tony Wong
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM website”	the internet website www.hkgem.com operated by the Stock Exchange for the purposes of GEM
“Government”	the Government of Hong Kong

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“Group”	our Company and our subsidiaries or any of them or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company, and a “member of our Group” means any of them
“HKAS”	Hong Kong Accounting Standards, amendments and interpretations issued by HKICPA
“HKFRS”	Hong Kong Financial Reporting Standards, amendments and interpretations issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Legal Advisers”	Michael Li & Co., the legal advisers to our Company as to Hong Kong law in relation to the Listing
“Indemnifiers”	the Controlling Shareholders
“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive, or substantial Shareholders, our subsidiaries or any of their respective associates
“IRD”	Inland Revenue Department of the Government
“IRO”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“KOBCL”	Kwan On Building Contractors Limited, a company incorporated in Hong Kong with limited liability on 10 July 1967 and dissolved on 23 June 2005
“KOCHL”	Kwan On Construction (Holdings) Limited, a company incorporated in Hong Kong with limited liability on 11 July 2001 which is beneficially owned as to approximately 2.45%, less than 0.01%, 45.45%, 30.23% and 21.87% by Mr. Kwong, Mr. Tony Wong, Newtollent, Bright Link and Garwealth respectively

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“Kwan On”	Kwan On Construction Company Limited (previously named Technic Light Limited), a company incorporated in Hong Kong with limited liability on 28 May 1991 and a wholly-owned subsidiary of our Company
“Kwan On – China Geo”	a joint operation formed by Kwan On and China Geo on 12 August 2013 under the name of “Kwan On – China Geo Joint Venture” for the purpose of submitting the tender and the subsequent execution of the works relating to the contract 4/WSD/11
“Kwan On – U-Tech 1”	an unincorporated joint venture formed between Kwan On and U-Tech on 29 July 2011 for the purpose of submitting the tender and the subsequent execution of the works relating to the contract 10/WSD/10
“Kwan On – U-Tech 2”	a joint operation formed by Kwan On and U-Tech on 16 December 2013 under the name of “Kwan On – U-Tech Joint Venture” for the purpose of submitting the tender and the subsequent execution of the contract 9/WSD/13
“Latest Practicable Date”	16 March 2015, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which the trading of the Shares first commences on GEM
“Listing Division”	the Listing Division of the Stock Exchange
“Messis Capital” or “Sponsor”	Messis Capital Limited, the sole sponsor of our Company in the Listing, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Minimum Wage Ordinance”	the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Mr. Andy Wong”	Mr. Wong Ming San Andy (黃鳴山), a son of Mr. Tony Wong and a Controlling Shareholder
“Mr. Chung”	Mr. Chung Chi Ngong (鍾志昂), an executive Director

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“Mr. Kwong”	Mr. Kwong Wing Kie (鄺永基), an executive Director and a Controlling Shareholder
“Mr. Newton Wong”	Mr. Wong Juen Gar Newton (黃纘嘉), a son of Mr. Tony Wong and a Controlling Shareholder
“Mr. Tony Wong”	Mr. Wong Yee Tung, Tony (黃宜通), an executive Director and a Controlling Shareholder
“Ms. Chiu”	Ms. Chiu Gar Man (趙嘉文), the spouse of Mr. Tony Wong, a Controlling Shareholder
“New Shares”	120,000,000 new Shares being offered by our Company for subscription at the Placing Price under the Placing
“Newtollent”	Newtollent Company Limited, a company incorporated in Hong Kong with limited liability on 9 October 1981 which is beneficially owned as to approximately 28.57%, less than 0.01%, 42.86% and 28.57% by Mr. Kwong, Mr. Tony Wong, Bright Link and Garwealth respectively
“Ongoing Contracts”	contracts with contract numbers KL/2012/03, GE/2012/11, GE/2013/06, GE/2013/17, 9/WSD/13, 15/WSD/11, 20130375 and GE/2013/16, each of which has the percentage of works certified below 50% as at the Latest Practicable Date and will be completed after 30 September 2015
“Placing”	the conditional placing of the Placing Shares by the Underwriter on behalf of our Company and the Vendors for cash at the Placing Price subject to the terms and conditions as described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Price”	the final placing price for each Placing Share (excluding brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of HK\$0.30 per Share
“Placing Shares”	240,000,000 new Shares comprising 120,000,000 New Shares and 120,000,000 Sale Shares being offered at the Placing Price under the Placing subject to the terms and conditions as described in the section headed “Structure and Conditions of the Placing” in this prospectus

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“Reorganisation”	the reorganisation of our Group for the purpose of Listing, particulars of which are set out in the paragraph headed “Reorganisation” under the section headed “History and Development” in this prospectus
“Sale Shares”	120,000,000 existing Shares being offered by the Vendors for sale at the Placing Price under the Placing
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 16 March 2015, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Shiu Mau”	Shiu Mau Development Limited, a company incorporated in Hong Kong with limited liability on 21 October 1988 which is legally and beneficially owned by Mr. Tony Wong and Fortune Peace, which is in turn beneficially owned by Mr. Andy Wong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“Substantial Shareholder”	has the meaning ascribed to it in the GEM Listing Rules and details of our Substantial Shareholders are set out in the section “Substantial Shareholders” in this prospectus
“Success Ally”	Success Ally Investments Limited, a company incorporated in the BVI with limited liability on 3 August 2012 which is wholly owned by Mr. Tony Wong
“Track Record Period”	the two years ended 31 March 2014 and the six months ended 30 September 2014

DEFINITIONS

“Twilight Treasure”	Twilight Treasure Limited, a company incorporated in BVI with limited liability on 13 August 2012 which is owned as to 12.5% by Decade Success and 87.5% by Success Ally
“UBCL”	Univic Building Contractors Limited (previously named Eastline Limited and HS-U Construction Management Company Limited), a company incorporated in Hong Kong with limited liability on 13 July 1993 and a wholly-owned subsidiary of our Company
“UCRL”	Univic Construction Resources Limited (previously named Golden Valley Development Limited and Slope Safe Limited), a company incorporated in Hong Kong with limited liability on 25 June 1992 and a wholly-owned subsidiary of our Company
“UEL”	Univic Engineering Limited, a company incorporated in Hong Kong with limited liability on 23 April 1980 and a wholly-owned subsidiary of our Company
“UECL”	Univic Engineering and Construction Limited (previously named Univic International Limited), a company incorporated in Hong Kong with limited liability on 9 September 1975 and a wholly-owned subsidiary of our Company
“UEWL”	Univic Earthworks Limited (previously named Sheenway Limited), a company incorporated in Hong Kong with limited liability on 30 May 2003 and a wholly-owned subsidiary of our Company
“UFCL”	Univic Fireproofing & Construction Limited (previously named Univic (China) Limited, Univic World Trade Limited and Univic Fire Protection Materials Limited), a company incorporated in Hong Kong with limited liability on 23 April 1980 and a wholly-owned subsidiary of our Company
“U-Tech”	U-Tech Engineering Company Limited, a company incorporated in Hong Kong with limited liability on 22 July 1998 and a connected person of our Company in respect of Kwan On – U-Tech 1
“Underwriter”	the underwriter of the Placing named in the paragraph headed “Underwriter” in the section headed “Underwriting” in this prospectus

DEFINITIONS

“Underwriting Agreement”	the conditional underwriting agreement dated 20 March 2015 made between our Company, our executive Directors, our Controlling Shareholders, the Sponsor and the Underwriter relating to the Placing, brief particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Vendors”	collectively, Fortune Decade and Twilight Treasure, details of which are set out in the paragraph headed “Particulars of the Vendors” in Appendix IV to this prospectus
“Win Vision”	Win Vision Holdings Limited, a company incorporated in the BVI with limited liability on 10 August 2012 and a wholly-owned subsidiary of our Company
“HK\$” and “cents”	the Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong
“km”	kilometre
“m ² ” or “sq.m.”	square metre
“m ³ ”	cubic metre
“sq.ft.”	square feet
“%”	per cent.

GLOSSARY

The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

“ArchSD”	Architectural Services Department of the Government (建築署)
“BD”	Buildings Department of the Government (屋宇署)
“CAR/TPL Insurance”	the contractor all risk or third party liability insurance
“CEDD”	Civil Engineering and Development Department of the Government (土木工程拓展署)
“Contractor List”	the list of approved contractors for public works (認可公共工程承建商名冊) maintained by WBDB
“CSD”	Census and Statistics Department of the Government (政府統計處)
“DSD”	Drainage Services Department of the Government (渠務署)
“EPD”	Environmental Protection Department of the Government (環境保護署)
“employed capital”	issued and paid up capital and shareholders’ funds
“employer of contract”	the Government
“EMSD”	Electrical and Mechanical Services Department of the Government (機電工程署)
“ETWB”	Environment, Transport and Works Bureau of the Government (環境運輸及工務局), formerly a policy bureau of the Government, the duties of which are now taken over by the Environment Bureau, Transport and Housing Bureau and WBDB following the reorganisation of the Policy Bureau and Government Secretariat
“ETWB Handbook”	Contractor Management Handbook (Revision B-13) May 2014 (承建商管理手冊–修訂版B) issued by ETWB
“Government Gazette”	the official publication of the Government for, among other things, statutory notices for public tenders

GLOSSARY

“Group A”	Group A of the relevant works category in the Contractor List with tender limit for contracts of value up to HK\$75 million. A Group A contractor means an approved contractor who satisfies Group A’s qualifications. Please refer to the section headed “Regulatory Overview” in this prospectus for details
“Group B”	Group B of the relevant works category in the Contractor List with tender limit for contracts of value up to HK\$185 million. A Group B contractor means an approved contractor who satisfies Group B’s qualifications. Please refer to the section headed “Regulatory Overview” in this prospectus for details
“Group C”	Group C of the relevant works category in the Contractor List with tender limit for contracts of any values exceeding HK\$185 million. A Group C contractor means an approved contractor who satisfies Group C’s qualifications. Please refer to the section headed “Regulatory Overview” in this prospectus for details
“HyD”	Highways Department of the Government (路政署)
“HA”	Hong Kong Housing Authority (香港房屋委員會)
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, which develops and publishes international standards such as management system standards
“ISO9000”	a family of standards set by ISO for quality management system under which an organisation needs to demonstrate its ability to provide products that fulfill customers and applicable regulatory requirements and aim to enhance customer satisfaction
“ISO9001”	ISO9001 is a member of that family of the ISO9000 which sets out requirements for ongoing improvement of product quality and services and design. ISO9001:2000 was withdrawn on 15 November 2010 and replaced by ISO9001:2008. ISO9001:2008 provides a set of standardised requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of the system

GLOSSARY

“ISO9002”	ISO9002 certification is an internationally recognised standard for quality assurance model. As a family member of the ISO9000, it sets out the quality system requirements for production, installation and servicing. ISO9002:1994 was withdrawn on 5 January 2004
“LPM Services”	landslip preventive and mitigation works to slopes and retaining walls services
“main contractor” or “principal contractor”	a contractor who enters into a contract directly with the employer of a project, and assumes full responsibility for the satisfactory completion of the construction work. A main contractor or a principal contractor operating at construction sites must be registered under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for the capability and responsibility of undertaking new construction work, and in case of Government works, approved by the WBDB
“R&R Programme”	the Replacement and Rehabilitation of Water Mains Programme launched by WSD since 2000
“reportable accident”	an accident in an industrial undertaking resulting in the death of or serious bodily injury to a person or the incapacity of a person for a period exceeding 3 days immediately following the accident that must be notified by the proprietor of the industrial undertaking to the Labour Department of Hong Kong in accordance with section 17 of the Factories and Industrial Undertakings Regulations (Chapter 59A of the Laws of Hong Kong)
“Specialist List”	the list of approved suppliers of materials and specialist contractors for public works (認可公共工程物料供應商及專門承造商名冊) maintained by WBDB
“WBDB”	Works Branch of the Development Bureau (發展局工務科) of the Government
“working capital”	the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities
“WSD”	Water Supplies Department of the Government (水務署)

FORWARD-LOOKING STATEMENTS

Our Company has included in this prospectus forward-looking statements that are not historical facts, but relate to its intentions, beliefs, expectations or predictions for future events. These forward-looking statements are contained principally in the sections entitled “Summary”, “Risk Factors”, “Industry Overview”, “Business”, and “Financial Information”, which are, by their nature, subject to risks and uncertainties.

In some cases, our Company uses the words “aim”, “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “might”, “ought to”, “plan”, “potential”, “predict”, “project”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions or statements to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business strategies and plan of operation;
- our Group’s capital expenditure plans and capital resources;
- the amount and nature of, potential for, future development of our Group’s business;
- our Group’s operation and business prospects;
- our Group’s dividend policy;
- the regulatory environment of our industry in general;
- the future development in our industry; and
- other statements in this prospectus that are not historical facts.

Our Directors confirm that these forward-looking statements are made after due and careful consideration.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our Company’s control. In addition, these forward-looking statements reflect the current views of our Company with respect to future events and are not a guarantee of future performance.

Additional factors that could cause actual performance or achievements to differ materially include, without limitation, those discussed under the section headed “Risk factors” in this prospectus.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. Our Company undertakes no obligations to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our Company’s control. Our Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

FORWARD-LOOKING STATEMENTS

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Our business, financial condition and results of operations could be materially and adversely affected by any of the risks stated below. The trading prices of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR GROUP

Our Group relies heavily on the contracts granted by the Government during the Track Record Period, and our Group's 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

During the Track Record Period, the customer base of our Group was highly concentrated. 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 Group's total revenue for each of the two years ended 31 March 2014 and the six months ended 30 September 2014. Contracts from the Government are normally awarded to contractors on the Contractor List and the Specialist List by way of public tender. Approved contractors on the Contractor List and approved specialist contractors on the Specialist List are subject to a regulatory regime which is put in place to ensure that standards of financial capability, expertise, management and safety are maintained by those contractors carrying out the Government's works. An approved contractor could be prohibited from tendering for public works of the relevant category during a suspension period if a serious construction accident occurs at a construction site for which such contractor is responsible for the safety performance of such contractor is not satisfactory. There is no assurance that serious accident will not occur at construction sites for which we are responsible, or that we will not be subject to regulatory actions in the future which may have an adverse impact on our overall operations or on our eligibility to tender for public works of the Government. In the event that our Group fails to secure contracts from the Government or there is significant reduction of contracts from the Government in the future, our Group's business, results of operations and profitability may be adversely affected.

Our Group determines the tender price based on the estimated time and costs involved in a project which may deviate from the actual time and costs involved and give rise to delays in completion of works or cost overruns

Since contracts for the public and private sectors are normally awarded through competitive tendering process, our Group needs to estimate the time and costs in order to determine the tender price before submitting the tender. There is no assurance that the actual execution time and costs of the project would not exceed our Group's estimation.

The actual time taken and cost involved in completing contracts undertaken by our Group may be adversely affected by a number of factors, such as shortage or cost escalation of materials and labour, adverse weather conditions, additional variations to the work plans requested by the customers, disputes with the subcontractors, accidents and any other

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unforeseen problems and circumstances. Any of the aforesaid factors may give rise to delays in completion of works or cost overruns, which in turn may adversely affect our Group's financial condition, profitability or liquidity. Two contracts, namely, contracts TK/2008/01 and 26/WSD/06, which had been completed during the Track Record Period, have, as a result of delays in completion of works, costs overrun and variation orders, resulted in losses of approximately HK\$7.9 million and HK\$14.6 million respectively recorded by our Group prior to the Track Record Period. The total losses before the Track Record Period for these two contracts recorded by our Group were approximately HK\$22.5 million. Please refer to the paragraphs headed "Net current assets/(liabilities)" on pages 251 and 252 under the section headed "Financial information" in this prospectus for further details. During the Track Record Period, no further loss had been recognised due to the aforementioned factors for contracts TK/2008/01 and 26/WSD/06.

During the six months ended 30 September 2014, as certain works done under contracts 24/WSD/09 and 6/WSD/11 have not been certified and thus the recoverability of the relevant payments by the customers is uncertain and have not been recognized as revenue, our Group recognised losses for contracts 24/WSD/09 and 6/WSD/11 of approximately HK\$2.1 million and HK\$15.1 million respectively, amounting, in total, to approximately HK\$17.2 million, in relation to delays in completion of works, costs overrun and variation orders.

Please refer to the paragraphs headed "Comparison of the year ended 31 March 2014 and 31 March 2013" on pages 232 to 233 and paragraphs headed "Comparison of the six months ended 30 September 2013 and 30 September 2014" on pages 235 to 236 under the section headed "Financial Information" in this prospectus for further details.

Delays in the process of obtaining specific licences, permits or approvals from the Government agencies or authorities in carrying out any particular project could also increase the cost or delay the progress of a project. Failure to complete works according to our client's specifications and quality standards on a timely basis may result in dispute, contract termination, liabilities and/or lower returns than we anticipated regarding the project concerned. Such delays or failures to complete may cause our turnover or profitability to be lower than what we have projected.

Our results of operation may be affected by the completion of the R&R Programme

During the Track Record Period, revenue generated from WSD represented approximately 50.9%, 52.9% and 36.0%, respectively of our Group's total revenue for each of the two years ended 31 March 2014 and the six months ended 30 September 2014. As set out in the section headed "Industry Overview" in this prospectus, the R&R Programme with an estimated total cost of HK\$23.6 billion will be completed in 2015 and all waterworks contracts under the R&R Programme have been tendered and awarded by WSD as at the Latest Practicable Date. In the event that there is no new programme launched by WSD or there is significant reduction of capital expenditure by WSD on waterworks related projects, our Group's results of operations and profitability may be adversely affected.

RISK FACTORS

There are risks associated with our Group's proposed increase in site formation and roads and drainage works as we face more potential competition from competitors under those categories on the Contractor List and we are subject to the upper limit of the tendered contract sum for site formation works

In providing road works and drainage services, our Group being a Group C contractor (confirmed) under the category of "Roads and Drainage" competes primarily with other Group C contractors under the same category on the Contractor List. According to the information published by WBDB, there are 41 Group C contractors (confirmed) under the category of "Roads and Drainage" on the Contractor List while there are 22 Group C contractors (confirmed) under the category of "Waterworks". Since there are more Group C contractors (confirmed) under the category of "Roads and Drainage" than under the category of "Waterworks", tendering for road works and drainage contracts may be more competitive than tendering for waterworks contracts. Therefore, due to the competition, there is no assurance that our Group will be able to secure new contracts, whether in terms of number and/or contract value, or at all, as compared to contracts awarded to our Group during the Track Record Period. In addition, as we are a Group B contractor (confirmed) under the category of "Site Formation", the highest tendered sum our Group can offer for each project in respect of public works under the category of "Site Formation" is HK\$185 million. The upper limit of the tendered sum will limit the size of projects that our Group can tender for. The competition and the upper limit of the tendered sum may affect our operating results.

We may experience a material adverse change in our financial results for the year ending 31 March 2015 which is attributable to the Listing expenses

It is estimated that an aggregate amount of approximately HK\$18.6 million would be paid to the Underwriter and various professional parties as Listing expenses, of which approximately HK\$7.9 million are expected to be recognised in our combined statement of comprehensive income in the year ending 31 March 2015. Whether or not the Listing eventually occurs, a major portion of the Listing expenses will have been incurred and recognised as expenses, which will reduce our net profit and therefore negatively affect our financial performance. In addition, if the Listing were to be postponed due to market conditions, we would also need to incur additional Listing expenses for our future listing plan, which would further negatively affect our future net profit. As a result, our business, financial performance, results of operations and prospect may be materially and adversely affected.

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

Our financial performance fluctuated significantly during and prior to the Track Record Period. For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, our Group's revenue amounted to approximately HK\$311.9 million, HK\$393.3 million and HK\$332.4 million, respectively and our Group's net profit amounted to approximately HK\$5.7 million, HK\$23.6 million and HK\$7.4 million, respectively. Such trend of our financial performance is an indication of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in

RISK FACTORS

the future which will depend to a large extent on our ability to secure new contracts and to control our costs and expenditures. There is no assurance that our Group could achieve the same or higher level of financial performance as we did during the Track Record Period in the future.

Our Group recorded net current liabilities and net liabilities as at 31 March 2013

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 mainly attributable to (i) the recognition of expected losses arising from three contracts TK/2008/01, 26/WSD/06 and 6/WSD/06 as amounts due to customers under current liabilities; and (ii) the increase in borrowings and the increase in bank overdrafts of approximately HK\$7.9 million and approximately HK\$12.8 million respectively for the year ended 31 March 2013 which corresponded to our increase in bank borrowings as a means to finance our construction projects.

We cannot assure you that we will not record net current liabilities and net liabilities in the future. In the event that there is a continuous substantial increase in the price of construction materials or significant disagreements in relation to variation works between our customers and us or significant deletion in amount of works by our customers or we fail to raise sufficient funds to refinance our short-term bank borrowings or finance our capital commitments, our Group's business, results of operations, profitability and liquidity could be adversely affected.

Our Group's business operation is subject to licences maintained by Kwan On under various work categories and any delay or failure in renewing such licences could significantly hinder our business and affect our future financial results

A contractor has to be included in the Contractor List or the Specialist List under one or more of the work categories maintained by WBDB in order to be eligible to tender for projects in the public sector in Hong Kong. The Government reserves the right to remove any contractor from the Contractor List or the Specialist List or take other regulatory actions against a contractor such as withdrawal, suspension, revocation, downgrading or demotion to a lower level group, in respect of all or any of the work categories, if the contractor's performance or tendering record is found to be unsatisfactory or the contractor is unable to meet the relevant financial, technical and management criteria for retention on the lists.

Kwan On holds all principal licences as an approved contractor under various work categories in order to be eligible to tender for contracts from the Government. The qualification of Kwan On for retention of its licences is considered and reviewed by WBDB as a whole. If Kwan On failed in such review, all licences held by it (i.e. the listing status of Kwan On on the Contractor List), would be revoked. In the event that any of Kwan On licences in any of the work categories is withdrawn, suspended, revoked, downgraded or demoted to a lower level group, the prospects and operation of our Group could be adversely affected.

RISK FACTORS

We may not be able to implement our business objectives in full if Kwan On could not fulfill minimum employed capital and working capital requirements imposed by WBDB for respective categories

Kwan On is required to fulfill the minimum employed capital and working capital requirements imposed by WBDB for retention on the Contractor List for respective categories. In particular, the minimum employed capital for retention on the Contractor List for Group C (confirmed) under the categories of “Waterworks” and “Roads and drainage”, shall be HK\$18,800,000 plus HK\$2,000,000 for every HK\$100 million of annualised outstanding works or part thereof above HK\$950 million. The minimum working capital shall be HK\$18,800,000 or 8% on the first HK\$950 million of annualised outstanding works and 10% on remainder, whichever is higher. As such, the current levels of employed capital and working capital of Kwan On from time to time may impose limitations on the number and size of the contracts which we can tender for and undertake as a main contractor.

We may be liable to pay liquidated damages if we fail to meet the completion schedule requirements of our contracts

Substantially all of our Group’s contracts are subject to specific completion schedule requirements and we will be liable to pay liquidated damages if our Group does not meet the time schedules. Liquidated damages are typically levied at a rate provided in the relevant contract on a daily basis. Any failure to meet the time schedule requirements of the contracts may result in our Group being liable to pay significant liquidated damages, which would adversely affect our liquidity and cash flows and have a material adverse effect on our business, financial condition, results of operations, reputation and prospect.

Our results of operation depend significantly on our success rate on project tendering and our project management liability

For each of the two years ended 31 March 2014 and since 1 April 2014 up to the Latest Practicable Date, our Group submitted 20, 34 and 29 tenders respectively and was awarded 2, 8 and 2 contracts respectively. The success rate on project tendering was approximately 10.0%, 23.5% and 6.9% for the respective year/period. There is no assurance that our Group could achieve the same or higher success rate in the future as we did in the past. In the event that our Group fails to secure new contracts or there is a significant reduction of contracts for bidding in the future, our business, results of operations and profitability may be adversely affected.

We recorded net current liabilities and net liabilities as at 31 March 2013 which were mainly attributable to the recognition of expected losses arising from three projects TK/2008/01, 26/WSD/06 and 6/WSD/06. Our projects may record losses in the event that we fail to manage them properly and our results of operations may be adversely affected accordingly.

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Our Group relies on certain principal subcontractors to implement the contracts. There is no assurance that these principal subcontractors will be able to continue providing services to us at fees acceptable to us or our relationship with them could be maintained in the future

For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, our Group's subcontracting costs amounted to approximately HK\$187.6 million, HK\$221.8 million and HK\$231.8 million, respectively, representing approximately 66.5%, 64.9% and 74.0% of the total cost of services respectively. During the same period, the subcontracting costs paid to our Group's largest subcontractor accounted for approximately 18.5%, 14.1% and 28.2% of our Group's total subcontracting costs respectively and the subcontracting costs paid to our Group's five largest subcontractors accounted for approximately 54.2%, 48.2% and 63.6% of our Group's total subcontracting costs respectively. There is no assurance that these principal subcontractors will be able to continue providing services to our Group at fees acceptable to us or our relationship with them could be maintained in the future. In the event that any of our principal subcontractors is unable to provide the required services to our Group or their costs for providing the required services increase substantially, our Group's business, results of operations, profitability and liquidity may be adversely affected.

There may exist potential risks of contractual non-performance, bankruptcy or liquidation of the subcontractors and/or possible bankruptcy or liquidation of our business partners under the joint operations in respect of the contracts 9/WSD/13 and/or 4/WSD/11

According to the terms agreed of the contract with the Government in respect of the contracts 9/WSD/13 and 4/WSD/11, Kwan On and its business partners are jointly and severally liable to the Government for the due observance and punctual performance of the respective obligations of our Group's joint operations, namely Kwan On – U-Tech 2 and Kwan On – China Geo. Should the subcontractors who are appointed by the relevant joint operation to undertake the works under the relevant contract be in default of their subcontracting obligations towards the relevant joint operation due to bankruptcy, liquidation or any other reason which lead to losses, damages, costs and expenses suffered by the Government, Kwan On and its business partners shall indemnify the Government against such losses, damages, costs and expenses arising out of any act, default or omission on the part of the relevant joint operation in the performance of the relevant contract. In addition, a partnership is dissolved as regards all the partners by the death or bankruptcy of any partner subject to any agreement between the partners under section 35(1) of the Partnership Ordinance (Chapter 38 of the Laws of Hong Kong). Accordingly, in the event that the business partner of the relevant joint operation becomes bankrupt or liquidated, the relevant joint operation will be dissolved and Kwan On, being the sole surviving partner, shall continue to perform its obligations under the relevant contract on its own account. As such, any contractual non-performance, bankruptcy or liquidation of the subcontractors and/or possible bankruptcy or liquidation of our business partners under the joint operation in respect of the contracts 9/WSD/13 and/or 4/WSD/11 may adversely affect our business, results of operation and profitability.

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Some of our subcontractors had not entered into written subcontracting agreements with us during the Track Record Period and the interests of our Group may not be well protected if any conflict or dispute arises

During the Track Record Period, certain subcontractors had not entered into any general subcontracting agreements with us. Instead, these subcontractors simply submitted quotation for our consideration. Works were being carried out at the same time as details of the quotation were finalised. Although verbal contracts shall be as equally valid and binding as written contracts, the interests of our Group may not be well protected if any conflict or dispute arises out of the verbal contracts. It would be difficult for us to prove the existence and/or the contents of the verbal terms in court since such terms had not been recorded in writing. Subcontracting charges paid to subcontractors who had not entered into subcontracting agreements for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$149.4 million, HK\$120.2 million and HK\$73.8 million respectively, representing approximately 79.7%, 54.2% and 31.8% of the total subcontracting charges incurred respectively.

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

Our projects are normally awarded through competitive tendering process and therefore there is no commitment from our clients. In the event that we fail to secure new contracts or there is significant reduction of contracts from our clients going forward, our business and results of operations may be adversely affected. Furthermore, the profit margin of each project significantly depends on various factors, such as the terms of the contracts, the length of the contractual period, the efficiency of implementation of the contractual works and the general market conditions which are beyond our Group's control. As a result, the income flow and the profit margin of each project which depend on the terms of the work contracts may not be entirely regular and consistent and there is no assurance that the profitability of a project can be maintained or estimated at any level. If the profit margin of projects significantly deviates from the estimation of our Directors, our Group's financial position could be adversely affected.

Our Group's business is labour-intensive and subject to due compliance with the Minimum Wage Ordinance and annual salary review of construction workers by Hong Kong Construction Industry Employees General Union ("HKCIEGU")

All of waterworks engineering services, road works and drainage services, LPM Services, building works and site formation works are labour-intensive in nature. As at 31 March 2013, 31 March 2014, 30 September 2014 and the Latest Practicable Date, the total number of employees of our Group, comprising staff employed on a full-time basis and casual workers, was 331, 448, 595 and 635 respectively. For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, the direct labour costs of our Group amounted to approximately HK\$55.4 million, HK\$57.6 million and HK\$35.6 million, respectively. Successful implementation of contract works depends significantly on the availability of workers and their experiences and skills. During the Track Record Period, our

RISK FACTORS

Group and our subcontractors had not encountered any material difficulties in recruiting labour to work on our Group's projects. However, there is no assurance that the supply of skilled labour and average labour costs will remain stable. In the event that our Group or our subcontractors fail to retain the existing labour and/or recruit sufficient skilled labour in a timely manner to cope with the demand of our Group's existing or future projects and/or there is a significant increase in the labour costs, our Group may not be able to complete the projects on schedule and within budget and our Group's operations and profitability may be adversely affected.

The Minimum Wage Ordinance came into effect on 1 May 2011 and the current statutory wage level is fixed at HK\$30 per hour. As confirmed by our Directors, the prevailing market rates for workers in the construction industry are well above the current minimum statutory wage level. According to the 2013 Report on Annual Earnings and Hours Survey by CSD, the median hourly rate of employees in the construction industry for May to June 2013 is HK\$72.5. In the event that there is a substantial increase in the minimum statutory wage level or the payroll of construction workers according to the annual salary review by HKCIEGU, our Group may have to incur substantial extra labour costs. If our Group fails to transfer the increased cost burden to our customers, the profitability of our Group could be adversely affected.

Our Group's business could be affected by the fluctuation in the price of construction materials

During the Track Record Period, the principal construction materials used by our Group and our subcontractors include pipes, fittings, steel bars, concrete and asphalt, which are sourced from a number of suppliers. Fluctuations in price of major materials used by our Group are set out in the paragraph headed "Historical trend of construction costs in Hong Kong" under the section headed "Industry Overview" in this prospectus. For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, the total purchases of our Group amounted to approximately, HK\$26.5 million, HK\$24.1 million and HK\$21.3 million, respectively. Although most of our contracts provide for a contract price fluctuation clause (both upward and downward adjustments) with reference to certain price indices listed in the "Index Numbers of the Costs of Labour and Materials used in Public Sector Construction Projects" compiled by CSD and those items included in the "Schedule of Proportions", there is no assurance that any additional cost incurred by our Group due to the fluctuation in price of construction materials could be completely offset by such contract price adjustment mechanism. In the event that such price adjustment mechanism or other mitigating measure adopted by our Group fails to absorb all or a substantial portion of any increase in the price of construction materials in the future, our Group's business, results of operations, profitability and liquidity could be adversely affected.

Our Group's success significantly depends on our Directors and senior management and our ability to attract and retain additional technical and management staff

Our Group's success and growth depends on our ability to identify, hire, train and retain suitable, skilled and qualified employees, including management personnel with the requisite industry expertise. Our executive Directors are particularly important to us. Each of Mr. Tony Wong, Mr. Kwong and Mr. Chung has over 20 years of experience in the civil

RISK FACTORS

engineering industry of Hong Kong. Further information about their experiences is set out in the section headed “Directors, Senior Management and Staff” in this prospectus. If any of our executive Directors or member of our senior management cease to be involved in the management of our Group in the future and our Group is unable to find suitable replacements in a timely manner, there could be an adverse impact on the business, results of operations and profitability of our Group.

We may be subject to Section 82A penalty and/or additional tax liabilities in relation to the financial difference between our previous revenue recognition policy and the revenue recognition based on the stage of completion method under HKAS11

Our Group may be subject to a potential penalty of up to HK\$2,581,731 by virtue of Section 82A of the IRO (“the Section 82A penalty”) which is derived by arithmetically trebling the amount of the tax undercharged due to the understatement of profits in filing the profits tax return for the year of assessment 2011/12 by Kwan On – U-Tech 1 in relation to the financial difference between our previous revenue recognition policy and the revenue recognition based on the stage of completion method under HKAS 11. As at the Latest Practicable Date, our Group has not made any provision for such potential Section 82A penalty given that such potential tax penalty may or may not be incurred and such amount could not be ascertained unless we receive relevant notice from the IRD. In addition, the IRD has issued an assessment to Kwan On for the year of assessment 2012/13 on 29 November 2013 in accordance with the profits tax return filed under the IRD’s assessing programme of “Assess First Audit Later”. In the assessment, the assessable profits for the year of assessment 2012/13 are reduced by the reduction of assessable profits of approximately HK\$3,599,641 for year of assessment 2010/11 and HK\$528,352 for the year of assessment 2011/12. Under the programme of “Assess First Audit Later”, assessments will be issued based on the information reported in profits tax returns first and assessments may be selected for tax examination later. Should Kwan On fail to claim the reduction of assessable profits for the years of assessment 2010/11 and 2011/12, it will incur additional tax liabilities of approximately HK\$681,118 for the year of assessment 2012/13. As at the Latest Practicable Date, we had not received any response from the IRD in examining the claim. In the event that the IRD imposes the abovementioned Section 82A penalty on Kwan On – U-Tech 1 and/or additional tax liabilities under the programme of “Assess First Audit Later”, our Group’s results of operations and profitability could be adversely affected.

Our Group may not be able to lease appropriate equipment or machinery for particular projects which may result in failure to meet schedule requirements

Our works require the use of various equipment or machineries. In the event that machinery or equipment other than those possessed by our Group is required for undertaking the projects, we may acquire such machinery or equipment or lease the same from local suppliers who are Independent Third Parties. If we could not lease the appropriate equipment or machinery to fulfill the particular requirements of any projects, we may not be able to meet the schedule requirements of such contract, which may adversely affect our business, financial condition and results of operations.

RISK FACTORS

Failure to maintain safe construction sites and/or implement safety management measures may lead to occurrence of personal injuries or fatal accidents

Our Group has established a safety management system and implemented various risk control measures to provide a safe and healthy working environment to our staff and workers of our subcontractors. In addition, we have closely monitored and supervised our subcontractors in implementing all our safety management measures and procedures during executions of our works. However, there is no assurance that all the relevant procedures, rules, laws or regulations are constantly observed and implemented by our workers and subcontractors. In the event that we fail to maintain safe construction sites and/or implement safety management measures resulting in the occurrence of serious personal injuries or fatal accidents, the reputation of our Group may be adversely affected and may result in the suspension or non-renewal of our relevant licences.

We are exposed to construction litigation or dispute

We may receive claims in respect of various matters from our customers, subcontractors, workers, the Government and other parties concerning our projects from time to time. Such claims include claims for compensation for late completion of works and delivery of substandard works, and claims in respect of personal injuries and labour compensation in relation to the works. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any litigation or dispute with our customers. However, as at the Latest Practicable Date, we were engaged in a criminal prosecution case and eight civil litigation cases which are or may be of material importance to be threatened against our Group that would have a material adverse effect on its business, results of operations or financial condition. Please refer to the subsections headed “Safety Policy” and “Legal proceedings” under the section headed “Business” in this prospectus for further details and the maximum potential liabilities arising from those litigation cases. Should any claims against us fall outside the scope and/or limit of our insurance coverage, our financial position may be adversely affected.

We may be exposed to certain types of liabilities that are not insured

Save for liabilities arising from personal injuries claims for incidents occurred at our sites (excluding injuries of the employees of our subcontractors) which are normally covered by employees’ compensation insurance and CAR/TPL Insurance, certain types of liabilities (such as liabilities from acts of God or other natural disasters) are not insured because they are either uninsurable or the cost is not justifiable to insure against such risks. In the event that an uninsured liability arises in the future, we may suffer losses which may adversely affect our financial position.

The employees’ compensation insurance maintained by us has been extended to cover our subcontractors’ employees, which will result in the increase in insurance premium to be paid by us

During the Track Record Period and up to the Latest Practicable Date, the coverage of the current employees’ compensation insurance maintained by us for our projects in progress had been extended to cover the employees of our subcontractors. Please refer to the

RISK FACTORS

subsection headed “Insurance” under the section headed “Business” in this prospectus for further details and our liability as principal contractor under the Employees’ Compensation Ordinance. We will continue to maintain employees’ compensation insurance covering our subcontractors’ employees going forward. As such, there will be an increase in insurance premium to be paid by us, which may have adverse impact on our results of operation.

Our labour may launch industrial actions or strikes to demand for higher wages and/or shorter working hours

Construction works are usually divided into various different trades. Each trade requires specialized labour of its own and cannot be easily replaced by labour of another trade. As such, industrial action of any trade will disrupt our work progress. Although there was no industrial action or strikes on the construction sites of our Group during the Track Record Period, there is no assurance that trade unions will not launch any industrial actions or strikes to demand for higher wages and/or shorter working hours in the future. If their demands are to be met, we will incur additional labour costs and/or experience delay in the completion of our projects where our customers may in turn claim against us for not being able to meet the time schedule requirements of the contract. In either case, these industrial actions or strikes may have adverse impact on our profitability and results of operations.

Our Group’s operations could be affected by adverse weather conditions and are subject to other construction risks

Most of our Group’s projects are undertaken outdoor and therefore, the operations of our Group may be interrupted or otherwise affected by adverse weather conditions such as rainstorms, tropical cyclones and continuous rain which may cause difficulties to our Group in completing our projects on schedule. In addition, we are subject to other construction risks such as fire and suspension of water and electricity supplies which may not only affect our work progress but also pose threats to our properties kept at the construction sites.

We need to seek alternative premises for our site office in North Point as our present use of such leased premises is not in strict compliance with the user provision stipulated in the occupation permit/Government Lease and relevant relocation expenses and rental payment will be incurred by us

Our Group’s present use of our site office in North Point as site office is not in strict compliance with the user provision stipulated in the occupation permit issued by the BD as well as the Government Lease granted by the Government to which such property is held subject. The Lands Department of the Government acting on behalf of the Government has the right to re-enter the leased property in the event of any default of the terms and conditions of the aforesaid Government Lease. The Building Authority may also by order in writing (the “**Order**”) serve on the landlord and our Group as occupier to require him to discontinue the present use of the leased property within one month from the service of such Order should the Building Authority consider the leased property unsuitable by reason of its construction for its present use. As advised by the Hong Kong Legal Advisers, our Group as tenant or our Directors shall be held liable on conviction to a maximum fine of HK\$50,000 (and a further fine of HK\$5,000 for each day of continuous failure to comply with the Order) and to imprisonment of one year should we fail to comply with the Order within one

RISK FACTORS

month from the service of the same without reasonable excuse. Therefore, our Group will seek alternative premises for site office upon the expiry of the tenancy agreement. Our Group will incur relocation expenses and rental payment for the alternative premises. As a result, our Group's operation and financial results may be adversely affected.

RISKS RELATING TO THE INDUSTRY IN WHICH OUR GROUP OPERATES

Our Group's business could be materially and adversely affected by the Government's level of spending on civil engineering projects

During the Track Record Period, a majority of our Group's revenue was generated from providing civil engineering services to the Government. Some civil engineering projects are non-recurring in nature, and the level of the Government's spending budget changes from year to year. Accordingly, any reduction or significant delay in the level of spending on infrastructural and civil engineering works by the Government may affect the business and operating results of our Group. In the event that the Government reduces its level of spending on civil engineering works and our Group fails to diversify into and secure business from the private sector, the business and profitability of our Group could be adversely affected.

Works contracts with the Government are subject to termination for convenience by the Government

It is a standard special condition contained in the work contracts between the Government and a contractor that the Government is entitled to terminate a work contract at any time by notice in writing to the contractor without cause (“**right to terminate for convenience**”) and such termination shall take effect on a date specified in the notice but without prejudice to the claims of either party in respect of any antecedent breach thereof. According to the guidance of a technical circular issued by ETWB dated 21 July 2004, it is a policy of the Government that the right to terminate for convenience shall only be exercised in very exceptional and justified circumstances. However, there is no assurance that the Government will not exercise such right to terminate for convenience in the future. In the event that the Government exercises such right to terminate for convenience a works contract which affects our Group, our Group's work plan and financial position may be adversely affected.

We operate in a competitive industry

We compete directly with construction companies actively operating in Hong Kong that have been approved by the WBDB as Group C contractors under the “Waterworks” and “Roads and drainage” categories and the contractors on the Specialist List under the “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” category. We may also compete with those companies approved by the WBDB as Group A contractors under the “Buildings” category and Group B contractors for “Site formation” category. In Hong Kong, any new participants may enter the industry if they have the appropriate skills, local experience, necessary machinery and equipment, capital and are granted the requisite licences by the relevant regulatory bodies. Increased competition may result in an adverse impact on our profitability and operating results.

RISK FACTORS

Our operations are subject to due compliance with a number of environmental protection laws, regulations and requirements

As a contractor engaging in the provision of civil engineering services, our Group is required to comply with a number of environmental protection laws, regulations and requirements in Hong Kong including but not limited to the Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), the Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong), the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) and the Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong). In the event that our operations fail to meet the applicable environmental protection laws, regulations and requirements, we may be subject to fines or required to make remedial measures which may in turn have an adverse effect on the operations and financial conditions of our Group. In addition, there is no assurance that the environmental protection laws, regulations and requirements will not be changed in the future. Should there be any change to the environmental protection laws, regulations and regulations applicable to our Group, we may incur additional costs in complying with the new law(s), regulation(s) and requirement(s), which in turn may adversely affect the profitability of our Group.

RISKS RELATING TO THE PLACING

There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the Placing, there was no public market for the Shares. The Placing Price for the Placing Shares was the result of negotiations among our Company and the Underwriter and may differ significantly from the market price of our Shares following the completion of the Placing. The listing of, and the permission to deal in, the Shares on the Stock Exchange does not guarantee the development of an active public market or the sustainability thereof following the completion of the Placing. Factors such as our revenues, earnings and cash flows could cause the market price of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors outside our Group's control that are unrelated to the performance of our Group's business, especially if the financial markets in Hong Kong experience a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Placing Price.

Investors may experience dilution if our Company issues new equity or equity-linked securities in the future

Our Group may need to raise additional funds in the future to finance expansion of new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Group other than on a pro-rata basis to our existing Shareholders, the percentage ownership of such Shareholders in our Group may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Placing Shares.

RISK FACTORS

Any sales by our Controlling Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the market price of our Shares

Upon completion of the Placing, our Controlling Shareholders will in aggregate become interested in 720,000,000 Shares, representing 75% of the enlarged issued share capital of our Company. There is no assurance that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after completion of the Placing. We cannot predict the effect, if any, of any future sales of Shares by any Controlling Shareholders, or the availability of Shares for sale by any Controlling Shareholders may have on the market price of our Shares. Sales of substantial amounts of Shares by any Controlling Shareholders or the market perception that such sales may occur, could materially and adversely affect the prevailing market price of our Shares.

There is no guarantee that dividends will be declared in the future

Subject to the Companies Law, our Company may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by our Board. The declaration, payment and amount of any future dividends are subject to the discretion of our Board depending on, among other things, our Group's earnings, financial condition and cash requirements and the provisions governing the declaration and distribution as contained in the Articles, applicable laws and other relevant factors. In view of that our Group recorded accumulated losses of HK\$20.2 million as at 30 September 2014, there can be no assurance that we will be able to declare or distribute any dividend or at all in the future. The dividend policy is subject to review by our Directors at any time and our Company may determine not to pay any dividends as a result of such review.

Any options granted under the Share Option Scheme may affect our Group's results of operations and dilute our Shareholders' equity interests

Our Company has conditionally adopted the Share Option Scheme although no options have been granted thereunder as at the Latest Practicable Date. Any exercise of the options to be granted under the Share Option Scheme in the future and issue of Shares thereunder would result in the reduction in the percentage ownership of the Shares and may result in a dilution in the earnings per Share and net assets value per Share, as a result of the increase in the number of Shares outstanding after such issue.

Under HKFRS, the costs of the options to be granted to employees under the Share Option Scheme will be charged to our Group's combined statement of comprehensive income as share-based compensation over the vesting period by reference to the fair value at the date on which the options under the Share Option Scheme are granted. As a result, our Group's results of operations may be adversely affected.

RISK FACTORS

RISK RELATING TO THE STATEMENT IN THIS PROSPECTUS

Certain facts and statistics in this prospectus are derived from various sources which may not be reliable

Certain facts, forecasts and statistics in this prospectus including those relating to the Hong Kong construction industry have been derived from various industry-related sources prepared by government officials or Independent Third Parties. Our Group believes that the sources of such facts and statistics are appropriate sources for such facts, forecasts and statistics and have taken reasonable care in extracting and reproducing such facts and statistics in this prospectus. Neither our Group, our Directors, the Sponsor nor any of the parties involved in the Placing have independently verified, or make any representation as to, the accuracy of such information and statistics, as such these statistics and data should not be unduly relied upon. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or statistics as they are so stated in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE PLACING

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. So far as the Placing is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sponsor, the Underwriter, any of their respective directors (where applicable) or any other parties involved in the Placing.

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing for which Messis Capital is the Sponsor. The Placing is managed by the Lead Manager. The Placing Shares are fully underwritten by the Underwriter pursuant to the Underwriting Agreement. For further information about the Underwriter and the placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON ACQUISITION OF PLACING SHARES

Each person acquiring the Placing Shares will be required to, or be deemed by his, her or its acquisition of the Placing Shares to, confirm that he, she or it is aware of the restrictions on offers of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

Pursuant to the Placing, the Underwriter will conditionally place the Placing Shares on behalf of our Company and the Vendors with investors.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

APPLICATION FOR LISTING ON GEM

Our Company has applied to the Listing Division for the listing of, and permission to deal in, our Shares in issue and which are to be issued or may be issued pursuant to the Placing, the Capitalisation Issue and as otherwise described herein on GEM.

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

A total of 240,000,000 Shares, comprising 120,000,000 Sale Shares and 120,000,000 New Shares, representing 25% of the enlarged issued share capital of our Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account of any Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be made available under the Placing.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Vendors, the Sponsor, the Underwriter, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

REGISTRATION AND STAMP DUTY

All the Placing Shares will be registered on the branch register of members of our Company in Hong Kong. Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure of the Placing, including its conditions, are set out in the section headed “Structure and conditions of the Placing” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional advisers.

COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on GEM are expected to commence on or about Friday, 27 March 2015. Shares will be traded in board lot of 10,000 Shares each.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Wong Yee Tung, Tony (黃宜通)	Block F, 2/F, Scenic Villas 2-8 Scenic Villa Drive Pokfulam Hong Kong	Chinese
Kwong Wing Kie (鄺永基)	2 Shuen Wan Chim Uk Tai Po New Territories Hong Kong	Chinese
Chung Chi Ngong (鍾志昂)	Flat E, 27/F, Block 3 Verbena Heights 8 Mau Tai Road Tseung Kwan O New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Ho Ho Ming (何昊洛)	Flat E, 40/F Canary Side 8 Shung Shun Street Yau Tong Kowloon Hong Kong	Chinese
Lam Sing Kwong, Simon (林誠光)	Flat 5A, Block 2 Pine Court 23 Sha Wan Drive Pok Fu Lam Hong Kong	Chinese
Chan Chung Kik, Lewis (陳仲戟)	Room 2907 Kam Wai House Kam Fung Court Ma On Shan New Territories Hong Kong	Chinese

Further information is disclosed in the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED IN THE PLACING

Sponsor	Messis Capital Limited Room 1606 16/F, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Bookrunner, Lead Manager and Underwriter	CNI Securities Group Limited 10/F, Sun's Group Centre 200 Gloucester Road, Wan Chai Hong Kong
Legal advisers to our Company	<i>As to Hong Kong Law</i> Michael Li & Co. 19/F, Prosperity Tower 39 Queen's Road Central Hong Kong <i>As to Cayman Islands Law</i> Conyers Dill & Pearman (Cayman) Limited Cricket Square Hutchins Drive Grand Cayman KY1-1111 Cayman Islands
Legal advisers to the Sponsor and the Underwriter	Vincent T.K. Cheung, Yap & Co. 11/F, Central Building 1-3 Pedder Street Central Hong Kong
Reporting accountant	BDO Limited 25/F, Wing On Centre 111 Connaught Road Central Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 2681, Grand Cayman, KY1-1111 Cricket Square, Hutchins Drive Cayman Islands
Head office and principal place of business in Hong Kong	5/F, So Hong Commercial Building 41, 43, 45 & 47 Jervois Street Hong Kong
Company's website	http://www.kwanonconstruction.com <i>(Note: contents contained in this website do not form part of this prospectus)</i>
Company secretary	Ng Sai Cheong, CPA, ACIS, ACS Flat 7, 8/F, Block 2 Heng Fa Chuen Chai Wan Hong Kong
Authorised representatives	Wong Yee Tung, Tony Block F, 2/F, Scenic Villas 2-8 Scenic Villa Drive Pokfulam Hong Kong Ng Sai Cheong Flat 7, 8/F, Block 2 Heng Fa Chuen Chai Wan Hong Kong
Compliance officer	Kwong Wing Kie
Audit committee	Chan Chung Kik, Lewis (<i>Chairman</i>) Lam Sing Kwong, Simon Ho Ho Ming
Remuneration committee	Lam Sing Kwong, Simon (<i>Chairman</i>) Chan Chung Kik, Lewis Wong Yee Tung, Tony
Nomination committee	Ho Ho Ming (<i>Chairman</i>) Lam Sing Kwong, Simon Kwong Wing Kie
Principal Share Registrar and Transfer Office	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive Grand Cayman KY1-1111 Cayman Islands

CORPORATE INFORMATION

**Hong Kong Branch Share
Registrar and Transfer Office** Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banks Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Central, Hong Kong

Compliance Adviser Messis Capital Limited
Room 1606, 16/F
Tower 2
Admiralty Centre
18 Harcourt Road
Hong Kong

INDUSTRY OVERVIEW

The information presented in this section has been derived from various official Government sources. None of the information and statistics from the above sources is commissioned by our Group nor the Sponsor. Our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading in any material respects or that any fact has been omitted that would render such information false or misleading in any material respects. The information has not been independently verified by our Company, the Vendors, the Sponsor, the Underwriter, their respective advisers or affiliates or any other party involved in the Placing and no representation is given as to its accuracy, and accordingly, the information contained herein may not be consistent with information from other sources and should not be unduly relied upon.

SOURCES AND RELIABILITY OF INFORMATION

Certain information provided in this section is derived from various official or publicly available sources including the following:

WSD is a government sector of the Government, which is responsible for sourcing and maintaining the city's supplies of fresh and salt water.

The Government Budgets are official publications issued by the Government each year.

DSD is a government sector of the Government, which is responsible for providing world-class wastewater and stormwater drainage services enabling the sustainable development of Hong Kong.

CEDD is a government sector of the Government and a leading organisation engineering the development of Hong Kong.

CSD is a government sector of the Government, which aims to provide statistics covering various social and economic aspects of Hong Kong.

WBDB is a government sector of the Government, which is responsible for planning, management and implementation of public sector infrastructure development.

The information presented in this prospectus from the above official authorities is freely accessible by the public. We are of the view that sources of information used in this section, which are derived from above official authorities of the Government, are reliable and not misleading.

INDUSTRY OVERVIEW

MARKET OVERVIEW

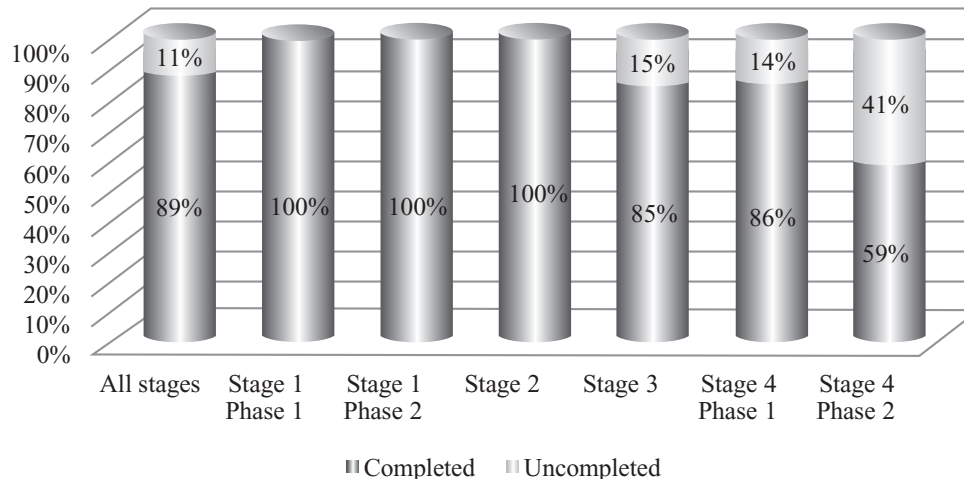
Water works improvement in Hong Kong

The fresh water and sea water supplies of Hong Kong are provided through a network of approximately 8,307 km of water mains. Most of these water mains are underground and were laid more than 30 years. These water mains are progressively approaching the end of their service life and have become increasingly difficult and costly to maintain. Ageing water mains are prone to bursts and leaks, resulting in water loss, disrupting water supply and causing inconvenience to the public.

In order to reduce supply interruptions arising from the leakages at and bursts of aged water mains, WSD has launched the Replacement and Rehabilitation of Water Mains Programme (“**R&R Programme**”) since 2000 to replace and rehabilitate approximately 3,000 km of aged water mains within 15 years in four stages. The Government estimated the total cost for the replacement and rehabilitation of the aged water mains under the R&R Programme would be approximately HK\$23.6 billion.

The chart below illustrates the progress of works in respect of different stages under the R&R Programme as at 31 December 2014:

**Percentage of completion of works under the R&R Programme
at different stages as at December 2014**



Source: Website of WSD (www.wsd.gov.hk)

The Government will commission a review to appraise the condition of the remaining water mains which are not subject to the current R&R Programme. Subject to the review findings, the Government expects that the whole project will be completed by 2015.

As at the Latest Practicable Date, all waterworks contracts under the R&R Programme had been tendered and awarded by WSD.

INDUSTRY OVERVIEW

The following table illustrates the Government's expenditure on the water supply projects under construction in Hong Kong for each of the fiscal years from 2010 to 2014:

	2010	2011	2012	2013	2014
	<i>(Actual)</i>	<i>(Actual)</i>	<i>(Actual)</i>	<i>(Actual)</i>	<i>(Estimated)</i>
Expenditure of works under construction (HK\$ million)	3,387.7	3,311.2	3,519.0	3,951.1	4,499.5

Source: The Government Budgets for the fiscal years from 2011-12 to 2014-15 (www.budget.gov.hk)

As shown above, the annual expenditure of the projects under construction of water supply increased from HK\$3,387.7 million in fiscal year 2010 to HK\$3,951.1 million in fiscal year 2013.

Given that the R&R Programme will complete in 2015, our Group intend to diversify its source of income by tendering more contracts originated from other departments of the Government, in particular, CEDD and DSD to sustain the Group's business growth and ensure future profitability. Kwan On was upgraded to Group C Contractor (confirmed) and Group B Contractor (confirmed) under the "Roads and Drainage" category and "Site Formation" category on 26 February 2013 and 19 June 2013 respectively which will enable it to tender any number of contracts under the two categories with larger contract sum. Please refer to the paragraphs headed "Drainage service in Hong Kong" and "Slope works in Hong Kong" under this section for the details of the works and opportunities under the aforesaid two categories.

Drainage services and roads works in Hong Kong

DSD is responsible for providing wastewater and stormwater drainage services in Hong Kong. North New Territories and North West New Territories are the major flood-prone areas in Hong Kong. The low-lying topography, inadequate drainage capacity of the natural watercourse and heavy rainstorms have been the principal causes of flooding in these areas. In addition, the existing drainage system in some old urbanised areas such as Mongkok and Sheung Wan, are becoming inadequate to meet the current flood protection standards due to the aging of the drainage system and flooding occurs frequently during the heavy rainstorms. To mitigate the flooding problem, DSD has implemented a series of major flood control projects to tackle the flooding problem since 1990's.

Long term improvement measures implemented or being considered by DSD involves the following major works:

1. expansion and improvement of existing drainage system to increase the flow capacity and facilitate more effective collection of surface runoff;
2. river training works for effective discharge of storm flow;
3. tunneling works for interception and diversion of storm flow from upland catchment for direct discharge into the sea, thus avoiding the storm flow from overloading the downstream drainage system;

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4. flood storage facilities to temporarily retain storm flow from upland catchment in order to attenuate the peak runoff loading for the downstream drainage system;
5. stormwater pumping scheme to remove directly storm flow at flood prone areas; and
6. village flood protection scheme comprising a protective bund to stop storm flow from entering into a low-lying village and a stormwater pumping station to pump away storm flow collected within the village.

The following table illustrates the expenditure on capital projects, the length of stormwater drains and watercourse under management and inspected for each of the fiscal years from 2010 to 2014 in Hong Kong:

	2010 <i>(Actual)</i>	2011 <i>(Actual)</i>	2012 <i>(Actual)</i>	2013 <i>(Actual)</i>	2014 <i>(Estimated)</i>
Expenditure on capital projects (HK\$m)	1,976.7	1,926.1	1,987.8	1,263.8	858.3
Length of stormwater drains and watercourses under management (km)	2,689	2,707	2,718	2,723	2,733
Length of stormwater drains and watercourses inspected (km)	1,987	2,290	2,221	2,250	2,243

Source: The Government Budgets for the fiscal years from 2011-12 to 2014-15 (www.budget.gov.hk)

The annual expenditure decreased from approximately HK\$1,976.7 million in fiscal year 2010 to approximately HK\$1,263.8 million in fiscal year 2013. It is expected that the expenditure on capital projects of stormwater drainage will be approximately HK\$858.3 million in fiscal year 2014. The length of stormwater drains and watercourses under management of the DSD showed an increasing trend during the last 5 years. The length of stormwater drains and watercourses under management increased from a total of 2,689 km in fiscal year 2010 to 2,723 km in fiscal year 2013 and is expected to increase to a total of 2,733 km in fiscal year 2014. Meanwhile, the length of stormwater drains and watercourses being inspected each fiscal year ranged from 1,987 km in fiscal year 2010 to 2,250 km in fiscal year 2013 and is expected to increase to 2,243 km in fiscal year 2014.

In addition, according to the information published on the website of HyD, HyD had granted 10 roads and drainage work contracts to contractors between January 2014 and December 2014, the contract values of which range from approximately HK\$32.7 million to approximately HK\$8,399.9 million.

According to DSD's website, DSD announced on 26 March 2013 that the Kai Tak River improvement works is one of DSD's major flood prevention works and DSD plans to eliminate most of the remaining flooding blackspots in 5 to 6 years. DSD also keeps on conducting review studies for the drainage master plans for different districts with a view to reviewing the adequacy of the existing drainage system, updating and establishing flood

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prevention plans having regard to the latest land development and land use proposals. In addition, DSD also announced public tenders for several drainage projects in the second half of 2014.

Slope works in Hong Kong

The Landscape of Hong Kong is fairly hilly to mountainous with steep slopes, heavy rain and dense development are prone to the risk from landslide. The Geotechnical Engineering Office (the “**GEO**”) of CEDD is responsible for setting safety standards and developing new technology, exercising geographical control, upgrading substandard Government slopes, mitigating natural terrain hazard and promoting slope maintenance and public awareness in slope safety. There are approximately 60,000 sizeable man-made slopes in Hong Kong, two thirds of which, or approximately 40,000 slopes, are government slopes. The Government spends approximately HK\$1 billion in upgrading and HK\$800 million in maintaining government slopes each year.

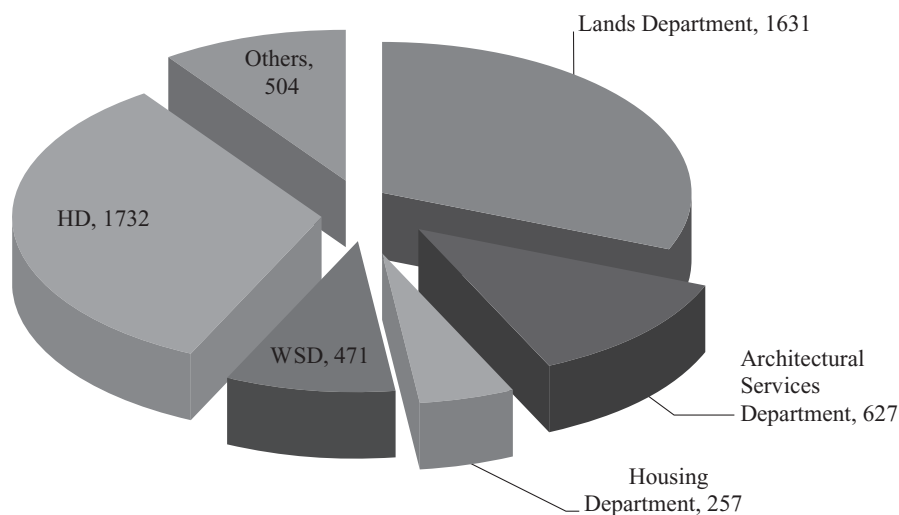
The studies and works under the Landslip Preventive Measures Programme (the “**LPMP**”) were completed in 2010. A long-term Landslip Prevention and Mitigation Programme (the “**LPMitP**”) has been launched to dovetail with the LPMP to deal with the remaining landslide risks associated with both man-made slopes and natural hillside. Under the LPMitP, the most deserving man-made slopes and natural hillside catchments are selected for studies each year in accordance with a risk based priority ranking system. The necessary landslip prevention and mitigation works, as identified by the studies, for man-made slopes and natural hillside catchments under the Government’s maintenance responsibility are implemented under the LPMitP. For private slopes found to be liable to become dangerous, statutory actions are taken against the responsible private owners by BD through the Buildings Ordinance to ensure its rectification. Apart from in-house resources, GEO also engages consultants in landslip prevention and mitigation studies and the letting and administration of contracts for the subsequent works. GEO awarded an average of about 10 consultancy agreements and 13 works contracts on landslip prevention and mitigation works each year.

It is the Government’s policy to improve the environment and to make slopes look as natural as possible in their surroundings. Hence, apart from maintaining the highest standard of slope safety, GEO is committed to ensure that landscape treatments to all man-made slopes are upgraded and natural hillside mitigation measures are implemented under the LPMitP.

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The chart below illustrates the total number of Government slopes being upgraded under the LPMitP as at 30 September 2014:

Total number of government slope upgraded



Source: Website of CEDD (www.cedd.gov.hk)

The following table illustrates the expenditure for landslip prevention and mitigation works from fiscal years 2010 to 2014 in Hong Kong:

	2010 <i>(Actual)</i>	2011 <i>(Actual)</i>	2012 <i>(Actual)</i>	2013 <i>(Actual)</i>	2014 <i>(Estimated)</i>
Expenditure for landslip prevention and mitigation works (HK\$m)	1,262.3	997.0	1,038.0	1,029.0	1,000.0

Source: The Government Budgets for the fiscal years from 2011-12 to 2014-15 (www.budget.gov.hk)

The annual expenditure maintained at a relatively stable level during the last 5 fiscal years.

Site formation works in Hong Kong

One of the major services of CEDD is to provide land and infrastructure. CEDD undertakes site formation and reclamation works to form land to meet different development needs.

For contractors who want to tender works projects in relation to landscaping or providing necessary utilities such as access roadways and drainage, it is required that the contractors must be listed in the Contractor List under the category of “Site formation” and CEDD is mainly responsible for servicing and monitoring the performance of all contractors within this category. In addition to that, all contractors must be registered to be an approved contractor for site formation works under Building Authority since 15 November 2004 (with grace period of 6 months to 17 May 2005) to tender projects of this category. According to

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the Contractor List published by WBDB as at the Latest Practicable Date, there were 81 approved contractors falling within this category, of which 57 were accredited with probationary status.

In the second half of 2014, CEDD plans to hold public tenders for LPMP, site formation and roads and drainage in different areas of HKSAR. Set out below are the tendering projects in the forecast of invitations to tender of CEDD for the period from March to June 2015 which Kwan On is eligible to tender for:

Contract No. & Title of contract	Probable date of inviting tenders	Works category & Lowest Group permitted to tender	Range of estimate of cost
NE/2014/02 Liantang/Heung Yuen Wai Boundary Control Point Site Formation and Infrastructure Works	Mar 2015	N/A	Exceeding HK\$300 million
NE/2014/03 Liantang/Heung Yuen Wai Boundary Control Point Site Formation and Infrastructure Works	Mar 2015	Roads and drainage Group C	Exceeding HK\$300 million
NE/2014/05 Ma On Shan Development – Roads, Drainage and Sewerage Works at Whitehead and Lok Wo Sha, Phase 2	Mar 2015	Roads and drainage Group B&C	From HK\$100 million, to HK\$200 million
GE/2014/04 Landslip Prevention and Mitigation Programme, 2011, Package F, Landslip Prevention and Mitigation Works in Kowloon and New Territories East	Mar 2015	Landslip preventive/ Remedial works to slopes/ Retaining walls	From HK\$100 million, to HK\$200 million
GE/2015/05 Landslip Prevention and Mitigation Programme, 2013, Package E – Ground Investigation for Landslip Prevention and Mitigation Works	Apr 2015	Ground Investigation Field Work	Up to HK\$100 million
GE/2014/02 Landslip Prevention and Mitigation Programme, 2010, Package I, Landslip Prevention and Mitigation Works in the New Territories	Apr 2015	Landslip preventive/ Remedial works to slopes/ Retaining walls	Up to HK\$100 million
Formation, Roads and Drains in Area 54, Tuen Mun – Phases 1 and 2	May 2015	Site Formation Group C	Exceeding HK\$300 million
Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	May 2015	Roads and drainage Group C	From HK\$200 million, to HK\$300 million
GE/2015/06 Landslip Prevention and Mitigation Programme, 2013, Package D, Landslip Prevention and Mitigation Works	Jun 2015	Landslip preventive/ Remedial works to slopes/ Retaining walls	From HK\$100 million, to HK\$200 million

Source: Forecast report of invitations to tender of CEDD (07-12.2014)

Our Group has not submitted any tender in respect to the above forecast of invitations to tender of CEDD and some of the above forecast of invitations to tenders have not opened for tendering yet.

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TENDERING FOR PUBLIC SECTOR PROJECTS IN HONG KONG

Public sector contracts in Hong Kong are normally awarded through open and competitive tendering procedures with a view to obtaining the best value for money. Tenders may be invited in the following ways:

(i) Open tendering

Tender invitations are published in the Government Gazette on every Friday, on the Internet, and if necessary, in the local press and selected overseas journals. All interested contractors are free to submit tenders.

(ii) Selective tendering

Tender invitations are published in the Government Gazette on every Friday, or are sent by letter to all contractors on the relevant lists of approved contractors for the purpose of selective tendering. Contractors not currently on the lists may also be considered provided that there is sufficient time to complete the qualification procedure.

(iii) Prequalified tendering

Prequalified contractors which are approved by the Permanent Secretary for Financial Services and the Treasury of Hong Kong will receive tender invitations. Invitations to apply for prequalification may take the form of open tendering or selective tendering and the respective procedures will apply.

(iv) Single and restricted tendering

Tender invitations are only sent to one or a limited number of contractors/suppliers approved by the Permanent Secretary for Financial Services and the Treasury or the Director of Government Logistics of Hong Kong. This tendering method is only used when the circumstances do not permit open tendering, for example, on grounds of extreme urgency or security, for proprietary products or for reasons of compatibility.

Individual works departments procure services at their discretion under the general supervision of WBDB. WSD, CEDD and DSD/HyD are the principal Government authorities that are responsible for procuring waterworks services, landslip prevention and roads and drainage works respectively for the public sector in Hong Kong. Generally, the procuring department is required to provide in the tender documents all the necessary information to assist the bidders to prepare their tenders, including standard contract forms covering the general aspects of tender and contract requirements, special conditions of contract, detailed price schedules, additional information and instructions applicable to a particular contract. Moreover, the procuring department is responsible for evaluating the tenders to determine whether they satisfy the conditions and specifications laid down in the tender documents.

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There are two common approaches to evaluate tenders, namely formula approach and marking scheme approach. These two methods evaluate the tenderers' experience, past performance record and particular technical ability systemically. The formula approach is usually applied for general works projects, while the marking scheme approach is generally used for non-recurring and relatively complicated projects which require evaluation on the particular ability and past experience on the contractor candidate. Both approaches take into consideration the quality of work of the tenderers in addition to their financial bids.

Public sector projects in Hong Kong are sometimes contracted out by the main contractors to subcontractors and such subcontracts may also be awarded by way of tenders or upon private invitation. The selection criteria and process for subcontracting are determined by the main contractors.

TENDERING FOR PRIVATE SECTORS PROJECTS IN HONG KONG

For private sector in Hong Kong, tenders are generally by invitation only and the contracts are awarded at the clients' discretion. Usually, contractors for the private sector in Hong Kong are required to hold the relevant licences issued by BD, but need not be on the Contractor List and/or the Specialist List. Moreover, in addition to the competitiveness of the price quoted by the contractors, the job experience and track record of the contractors are also the determining factors to win a contract. When selecting subcontractors, the main contractors, regardless of whether it is a private or public project, may adopt similar selection processes. Hence, it is important for the subcontractors to establish good relationships with the customers and the main contractors as well as a good reputation in the market.

COMPETITIVE LANDSCAPE

Contractors are eligible to tender for Government contracts provided that they are included in the Contractor List or the Specialist List under one or more of the work categories maintained by WBDB. In order to be listed as an approved contractor, the contractor has to apply for inclusion in the lists of particular work categories and/or groups and comply with the licencing requirements set forth in the ETWB Handbook. For details of the licencing requirements, the Contractor List and the Specialist List, please refer to the paragraphs headed "Contractor Licensing Regime", "Contractor List" and "Specialist List" under the section headed "Regulatory Overview" in this prospectus. According to the information published by WBDB, the number of approved contractors listed on the Contractor List for each work category as at the Latest Practicable Date was as follows:

Group	Building		Waterworks		Roads and Drainage		Site Formation	
	Confirmed	Probationary	Confirmed	Probationary	Confirmed	Probationary	Confirmed	Probationary
A	13	35	2	19	9	32	-	-
B	18	30	5	6	19	31	5	42
C	40	18	22	16	41	17	19	15

Source: Website of WBDB

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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 us. Our Directors consider that 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 material suppliers. Further details of our competitive strengths are set out in the sub-section headed “Competitive strength” under the section headed “Business” in this prospectus.

Based on the information contained in the above table, there were only 22 Group C contractors (confirmed) on the Contractor List under the category of “Waterworks”. Kwan On, a member of our Group, is one of the Group C contractors (confirmed) under the category of “Waterworks”. Kwan On is also one of the approved contractors among 41 Group C contractors (confirmed) under the category of “Roads 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. In addition, Kwan On is one of the Group A contractors (probationary) under the category of “Building” and one of the Group B contractors (confirmed) under the category of “Site Formation”.

To serve as a main contractor of landslip preventive and mitigative works to slopes and retaining walls services works, a contractor must be listed on the Specialist List under the category of “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” maintained by WBDB. To be admitted to this category, the contractor also has to be a Registered Specialist Contractor for site formation works of the BD. According to the information published by WBDB, there were only 23 approved contractors with confirmed status listed under the category of “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” on the Specialist List as at the Latest Practicable Date. Kwan On has been one of the approved contractors with confirmed status under such category since 2000.

Based on the Government’s expenditure of approximately HK\$3,951.1 million for the fiscal year 2013 and the estimated expenditure of approximately HK\$4,499.5 million for the fiscal year 2014 on the projects of water supply, our revenue generated from provision of waterworks engineering services for the public sector for each of the two years ended 31 March 2014 of approximately HK\$158.9 million and HK\$208.1 million represented approximately 4.0% and 4.6%, respectively, of the above expenditure.

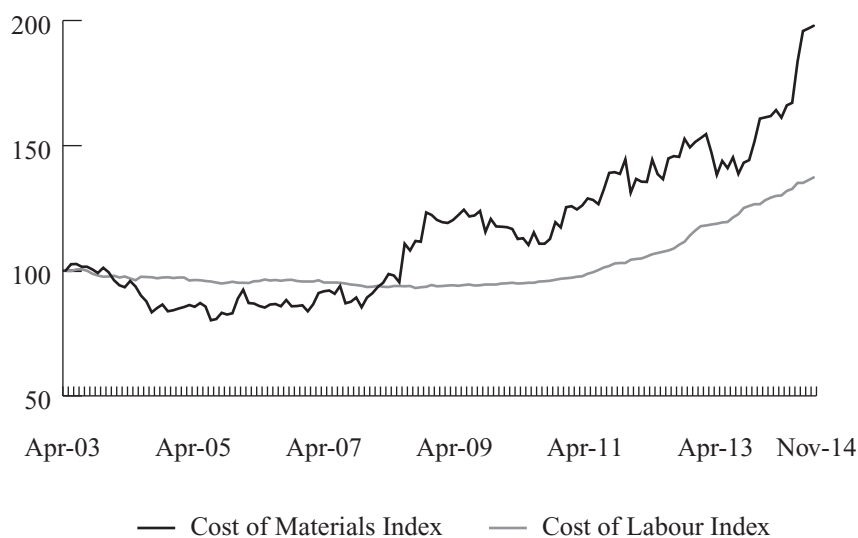
Based on the Government’s expenditure of approximately HK\$1,263.8 million for the fiscal year 2013 and the estimated expenditure of approximately HK\$858.3 million for the fiscal year 2014 on capital projects of stormwater drainage, our revenue generated from provision of roads and drainage works for the public sector for each of the two years ended 31 March 2014 of approximately HK\$43.2 million and HK\$107.9 million represented approximately 3.4% and 12.6%, respectively, of the above expenditure.

Based on the Government’s expenditure of approximately HK\$1,029.0 million for the fiscal year 2013 and the estimated expenditure of approximately HK\$1,000.0 million for the fiscal year 2014 on capital projects for landslip prevention and mitigation works, our revenue generated from provision of LPM Services for the public sector for each of the two years ended 31 March 2014 of approximately HK\$109.8 million and HK\$63.3 million represented approximately 10.7% and 6.3%, respectively, of the above expenditure.

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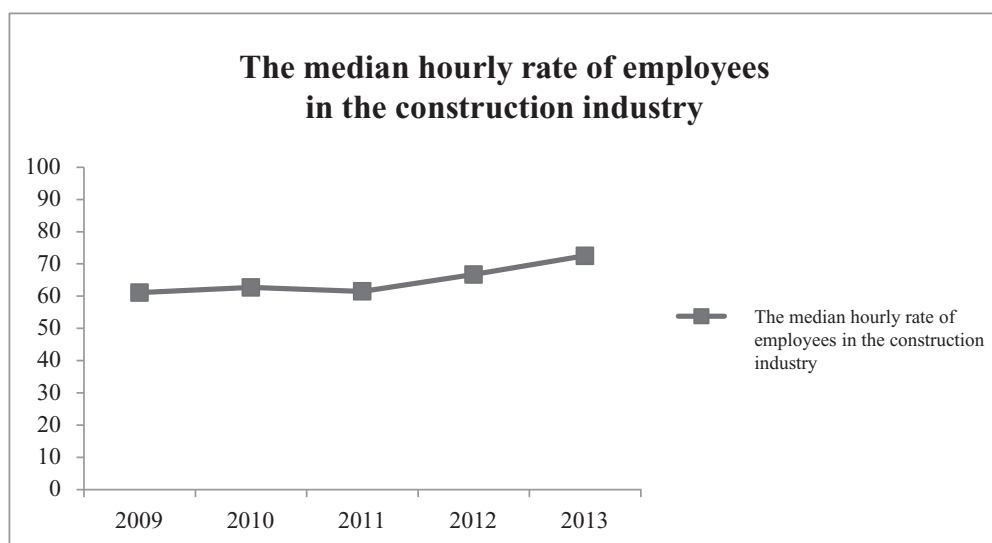
HISTORICAL TREND OF CONSTRUCTION COSTS IN HONG KONG

**Index Numbers of the Costs of Labour and Materials Used in
Public Sector Construction Projects
(April 2003 = 100)**



Source: CSD – <http://www.censtatd.gov.hk/>

As shown in the graph above, the cost of materials used in public sector construction projects has been increasing since 2009. The cost of material index reached its peak to 197.9 in November 2014. The cost of labour index is quite stable comparing to the cost of materials index, it increased gradually since May 2009 from a level of 94.0 to the highest of 137.3 in November 2014. Both of the cost of materials and labour indexes showed an increasing trend over the past few years.



Source: CSD – <http://www.censtatd.gov.hk/>

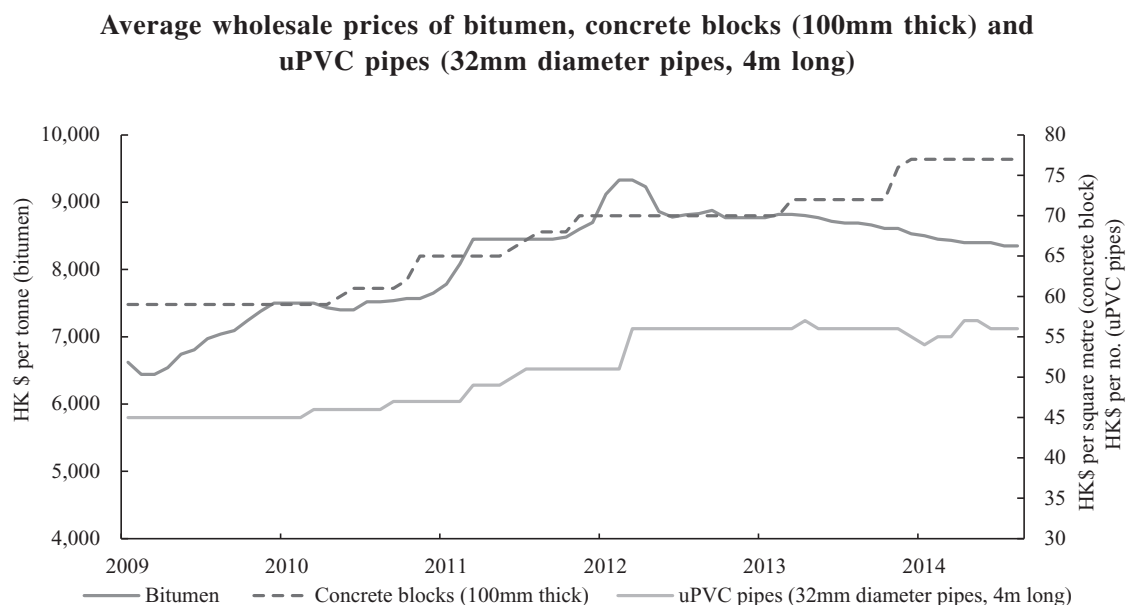
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As shown in the graph above, the median hourly rate of employees in the construction industry has remained at a relatively stable level from 2009 to 2011 and has been increasing gradually thereafter.

The prices of construction materials

Construction companies make use of various construction materials in construction projects. The prices of construction materials are influenced by a number of factors including, but not limited to, the demand for construction materials, size and intensity of construction projects, prices of international commodities and foreign exchange rate fluctuation. The graphs below set out the average wholesale prices of construction materials commonly used in our construction projects as regarded by our Directors:

The average wholesale prices of bitumen, concrete blocks (100mm thick) and uPVC pipes (32mm diameter pipes, 4m long)



Source: CSD – <http://www.censtatd.gov.hk>

Bitumen

The average wholesale price of bitumen increased gradually from HK\$6,440 per tonne in May 2009 and reached its peak of HK\$9,330 per tonne in April 2012. After reaching its peak, the average wholesale price of bitumen moved within the range of HK\$9,330 per tonne and HK\$8,350 per tonne between May 2012 and October 2014.

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Concrete blocks

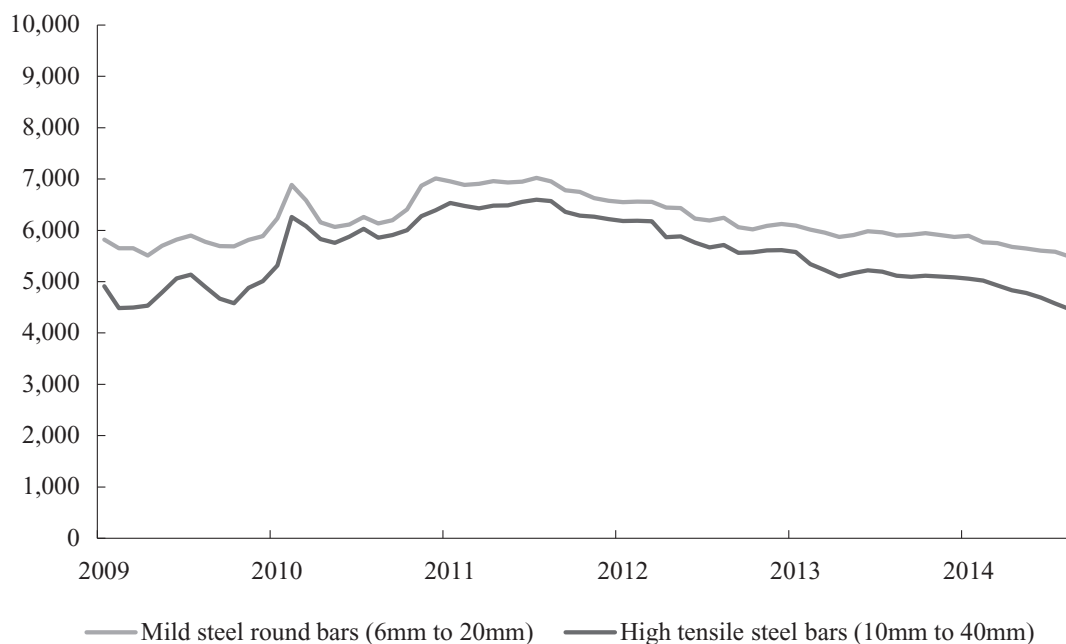
The average wholesale price of concrete blocks remained relatively stable at the range of HK\$59 per sq.m. to HK\$62 per sq.m. from 2009 to 2010. After that, it increased gradually to HK\$70 per sq.m. in January 2012 and remained stable until April 2013. In May 2013, the average wholesale price of concrete blocks increased slightly to HK\$72 per sq.m. and further increased to HK\$77 per sq.m. in October 2014.

uPVC pipes

The average wholesale price of uPVC pipes increased gradually from HK\$42 per pipe in April 2008 to its peak of HK\$57 per pipe in June 2013. After that, the average wholesale price of uPVC pipes remained stable among HK\$56 per pipe.

The average wholesale prices of mild steel round bars (6mm to 20mm) and high tensile steel bars (10mm to 40mm)

Average wholesale prices of mild steel round bars (6mm to 20mm) and high tensile steel bars (10mm to 40mm)



Source: CSD – <http://www.censtatd.gov.hk>

High tensile steel bars and mild steel round bars

The average wholesale prices of high tensile steel bars and mild steel round bars exhibited a similar pattern since 2009. Based on the average wholesale price statistic published by CSD, the average wholesale prices of high tensile steel bars and mild steel round bars increased from HK\$4,531 per tonne and HK\$5,510 per tonne in June 2009 respectively to HK\$6,595 per tonne and HK\$7,021 in September 2011 respectively and demonstrated a downward trend in 2012 subsequently. The average wholesale prices of high

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tensile steel bars and mild steel round bars remained relatively stable at the range of HK\$4,462 per tonne to HK\$5,118 per tonne and HK\$5,490 per tonne to HK\$5,945 per tonne respectively during the last twelve month period.

REGULATORY OVERVIEW

INTRODUCTION

This section sets forth a summary of the material Government policies, laws and regulations applicable to the business of our Group.

CONTRACTOR LICENSING REGIME

WBDB is responsible for ensuring the effective planning, management and implementation of Hong Kong public sector infrastructure development and works programmes in a safe, timely and cost-effective manner and to maintain high quality and standards. In order to tender for Government contracts, a contractor must apply to the Secretary for Development for admission to the Contractor List and/or the Specialist List, which are maintained by WBDB to continuously monitor the eligibility of a contractor to tender for Government contracts and assess the performance of a listed contractor.

In order to be eligible for undertaking civil engineering related works for the Government in the capacity of a contractor, members of our Group are required to comply with the listing requirements set forth in the ETWB Handbook.

CONTRACTOR LIST

The Contractor List comprises contractors who are approved for carrying out Government contract works in one or more of the five work categories of civil engineering related works classified by WBDB. The following table sets forth the five work categories and the respective managing departments of the Government:

Category	Managing department
Buildings	ArchSD
Port Works	CEDD
Roads and Drainage	HyD
Site Formation	CEDD
Waterworks	WSD

The managing department for a work category is the department most closely connected with that particular type of work and is responsible for servicing and monitoring the performance of all contractors within that category.

Contractors within each of the above five categories are further divided into Group A, Group B and Group C according to the value of contracts for which they are normally eligible to tender. The tender limits for contractors in each group are periodically adjusted and are currently set at HK\$75 million for Group A contractors and HK\$185 million for Group B contractors. Group C contractors can tender for contracts of value exceeding HK\$185 million. However, Group C contractors are generally not allowed to tender for contracts in Groups A and B unless the responsible Government department considers that there may be an inadequate number of tenderers as a result of the restriction.

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A contractor's status in any group will either be probationary or confirmed. A probationary status of a contractor further limits the number and value of contracts for which that contractor is eligible to tender. Admission of a contractor into a certain group and category will be subject to certain financial criteria and the technical and management capabilities. A probationary contractor may, subject to a minimum probationary period of 24 months, apply for a confirmation when it has satisfactorily completed works appropriate to its probationary status in accordance with the criteria for confirmation. Except in the most exceptional circumstances, a contractor will be admitted initially on probation to the appropriate group and category. Confirmation will also be subject to the contractor being able to meet the prescribed financial criteria, having the appropriate technical and management capabilities and in all other ways being considered suitable for confirmation. A contractor with confirmed status may apply for promotion to a higher group in a particular category if it is able to meet the prescribed financial criteria of the higher group and it has the appropriate technical and management capabilities with a satisfactory record of performance. Other than in the most exceptional circumstances, a contractor applying for promotion will first be admitted on probation to the next higher group and the rules applicable to probationary contractors in that particular group will apply.

SPECIALIST LIST

The Specialist List comprises suppliers of materials/specialist contractors who are approved for carrying out public works in one or more of the 50 categories of specialist works classified by WBDB which are managed by any of ArchSD, CEDD, HyD, Lands Department of the Government or WSD.

Similar to the Contractor List, the managing department for a work category in the Specialist List is the department most closely connected with that particular type of work and is responsible for servicing and monitoring the performance of all contractors within that category.

Contractors within certain category under the Specialist List are further divided into classes according to the types of works within that particular category or groups according to the value of contracts for which they are normally eligible to tender. Group tender limits are applicable to eight categories of works and are periodically adjusted.

Similar to the mechanism as in the Contractor List, some categories of works under the Specialist List have probationary status. The admission, retention, confirmation and probation criteria for the Specialist List are also subject to financial, technical and management criteria similar to those under the Contractor List, except that the length of probationary period for each category (if any) varies. As at the Latest Practicable Date, Kwan On has been admitted to the Landslip Preventive/Remedial Works to Slopes/Retaining Walls Category with a confirmed status under the Specialist List.

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CONTRACTORS' PERFORMANCE INDEX SYSTEM

A contractors' performance index system (the "Contractors' Performance Index System") was established by ETWB in 2000 to provide a ready indication of contractors' performance standard for reference by the project office and relevant tender board in tender evaluation. Under the Contractors' Performance Index System, the performance of a contractor is represented by a performance rating which is derived from the performance scores given in all the reports written on the performance of the contractors in Government works contracts in the preceding 12 3-month reporting periods. The performance score of a contractor's performance report is determined by the percentage of the scores attained by the contractor over the maximum scores in 10 different attributes (where applicable), including but not limited to workmanship, progress, site safety, environmental pollution control, organisation, general obligations, industry awareness, resources, design and attendance to emergency.

The performance ratings are not publicly viewable. Instead, each contractor on the Contractor List will be advised of its performance rating in the form of a letter by post. The aforesaid letter from WBDB sets out the maximum, minimum, median and average ratings of contractors rated under each specific group of the relevant categories during the reporting period. Pursuant to the Technical Circular (Works) No. 3/2007 and No. 3/2007A issued by the ETWB on 12 March 2007 and 28 November 2013, the performance rating of a contractor is based on a scale of 0 to 100 and there is no passing mark defined in the Contractors' Performance Index System. However, if a contractor's current performance rating falls below 40, or if there is an obvious and consistent downward trend, a closer examination of the contractor's past performance should be carried out and full justification must be provided before its tender is recommended for acceptance.

Kwan On's quarterly performance ratings as appraised by WBDB were above the industry averages in the recent ten consecutive quarters up to the third quarter of 2014. Save for Kwan On, other subsidiaries of our Group are not included in the Contractor List and accordingly not included in the Contractors' Performance Index System. As such, no performance rating will be received by other subsidiaries of our Group except for Kwan On.

REGULATORY ACTIONS

The Contractor List, the Specialist List and the associated regulatory regime are put in place to ensure that certain standards of financial capability, technical expertise, management and safety are maintained by all the contractors carrying out Government works. If doubts arise about the ability of a contractor to meet the minimum standards generally or for a particular class of contracts, it may not be allowed to tender for any new work until it can demonstrate that it can meet the required standard.

The Secretary for Development reserves the right to remove any contractor from the Contractor List and/or the Specialist List or take other regulatory actions against a contractor such as suspension, or where applicable, downgrading from confirmed status to probationary status or demotion to a lower group, in respect of all or any of the works categories the contractor is in. However, before deciding on such action, a contractor will be given

REGULATORY OVERVIEW

adequate warning of the action proposed and advised of the reasons for it and given the opportunity to present its views of the matter. Circumstances which may lead to the taking of regulatory actions include, but not limited to:

- (i) unsatisfactory performance;
- (ii) failure to submit a valid competitive tender for a period of three years;
- (iii) failure to submit accounts or meet the financial criteria within the prescribed time;
- (iv) failure to answer queries or provide information relevant to the listing status of a contractor on the Contractor List and/or the Specialist List within the prescribed time;
- (v) misconduct or suspected misconduct;
- (vi) winding-up, bankruptcy or other financial problems;
- (vii) poor site safety record;
- (viii) failure or refusal to implement an accepted tender;
- (ix) poor environmental performance;
- (x) court convictions, such as contravention of site safety legislation and Employment Ordinance and employment of illegal workers;
- (xi) failure to employ the minimum number of full time management and technical personnel;
- (xii) violation of laws;
- (xiii) poor integrity of its employees, agents and subcontractors in relation to any public works contract unless the misconduct is not within the control of the contractor;
- (xiv) public interest;
- (xv) public safety and public health;
- (xvi) serious or suspected serious poor performance or other serious causes in any public or private sector works contract;
- (xvii) failure to comply with any of the rules for administration of the Contractor List or the Specialist List giving rise to reasonable suspicions as to the capacity or integrity of the contractor; and

REGULATORY OVERVIEW

(xviii) failure to provide proof of complying with all the integrity management system (“IMS”) requirements for the purpose of upkeeping the operation of the IMS.

As advised by the Directors, none of the members of the Group has been subject to any regulatory action from WBDB during the Track Record Period and up to the Latest Practicable Date.

PRIMARY REGISTER OF THE REGISTRATION SCHEME

The purpose of the Registration Scheme is to build up a pool of capable and responsible subcontractors with specialised skills and strong professional ethics. The Registration Scheme is overseen by a management committee made up of representatives nominated by major client organisations and contractors trade associations formed under the auspices of the Construction Industry Council (建造業議會). This committee assumes the responsibility for enforcing the registration rules and procedures, screening and approving applications for registration, as well as instigating regulatory actions under justifiable circumstances. WBDB has introduced contractual provisions requiring public works contractors to engage domestic subcontractors (excluding nominated subcontractors and specialist subcontractors who will be selected under the Specialist Lists only) who are either registered under the Registration Scheme or will complete their registration under the Registration Scheme before the execution of the relevant subcontracted works.

As at the Latest Practicable Date, there were over 1,000 subcontractors registered for “general civil works” including but not limited to “earthwork”, “roadworks”, “road drainage and sewer” and “geotechnical works” under the Registration Scheme. During the Track Record Period, our Group was in full compliance with the contractual requirement of engaging subcontractors that are registered for the respective trades under the Registration Scheme for implementation of Government contracts.

GENERAL

A project may occasionally involve several types of works which are inter-related to one another but are classified under different work categories. In that case a contractor may be required to be listed on both the Contractor List and the Specialist List with the necessary approved status in the relevant work categories.

BUILDING WORKS IN PRIVATE SECTOR

A contractor needs to register as a registered general building contractor of BD to carry out general building works and street works in the private sector which do not include any specialised works designated for registered specialist contractors as a main contractor. Registration as a Registered Specialist Contractor is required to carry out works including demolition, foundation, site formation, ventilation and ground investigation field works. BD is responsible for servicing and monitoring the performance of all registered contractors under the Building Ordinance.

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COMPLIANCE WITH THE RELEVANT REQUIREMENTS

Our Directors confirmed that each member of our Group has obtained all necessary permits/licences/registrations for their respective operations. In addition, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, Kwan On (a) has complied with the minimum number and qualifications of full time management and technical personnel for its retention on the Contractor List; (b) has met the financial criteria for its retention on the Contractor List and for acceptance of a tender of Government projects; and (c) has secured sufficient amount of minimum working capital and employed capital in accordance with the requirements under the ETWB Handbook.

In order to ensure the ongoing compliance with the applicable requirements by the relevant members of our Group, our Directors will check the latest requirements from time to time stipulated by WBDB, the Construction Industry Council and the Government respectively for our Group's business operations and take appropriate steps, if required, to comply with the latest requirements. Apart from preparation of financial statements on a yearly basis for submission to WBDB to demonstrate that Kwan On has sufficient employed capital and working capital for retention on the Contractor List, the financial controller of our Group will also assess the level of employed capital and working capital of Kwan On every time prior to the submission of a tender for a new project.

ENVIRONMENTAL PROTECTION AND LABOUR RELATED LAWS AND REGULATIONS

Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odor from industry, commercial operations and construction work. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including but not limited to the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong). The contractor responsible for a work site shall carry out the works in such a manner so as to minimise dust impacts on the surrounding environment.

Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)

The Noise Control Ordinance controls, among other situations, any person in any domestic premises or public place making noise causing annoyance to any other person and the noise from construction sites. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out its works. For engineering works that are to be carried out during the restricted hours and for percussive piling at all times, construction noise permits are required from the Noise Control Authority in advance. Under the Noise Control Ordinance, works that produce noises and the use of powered mechanical equipment in populated areas are not allowed between 7 p.m. and 7 a.m. or at any time on

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general holidays, unless prior approval has been granted by the EPD through the construction noise permit system. Usage of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the EPD.

Percussive pile-driving is allowed on weekdays only with prior approval, in the form of a construction noise permit from the EPD.

Any person who carries on any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent conviction to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)

The Water Pollution Control Ordinance provides the main statutory framework for the declaration of water control zones to cover the whole of Hong Kong and the establishment of water quality objectives. The objectives describe the water quality that should be achieved and maintained in order to promote the conservation and best use of the waters of Hong Kong in the public interest.

Within each water control zone, all discharges or deposits are controlled by a licencing system. The Director of EPD is the authority responsible for licencing and controlling these discharges.

Any person who, unless being licensed under the Water Pollution Control Ordinance, discharges any waste or polluting matter into the waters of Hong Kong in a water control zone or discharges any matter, other than domestic sewage and unpolluted water, into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for 6 months and (a) for a first offence, to a fine of HK\$200,000; (b) for a second or subsequent offence, a fine of HK\$400,000, and in addition, if the offence is a continuing offence, to a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)

The Waste Disposal Ordinance controls the production, storage, collection, treatment, reprocessing, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst deposition of waste in public places or on Government land or on private premises without the consent of the owner or occupier is prohibited.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, including but not limited to the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong). Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, a main contractor who undertakes construction work with a value of HK\$1 million or above will be required,

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within 21 days after being awarded the contract, to establish a billing account in respect of that particular contract with the EPD to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract.

Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong)

The Environmental Impact Assessment Ordinance is to control the adverse environmental impacts from the designated projects as specified in Schedule 2 to the Environmental Impact Assessment Ordinance (for example, large scale transportation network, public utility facilities, heavy industrial or agriculture and fisheries activities, dense community or recreation facilities, etc.) through the application of the environmental impact assessment process and the environmental permit system prior to their construction and operation (and decommissioning if applicable), unless exempted at their respective planning stage. According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, residential and other developments, etc.) without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (a) on a first conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for six months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for two years; (c) on a first summary conviction to a fine at level 6 and to imprisonment for six months; and (d) on a second or subsequent summary conviction to a fine of HK\$1,000,000 and to imprisonment for one year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

In order to ensure the ongoing compliance with the applicable environmental protection requirements by the relevant members of our Group, our Directors will check the latest requirements from time to time stipulated by the Government in this respect and take appropriate steps, if required, to comply with the latest requirements.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$30 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by this ordinance is void.

Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees' Compensation Ordinance establishes a no-fault and non-contributing employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

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Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Pursuant to Section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to sub-contractors' employees who are injured in the course of their employment to the sub-contractor. The principal contractor is, nonetheless, entitled to be indemnified by the sub-contractor who would have been liable to pay compensation to the injured employee. The employees in question are required to serve a notice in writing on the principal contractor before making any claim or application against such principal contractor.

According to Section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). Where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law.

An employer who fails to secure an insurance coverage in compliance with the Employees' Compensation Ordinance to is liable for a fine of up to HK\$100,000 and imprisonment for two years.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

A principal contractor is subject to the provisions on sub-contractor's employees' wages in the Employment Ordinance. Section 43C of the Employment Ordinance provides that if any wages become due to an employee who is employed by a subcontractor on any work which the sub-contractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. A principal contractor's liability shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building work; and (b) to the wages due to such an employee for 2 months (such months shall be the first 2 months of the period in respect of which the wages are due). An employee who has outstanding wage payments from a sub-contractor must serve a notice in writing on the principal contractor within 60 days after the wage due date. A principal contractor and a superior sub-contractor (where applicable) shall not be liable to pay any wages to the employee of the sub-contractor if that employee fails to serve a notice on the principal contractor.

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Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior sub-contractor to that sub-contractor (where applicable) of whom he is aware.

A principal contractor who without reasonable excuse fails to serve notice on the superior sub-contractors shall be guilty of an offence and shall be liable on conviction to a fine at level 5 (currently at HK\$50,000).

Pursuant to Section 43F of the Employment Ordinance, if a principal contractor or superior sub-contractor pays to an employee any wages under Section 43C of Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior sub-contractor, as the case may be. The principal contractor or superior sub-contractor may either (1) claim contribution from every superior sub-contractor to the employee's employer or from the principal contractor and every other such superior sub-contractor as the case may be, or (2) deduct by way of set-off the amount paid by him from any sum due or may become due to the sub-contractor in respect of the work that he has sub-contracted.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor of an industrial undertaking to ensure, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instructions, training and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and

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- providing and maintaining a safe and healthy working environment.

A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements willfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 6 months.

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations, include (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the maintenance and operation of hoists; (iii) the duty to ensure safety of places of work; (iv) prevention of falls; (v) safety of excavations; (vi) the duty to comply with miscellaneous safety requirements; and (vii) provision of first aid facilities. Non-compliance with any of these rules commits an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to fine up to HK\$200,000 and imprisonment for 12 months.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- provision and maintenance of plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage and transport of articles and substances;
- as regards any workplace under the employer's control:
 - maintenance of the workplace in a condition that is safe and without risks to health; and
 - provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- provision and maintenance of a working environment for the employer's employees that is safe and without risks to health.

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Failure to comply with any of the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commissioner for Labour may also issue an improvement notice against non-compliance of this ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment for 12 months.

Immigration Ordinance (Chapter 115 of the Laws of Hong Kong)

Pursuant to Section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor who has control over or is in charge of a construction site) should take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.

Save as disclosed in the subsections headed “Safety Policy” and “Legal Proceedings” under the section headed “Business” in this prospectus, during the Track Record Period and up to the Latest Practicable Date, based on the results of the latest litigation search conducted against each member of the Group, the Hong Kong Legal Advisers are of the view that none of the members of our Group was involved in any litigations and/or legal proceedings which were related to committing an offence by any member of our Group under any of the aforesaid environmental protection and labour related laws and regulations. Save as disclosed as aforesaid, our Directors confirm that there were no events or circumstances which had led to or might lead to our Group being prosecuted by the Government for committing an offence under the aforesaid environmental protection and labour related laws and regulations applicable in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Business development

The history of our Group dates back to 1975 when Mr. Tony Wong and an individual acquainted with him (the “**Independent Co-founder**”), namely Mr. Lam Kam Kuen, established UECL in Hong Kong. To the best of the knowledge of our Directors, Mr. Tony Wong and the Independent Co-founder have financed the business of UECL from their own financial resources. For details of Mr. Tony Wong’s background and relevant industry experience, please refer to the section headed “Directors and senior management” in this prospectus. In the early years, we were principally engaged in the trading of building materials, fire protection materials and woodworking machineries 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. Due to the different views between Mr. Tony Wong and the Independent Co-founder on the future direction of business, he disposed of his shares in UECL to Mr. Tony Wong at par value. 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, road works and drainage services and site formation services in Hong Kong. For details of Mr. Kwong’s background and relevant industry experience, please refer to the section headed “Directors and senior management” in this prospectus. At that time, Kwan On was one of the Group B (confirmed) contractors on the Contractor List under the categories of “Roads and Drainage” and “Waterworks”, and one of the Group B (probationary) contractors under the category of “Site Formation”. The aforesaid licences possessed by Kwan On were transferred from KOBCL in 1992 and such transfer was approved by the relevant Government authority at that time.

The major events in our business development are set forth as below:

Year	Milestones
1975	Mr. Tony Wong and the Independent Co-founder founded UECL in Hong Kong for the trading of building materials and woodworking machineries
1993	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, road works and drainage and site formation services in Hong Kong
1994	We were awarded our first contract for public sector (contract number: 17/WSD/93) by WSD

HISTORY AND DEVELOPMENT

Year	Milestones
1997	<ul style="list-style-type: none">● Kwan On was upgraded to Group C (probationary) under the “Waterworks” category● Kwan On was included in the Specialist List under the “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” category on probation● Kwan On was accredited with the ISO9002:1994 in October 1997, by Hong Kong Quality Assurance Agency which certified that the quality assurance system of Kwan On complied with the relevant requirements applicable to construction of civil engineering works
1998	Kwan On was admitted to Group A (probationary) under the “Buildings” category
2000	Kwan On was upgraded to confirmed status under the “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” category of the Specialist List
2003	Kwan On was certified by SGS Hong Kong Limited Systems & Services Certification on 9 June 2003 as meeting the requirements of ISO 9001:2000 for construction of civil engineering works and design and construction of landslip preventive and remedial works to slopes and retaining walls
2004	Kwan On was upgraded to Group C (confirmed) under the “Waterworks” category
2006	Kwan On was accredited with the ISO9001:2000 by Hong Kong Certification Services Limited on 15 June 2006 which certified that the quality management system of Kwan On complied with the relevant requirements applicable to civil engineering works (site formation, waterworks, roads and drainage) and landslip preventive and remedial works to slopes and retaining walls in Hong Kong
2008	Kwan On was upgraded to Group C (probationary) under the “Roads and Drainage” category
2012	Kwan On was accredited with the ISO9001:2008 by Certification Asia (HK) Limited on 4 June 2012 which certified that the quality management system of Kwan On complied with the relevant requirements applicable to civil engineering works (site formation, waterworks, roads and drainage) in Hong Kong and landslip preventive and remedial works to slopes and retaining walls in Hong Kong

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Year	Milestones
2013	Kwan On was upgraded to Group C (confirmed) under the “Roads and Drainage” category and Group B (confirmed) under the “Site Formation” category on 26 February 2013 and 19 June 2013 respectively

Corporate development

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 December 2012. As at the Latest Practicable Date, our Group comprised our Company, Win Vision, seven operating subsidiaries and one unincorporated joint venture.

UECL

UECL, previously named Univic International Limited (“UIL”), was incorporated in Hong Kong on 9 September 1975 as a limited liability company with an authorised share capital of HK\$500,000 divided into 100,000 shares of HK\$5.00 each, of which two shares were issued and fully paid up. At the time of its incorporation, the issued share capital of UIL was owned as to 50% by Mr. Tony Wong and 50% by the Independent Co-founder. UIL commenced business in 1975.

During the period from 18 November 1975 to 31 May 1996, there were various share transfers between the then owners of UIL. On 19 December 1980, due to the different view between Mr. Tony Wong and the Independent Co-founder on the future direction of UIL, he disposed of his shares in UIL to Mr. Tony Wong at par value. On 6 August 1981, UIL undertook a share subdivision whereby its authorised share capital of 100,000 shares of HK\$5.00 each was subdivided into 500,000 shares of HK\$1.00 each. Immediately prior to the further increase in authorised share capital of UIL on 31 May 1996 as mentioned below, the issued share capital of UIL comprised 403,500 shares of HK\$1.00 each which was owned as to 403,000 shares by Mr. Tony Wong and 500 shares by Mr. Kwong, who held the same on trust in favour of Mr. Tony Wong.

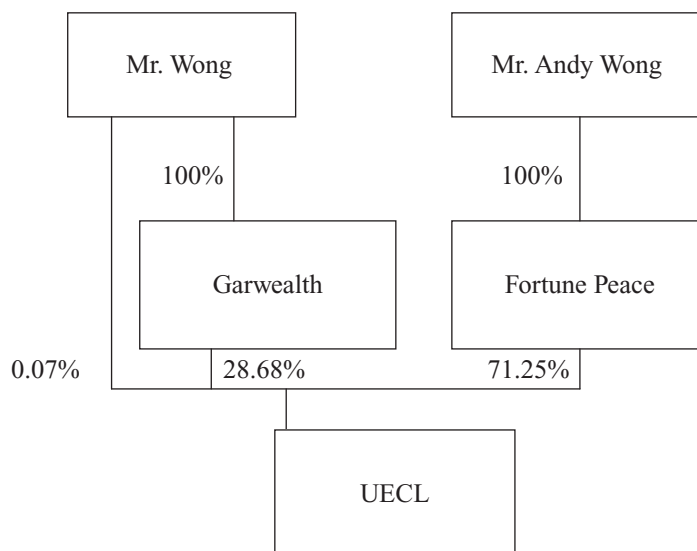
On 31 May 1996, the authorised share capital of UIL was further increased from HK\$500,000 to HK\$1,403,500 by creation of 903,500 shares of HK\$1.00 each. On the same date, UIL issued and allotted 1,000,000 shares at par value to the trustees of a discretionary trust established for the benefit of Mr. Tony Wong’s direct descendants and/or family members (the “**Wong Family Trust**”). After two share transfers took place on 17 December 1996 and 26 March 2008, the 1,000,000 shares issued and allotted to the trustees of the Wong Family Trust were subsequently transferred to Fortune Peace, the trustee of the Wong Family Trust. Fortune Peace was incorporated in Hong Kong on 4 June 2007 and was wholly owned by Miss Lam Wing See (“**Miss Lam**”), who has joined our Company since 1994 and held the entire issued share capital of Fortune Peace, on trust in favour of Mr. Andy Wong.

On 9 December 1998, Mr. Tony Wong transferred 402,500 shares in UIL to Garwealth at par value. Garwealth was incorporated in Hong Kong on 24 April 1981 and the entire issued share capital was owned, since 1999, as to 998 shares by Mr. Tony Wong, who held

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the same on trust in favour of Mr. Newton Wong, as to one share by Miss Tsoi Wai Man (“**Miss Tsoi**”), the secretary of Mr. Tony Wong, who held the same on trust in favour of Mr. Newton Wong, and as to the remaining one share beneficially by Mr. Tony Wong. The relevant declarations of trust were cancelled and Mr. Newton Wong transferred 999 issued shares to Mr. Tony Wong on 9 October 2012.

Since then, the issued share capital of UECL was HK\$1,403,500 divided into 1,403,500 shares, all of which had been issued and were fully paid up. The issued share capital of UECL was owned as to approximately 0.035% (or 500 shares) by Mr. Tony Wong, approximately 0.035% (or 500 shares) by Mr. Kwong on trust in favour of Mr. Tony Wong, approximately 71.25% (or 1,000,000 shares) by Fortune Peace and approximately 28.68% (or 402,500 shares) by Garwealth. On 14 June 2000, the name of UIL was changed to UECL. The following diagram sets out the beneficial shareholding structure of UECL before the Reorganisation:



With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the shares of UECL shall cease to have any nominee values. Save for the aforesaid, from 9 October 2012 up to the day immediately prior to the Reorganisation, there had been no change in the share capital or the shareholding of UECL.

In the early years, UECL was principally engaged in the trading of fire protection materials and woodworking machineries and provision of concrete repairs services in Hong Kong. During the Track Record Period and up to the Latest Practicable Date, UECL was principally engaged in the provision of civil, plumbing and fire protection engineering contract services in Hong Kong.

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UEL

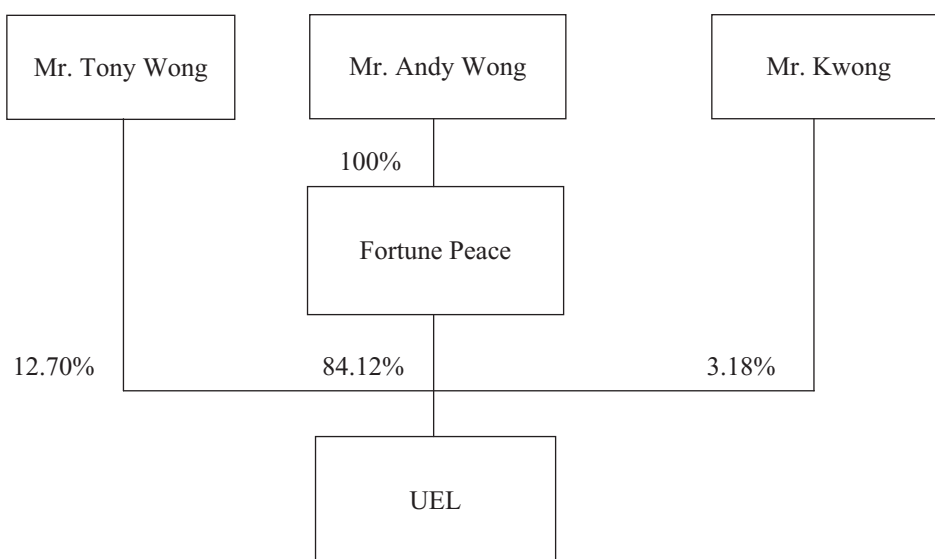
UEL was incorporated in Hong Kong on 23 April 1980 as a limited liability company with an authorised share capital of HK\$1,000,000 divided into 10,000 shares of HK\$100 each, of which two shares had been issued and were fully paid up. As at the time of its incorporation, the issued share capital of UEL was owned as to 50% by Mr. Tony Wong and 50% by an Independent Third Party. UEL commenced business in 1980.

On 9 July 1980, the authorised share capital of UEL was increased to HK\$2,000,000 by creation of 10,000 additional shares of HK\$100 each. On 24 July 1980, UEL issued and allotted 10,000 shares to Mr. Tony Wong at par value. Following the completion of various transfers between the then shareholders of UEL during the period from 12 February 1986 to 19 February 1991, the issued share capital of UEL became owned as to 8,002 shares by Mr. Tony Wong and 2,000 shares by Mr. Kwong.

On 31 May 1996, the authorised share capital of UEL was increased from HK\$2,000,000 to HK\$4,300,200 by creation of 23,002 shares of HK\$100 each. On the same day, UEL issued and allotted 33,000 shares to the trustees of the Wong Family Trust, at par value. On 17 December 1996, the trustees of the Wong Family Trust transferred 33,000 shares in UEL to the trustee of a discretionary trust (“**Good Fortune Trust**”) established for the benefit of the family members and direct descendents of Mr. Tony Wong (excluding Mr. Tony Wong) at par value.

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On 30 December 2000, the authorised share capital of UEL was increased from HK\$4,300,200 to HK\$6,300,200 by creation of 20,000 shares of HK\$100 each which were allotted and issued to the trustee of Good Fortune Trust. On 26 March 2008, the trustee of Good Fortune Trust transferred 53,000 shares in UEL to Fortune Peace at par value. Since then the authorised share capital of UEL was HK\$6,300,200 divided into 63,002 shares of HK\$100 each, all of which had been issued and fully paid up. The issued share capital of UEL was owned as to approximately 12.70% (or 8,002 shares) by Mr. Tony Wong, approximately 3.18% (or 2,000 shares) by Mr. Kwong, approximately 84.12% (or 53,000 shares) by Fortune Peace. The following diagram sets out the beneficial shareholding structure of UEL before the Reorganisation:



With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the shares of UEL shall cease to have any nominal values. Save for the aforesaid, from 26 March 2008 and up to the day immediately prior to the Reorganisation, there had been no change in the share capital or the shareholding of UEL.

UEL is principally engaged in the provision of contracting work on civil, plumbing, fire protection, insulation, concrete repairs and related activities in Hong Kong.

UFCL

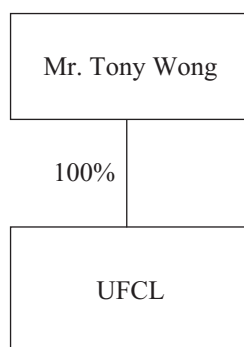
UFCL was incorporated in Hong Kong on 23 April 1980 as a limited liability company under the name of Univic (China) Limited (“UCL”) with an authorised share capital of HK\$100,000 divided into 100,000 shares of HK\$1.00 each, of which two shares had been issued and were fully paid up. As at the time of its incorporation, the issued share capital of UCL was owned as to 50% by Mr. Tony Wong and 50% by an Independent Third Party. UCL commenced business in 1980.

On 7 November 1983, the authorised share capital of UCL was increased to HK\$1,000,000 by the creation of 900,000 additional shares of HK\$1.00 each. The name of UCL was changed to Univic World Trade Limited on 18 November 1983 and further

HISTORY AND DEVELOPMENT

changed to Univic Fire Protection Materials Limited (“UFPML”) on 14 July 1987. On 19 February 1991, Mr. Kwong acquired one share of UFPML from one of its then shareholders at par value. Such share was held by Mr. Kwong on trust in favour of Mr. Tony Wong.

Since then, the issued share capital of UFCL was HK\$1,000,000 divided into 1,000,000 ordinary shares, of which two shares had been issued and were fully paid up. The issued share capital of UFCL was owned as to 50% (or one share) by Mr. Tony Wong and 50% (or one share) by Mr. Kwong, who held the same on trust in favour of Mr. Tony Wong. UFPML changed its name to UFCL on 2 June 2011. The following diagram sets out the beneficial shareholding structure of UFCL before the Reorganisation:



With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the share of UFCL shall cease to have any nominal values. Save for the aforesaid, from 19 February 1991 and up to the day immediately prior to the Reorganisation there had been no change in the share capital or the shareholding of UFCL.

UFCL is principally engaged in the trading of diesel and provision of construction site workmen services in Hong Kong.

Kwan On

Kwan On, previously named Technic Light Limited, was incorporated in Hong Kong on 28 May 1991 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Technic Light Limited commenced business in 1991. The issued share capital of Technic Light Limited of HK\$2.00 was owned by two initial subscribers, who are Independent Third Parties, in equal shares.

On 3 September 1991, Technic Light Limited changed its name to Kwan On. On 22 August 1991, KOBCL and Mr. Peter Chan Boon Ho (“**Mr. Chan**”), an Independent Third Party, acquired one issued share each in Kwan On from the two initial subscribers at par value. The authorised share capital of Kwan On was increased from HK\$10,000 to HK\$4,000,000 by the creation of 3,990,000 shares of HK\$1.00 each on 15 January 1992. On the same date, 3,999,998 shares of Kwan On were issued and allotted to KOBCL. On 31 March 1992, Huey Tai Holdings Limited (“**Huey Tai**”), which was owned by an Independent Third Party, acquired the 3,999,999 shares in Kwan On from KOBCL at par value.

HISTORY AND DEVELOPMENT

On 8 January 1993, the authorised share capital of Kwan On was increased from HK\$4,000,000 to HK\$4,100,000 by the creation of 100,000 shares of HK\$1.00 each. On the same day, 100,000 shares of Kwan On were allotted and issued to Huey Tai. The then issued share capital of Kwan On were owned as to 4,099,999 shares by Huey Tai and one share by Mr. Chan.

Pursuant to a sale and purchase agreement entered into between Huey Tai, Newtollent and Kwan On dated 21 May 1993, Mr. Tony Wong and Newtollent agreed to acquire and Huey Tai agreed to dispose of 4,100,000 issued shares in Kwan On, representing its then entire issued shares together with the shareholders' loan of HK\$900,000 from Mr. Chan and Huey Tai for an aggregate consideration of HK\$7,144,192.77. Newtollent is a company incorporated in Hong Kong on 9 October 1981 and was owned by Epsilon Nominees Limited, which was an Independent Third Party, and Mr. Kwong at the time of the aforesaid acquisition. According to the instrument of transfer executed on 28 May 1993, Mr. Tony Wong acquired the one issued share in Kwan On from Mr. Chan at a consideration of HK\$1.52 and Newtollent acquired 4,099,999 issued shares in Kwan On from Huey Tai at a consideration of HK\$6,244,191.25. Our Directors confirmed that such consideration was determined at arm's length negotiation between the parties with reference to the net asset value of and the value of licences held by Kwan On as at the date of the said acquisition. The aforesaid acquisition had been completed and the consideration had been settled.

On 19 August 1994, the authorised share capital of Kwan On was increased from HK\$4,100,000 to HK\$4,200,000 by the creation of 100,000 shares of HK\$1.00 each. On the same date, Kwan On allotted and issued 100,000 shares to Mr. Kwong at par value. On 18 October 1994, the authorised share capital of Kwan On was increased from HK\$4,200,000 to HK\$5,480,000 by the creation of 1,280,000 shares of HK\$1.00 each. On the same day, Kwan On issued and allotted 1,280,000 shares to Mr. Tony Wong at par value. Immediately after the aforesaid allotment and issue of shares, the issued share capital of Kwan On was owned as to 4,099,999 shares by Newtollent, 1,280,001 shares by Mr. Tony Wong and 100,000 shares by Mr. Kwong.

Following two increases in the authorised share capital of Kwan On and various issue and allotment of shares during the period from 14 July 1995 to 30 May 1997, the issued share capital of Kwan On became owned as to 4,099,999 by Newtollent, 3,313,751 shares by Mr. Tony Wong and 371,250 shares by Mr. Kwong.

On 9 December 1998, Mr. Tony Wong transferred 3,313,000 shares in Kwan On to Garwealth at par value. On 27 October 2001, the authorised share capital of Kwan On was increased from HK\$8,000,000 to HK\$10,200,000 by creation of 2,200,000 shares of HK\$1.00 each. On the same date, an aggregate of 2,415,000 shares were allotted and issued as to 1,271,869 shares to Newtollent, as to 233 shares to Mr. Tony Wong, as to 115,166 shares to Mr. Kwong and as to 1,027,732 shares to Garwealth.

On 2 May 2002, the authorised share capital of Kwan On was increased from HK\$10,200,000 to HK\$11,050,000 by the creation of 850,000 shares of HK\$1.00 each, all of which were allotted and issued to KOCHL at par value, on the same day. KOCHL is currently an investment holding company incorporated in Hong Kong on 11 July 2001 and the issued share capital of which was owned as to 984 shares by Mr. Tony Wong, 486,416

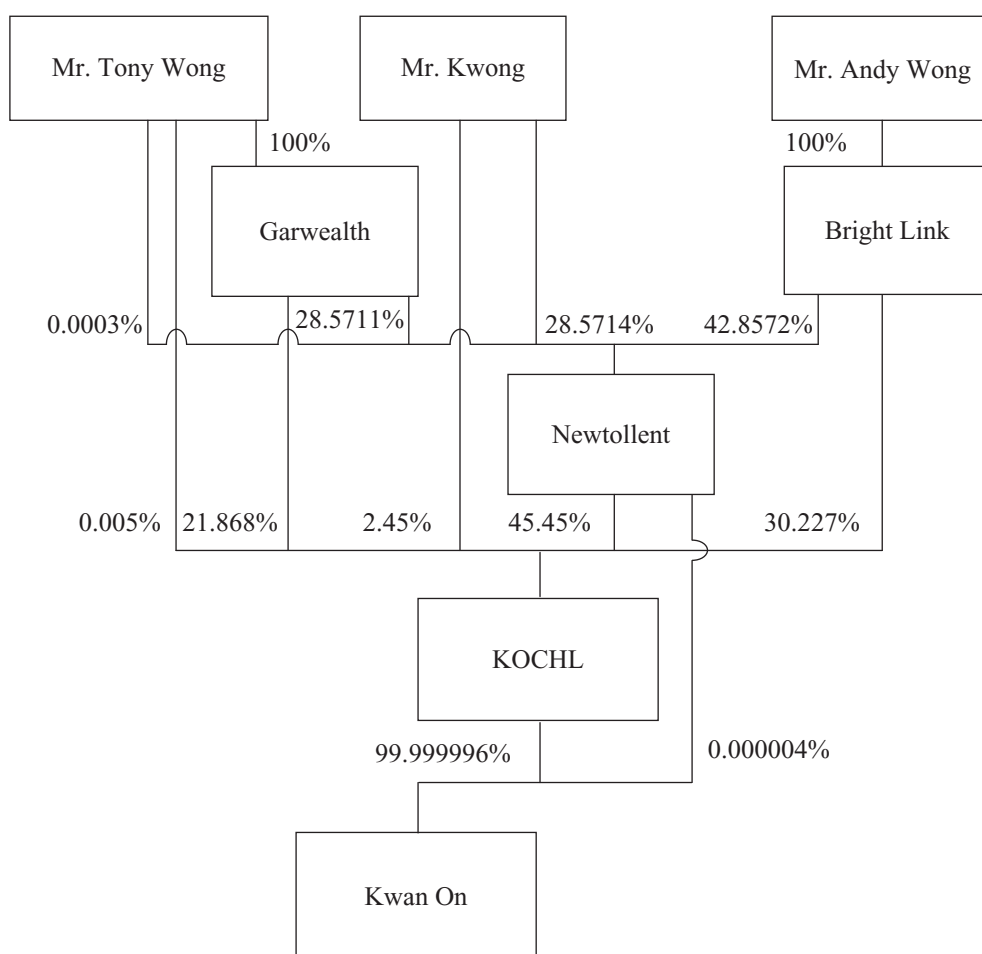
HISTORY AND DEVELOPMENT

shares by Mr. Kwong, 4,340,732 shares by Garwealth, 9,021,868 shares by Newtollent and 6,000,000 shares by Bright Link. The shareholding of KOCHL has remained unchanged since the commencement of the Track Record Period up to the Latest Practicable Date. Bright Link is wholly and beneficially owned by Mr. Andy Wong. Newtollent, Mr. Tony Wong, Mr. Kwong and Garwealth transferred their respective shares in Kwan On to KOCHL through a series of share transfers on 13 December 2001. Subsequent to the aforesaid share transfers, the issued share capital of Kwan On became owned as to 10,199,999 shares by KOCHL and one share by Mr. Tony Wong. On 2 May 2002 and 20 June 2002, the authorised share capital of Kwan On was further increased to HK\$11,050,000 by creation of 850,000 shares of HK\$1.00 each and HK\$13,850,000 by creation of 2,800,000 shares of HK\$1.00 each respectively, all of which were issued and allotted to KOCHL on the respective dates at par value.

On 6 December 2004, the authorised share capital of Kwan On was increased from HK\$13,850,000 to HK\$15,850,000 by creation of 2,000,000 shares of HK\$1.00 each, all of which were issued to KOCHL at par value at the same date.

HISTORY AND DEVELOPMENT

On 27 April 2007, the authorised share capital of Kwan On was increased from HK\$15,850,000 to HK\$19,850,000 by creation of 4,000,000 shares of HK\$1.00 each, all of which were issued to KOCHL at par value at the same date. On 25 February 2011, 5,000,000 shares of HK\$1.00 each were issued and allotted to KOCHL. Thereafter, both of the authorised share capital and issued share capital of Kwan On were increased to HK\$24,850,000 which divided into 24,850,000 ordinary shares of HK\$1.00 each. Since then, the issued share capital of Kwan On was owned as to one share by Mr. Tony Wong, who held the same on trust in favour of Newtollent, and 24,849,999 shares by KOCHL. The following diagram sets out the beneficial shareholding structure of Kwan On before the Reorganisation:



With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the shares of Kwan On shall cease to have any nominal values. Save for the aforesaid, from 25 February 2011 and up to the day immediately prior to the Reorganisation, there had been no change in the share capital or the shareholding of Kwan On.

Kwan On is principally engaged in civil engineering construction in Hong Kong.

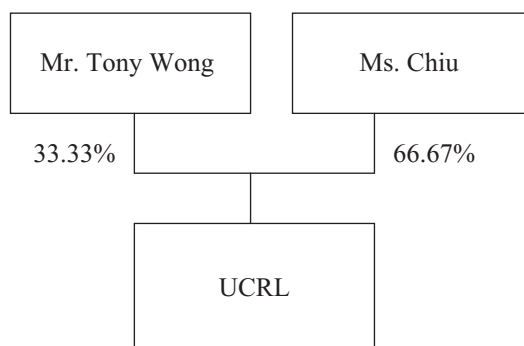
HISTORY AND DEVELOPMENT

UCRL

UCRL was incorporated in Hong Kong on 25 June 1992 under the name of Golden Valley Development Limited (“**Golden Valley**”) as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. As at the time of its incorporation, the shares of Golden Valley were held by two initial subscribers, who were Independent Third Parties, in equal shares. On 18 August 1992, the two shares were transferred as to one share to a company owned by Independent Third Parties and as to one share to Newtollent at par value. On the same day, Golden Valley allotted 32 shares and 66 shares to such company and Newtollent, respectively. Golden Valley commenced business in 1992.

On 29 December 1999, Golden Valley changed its name to Slope Safe Limited (“**Slope Safe**”) and allotted and issued an aggregate of 899 shares, as to 266 shares to Mr. Kwong and as to 633 shares to Independent Third Parties. Following two share transfers took place on 29 December 1999 and 6 August 2002, the issued share capital of Slope Safe were owned as to approximately 66.67% (or 666 shares) by Ms. Chiu and approximately 33.33% (or 333 shares) by an associate of Mr. Tony Wong, who held the same on trust in favour of Mr. Tony Wong.

On 5 June 2008, Slope Safe changed its name to UCRL. The following diagram sets out the beneficial shareholding structure of UCRL before the Reorganisation:



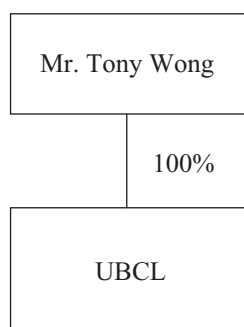
With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the shares of UCRL shall cease to have nominal values. Save for the aforesaid, from 6 August 2002 and up to the day prior to the Reorganisation, there had been no change in the share capital or the shareholding of UCRL.

UCRL is principally engaged in the provision of construction site workmen services in Hong Kong.

HISTORY AND DEVELOPMENT

UBCL

UBCL was incorporated in Hong Kong on 13 July 1993 under the name of Eastline Limited (“**Eastline**”) as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which two shares had been issued and were fully paid up. As at the time of its incorporation, the issued share capital of UBCL was owned by two initial subscribers, both of which were Independent Third Parties, in equal shares. Eastline commenced business in 1993. On 8 October 1993, the two shares in Eastline were transferred by the initial subscribers to an Independent Third Party and Mr. Tony Wong as to one share each at par value and Eastline allotted and issued an aggregate 9,998 shares as to 3,999 shares to such Independent Third Party and 5,999 shares to Mr. Tony Wong. Eastline changed its name to HS-U Construction Management Company Limited (“**HS-U**”) on 4 January 1994 and to UBCL on 7 November 1997. After two share transfers took place on 10 October 1994 and 31 December 2003, the issued share capital of UBCL was owned as to 60% (or 6,000 shares) by Mr. Tony Wong and 40% (or 4,000 shares) by Miss Lam. Miss Lam held the 40% issued share capital in UBCL on trust in favour of Mr. Tony Wong. The following diagram sets out the beneficial shareholding structure of UBCL before the Reorganisation:



With effect from 3 March 2014, pursuant to section 135 of the Companies Ordinance, the shares of UBCL shall cease to have nominal values. Save for the aforesaid, from 31 December 2003 and up to the day immediately prior to the Reorganisation, there had been no change in the share capital or the shareholding of UBCL.

UBCL is principally engaged in the provision of construction site workmen services in Hong Kong.

HISTORY AND DEVELOPMENT

UEWL is principally engaged in the provision of civil and plumbing engineering contract services in Hong Kong.

Win Vision

Win Vision was incorporated in BVI on 10 August 2012 for the purpose of acting as the intermediate company of our Group with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Win Vision allotted and issued three shares to Fortune Decade and 9,997 shares to Twilight Treasure at par value. Our Company acquired the entire equity interest in Win Vision from Fortune Decade and Twilight Treasure on 16 March 2015 by the allotment and issue of 533,300 Shares to Fortune Decade and 466,699 Shares to Twilight Treasure. As at the Latest Practicable Date, Win Vision is a wholly-owned subsidiary of our Company.

Kwan On – U-Tech 1

Kwan On – U-Tech 1 was formed by Kwan On and U-Tech, an Independent Third Party, on 29 July 2012 as an unincorporated joint venture for the purpose of preparing and submitting the joint tender and the subsequent execution of works relating to the Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 – Mains in Shatin and Sai Kung (contract number: 10/WSD/10) awarded by WSD.

Our Directors are of the view that tendering and execution of a project in the form of unincorporated joint venture will help our Group obtain projects of larger size. Further details of the mode of operation of Kwan On – U-Tech 1 can be found under the paragraph 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.

CONFIRMATORY DEED

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.

HISTORY AND DEVELOPMENT

REORGANISATION

For the purpose of the Listing, the following Reorganisation steps have been implemented:

(i) Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 6 December 2012 as an exempted company with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the same day, our Company issued and allotted one nil paid Share to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Twilight Treasure at nil consideration on the same date.

(ii) Incorporation of Success Ally and Decade Success

Success Ally was incorporated in BVI on 3 August 2012 for the purpose of acting as one of the holding companies of Twilight Treasure with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Success Ally allotted and issued 3,454 shares to Mr. Tony Wong, one share to Ms. Chiu and 6,545 shares to Mr. Andy Wong at par value.

Decade Success was incorporated in BVI on 23 August 2012 for the purpose of acting as another holding company of Twilight Treasure with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Decade Success allotted and issued 1,000 shares to Mr. Kwong at par value.

(iii) Incorporation of Fortune Decade, Twilight Treasure and Win Vision

Fortune Decade was incorporated in BVI on 23 August 2012 for the purpose of acting as one of the holding companies of our Company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Fortune Decade allotted and issued 1,000 shares to Mr. Tony Wong at par value.

Twilight Treasure was incorporated in BVI on 13 August 2012 for the purpose of acting as another holding company of our Company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Twilight Treasure allotted and issued 1,250 shares to Decade Success and 8,750 shares to Success Ally at par value.

Win Vision was incorporated in BVI on 10 August 2012 for the purpose of acting as the intermediate company of our Group with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 8 October 2012, Win Vision allotted and issued three shares to Fortune Decade and 9,997 shares to Twilight Treasure at par value.

HISTORY AND DEVELOPMENT

(iv) Transfer of the beneficial interests of Success Ally from Mr. Andy Wong to Ms. Chiu

On 10 January 2013, Ms. Chiu acquired 6,545 shares in the issued share capital of Success Ally from Mr. Andy Wong at par value.

(v) Transfer of the beneficial interests of Success Ally from Ms. Chiu to Mr. Tony Wong

On 21 July 2014, Mr. Tony Wong acquired 6,546 shares in the issued share capital of Success Ally from Ms. Chiu at par value.

(vi) Acquisition of the entire equity interests in Kwan On, UEL, UECL, UEWL, UBCL, UCRL and UFCL by Win Vision from these shareholders by way of share swap

On 12 March 2015, Win Vision acquired the entire issued share capital in Kwan On from KOCHL and Newtollent. Win Vision allotted and issued two shares to Twilight Treasure at the direction of KOCHL and Newtollent as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UEL from Fortune Peace, Mr. Kwong and Mr. Tony Wong. Win Vision allotted and issued three shares to Twilight Treasure at the direction of Fortune Peace, Mr. Kwong and Mr. Tony Wong as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UECL from Mr. Tony Wong, Fortune Peace and Garwealth. Win Vision allotted and issued three shares to Twilight Treasure at the direction of Mr. Tony Wong, Fortune Peace and Garwealth as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UEWL from Bridge Land and Mr. Kwong. Win Vision allotted and issued two shares to Twilight Treasure at the direction of Bridge Land and Mr. Kwong as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UBCL from Mr. Tony Wong. Win Vision allotted and issued one share to Fortune Decade at the direction of Mr. Tony Wong as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UCRL from Mr. Tony Wong and Ms. Chiu. Win Vision allotted and issued two shares to Twilight Treasure at the direction of Mr. Tony Wong and Ms. Chiu as the consideration for the said acquisition.

On 12 March 2015, Win Vision acquired the entire issued share capital in UFCL from Mr. Tony Wong. Win Vision allotted and issued one share to Fortune Decade at the direction of Mr. Tony Wong as the consideration for the said acquisition.

HISTORY AND DEVELOPMENT

After completion of the above transfer, Mr. Andy Wong, Mr. Newton Wong and Ms. Chiu have ceased to be direct or indirect shareholders of our Group. Ms. Chiu, who has been a director of UCRL during the Track Record Period and as at the Latest Practicable Date and will continue to be so after the Listing, Mr. Andy Wong and Mr. Newton Wong have not or will not have any involvement in our Group before and after the Listing.

(vii) Acquisition of Win Vision by our Company from Fortune Decade and Twilight Treasure

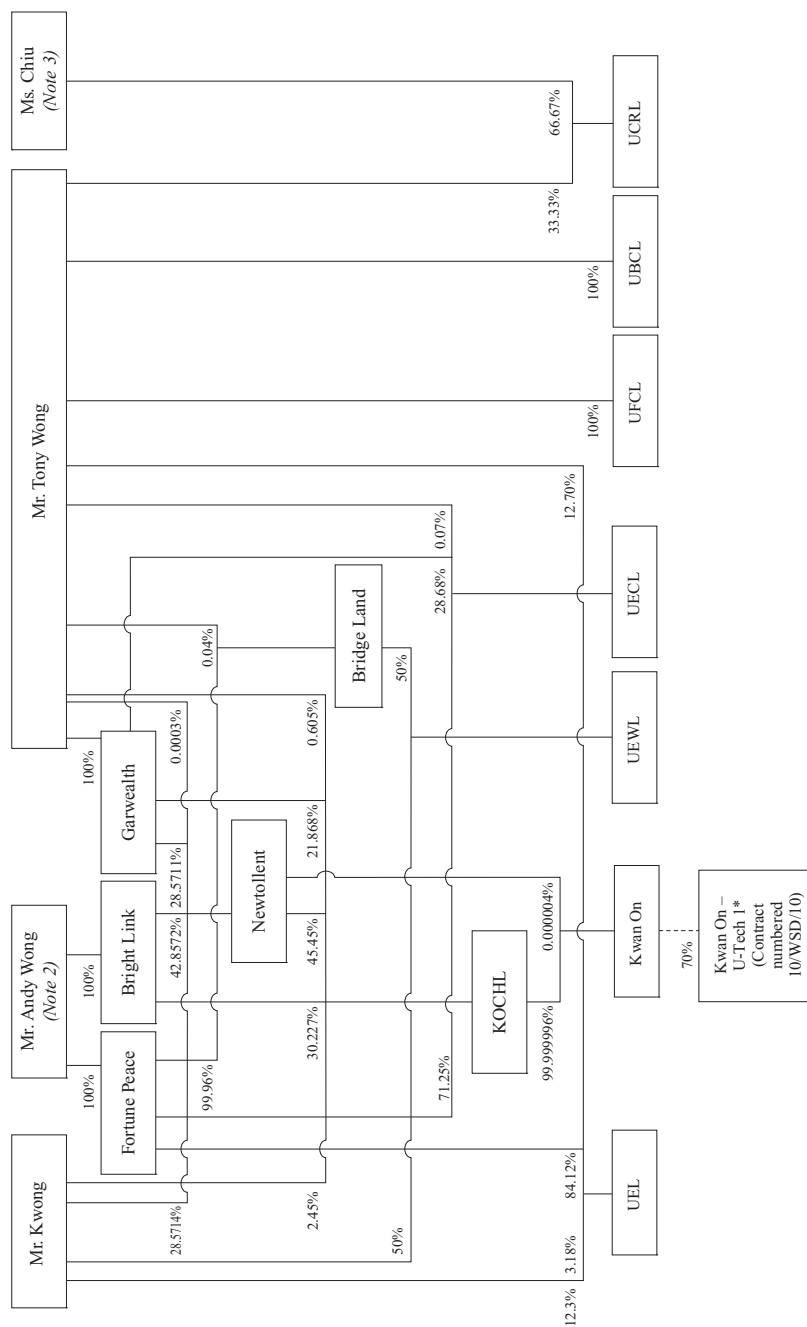
On 16 March 2015, the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of additional 1,962,000,000 Shares. Our Company acquired the entire equity interest in Win Vision from Fortune Decade and Twilight Treasure on 16 March 2015 by (a) the issue and allotment of 533,300 Shares to Fortune Decade and 466,699 Shares to Twilight Treasure, all credited as fully paid; and (b) crediting as fully paid at par the one nil-paid Share held by Twilight Treasure.

As advised by the Hong Kong Legal Advisers, so far as the laws and regulations of Hong Kong are concerned, all necessary approvals from the relevant authorities in Hong Kong have been obtained to effect the Reorganisation, and the Reorganisation has complied with the relevant laws and regulations of Hong Kong and all the steps under the Reorganisation have been legally and properly completed and settled.

GROUP STRUCTURE

The following diagrams set out the shareholding structure and corporate structure of our Group:

Shareholding structure of our Group immediately prior to the Reorganisation (Note 1)



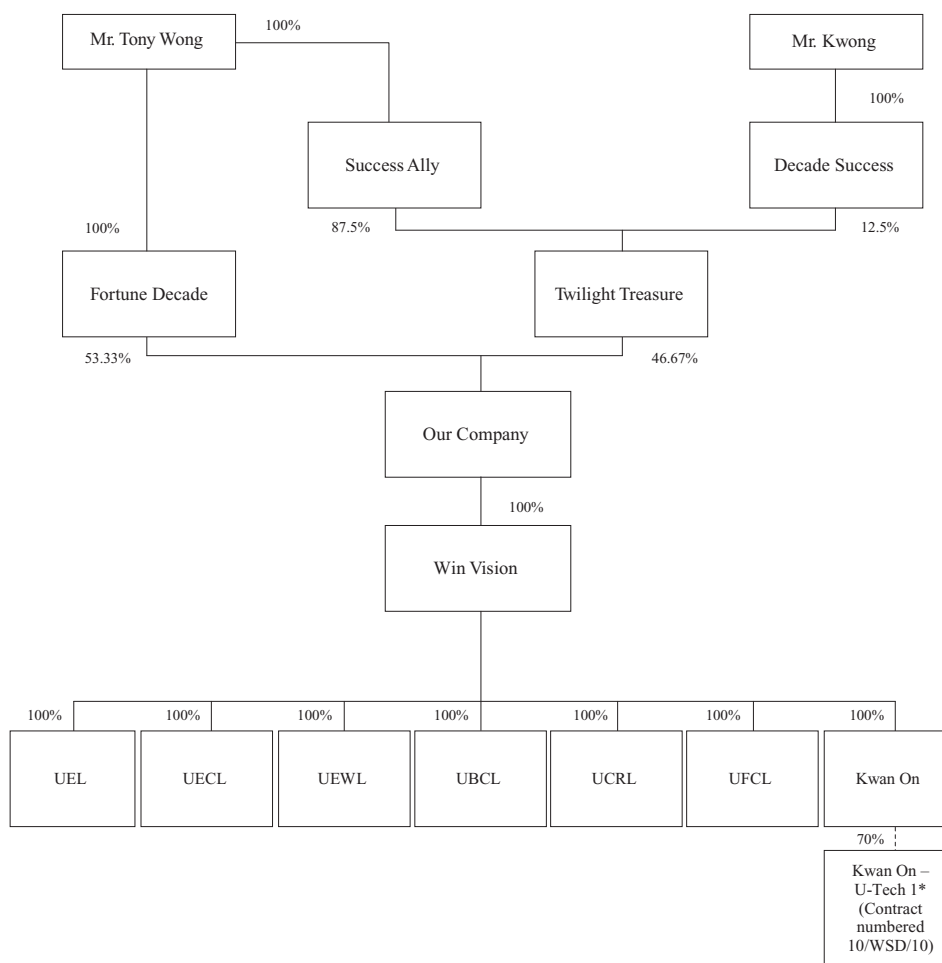
* unincorporated joint venture

HISTORY AND DEVELOPMENT

Notes:

1. In the opinion of our Directors, members of our Group were collectively controlled by Mr. Kwong and Mr. Tony Wong's family including Mr. Tony Wong, Mr. Newton Wong, Mr. Andy Wong and Ms. Chiu during the Track Record Period and prior to the Reorganisation. The different shareholding structures of operating entities of our Group by different members of Mr. Tony Wong's family and related trust arrangements are considered family interests as a whole and mainly for the purpose of the financial and succession arrangements of Mr. Tony Wong's family. 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.
2. Mr. Andy Wong is a son of Mr. Tony Wong.
3. Ms. Chiu is the spouse of Mr. Tony Wong.

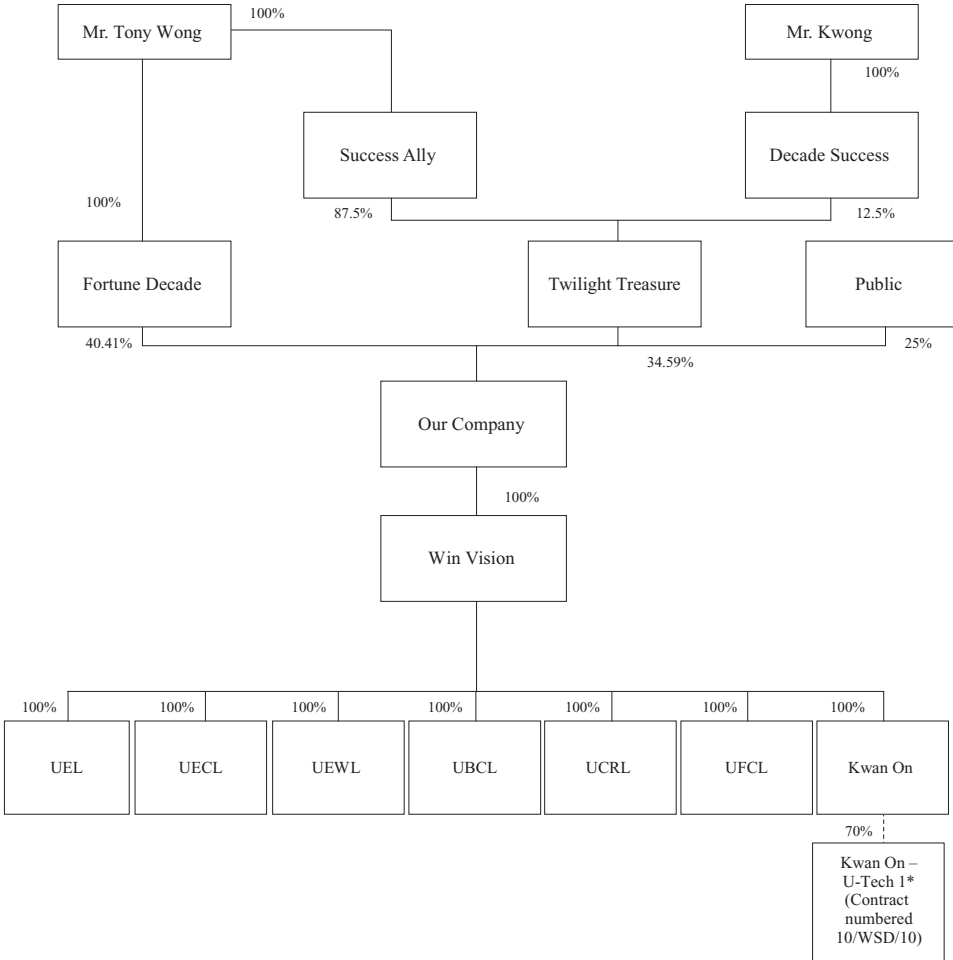
Shareholding structure of our Group immediately after the Reorganisation and immediately prior to the completion of the Placing and the Capitalisation Issue



* unincorporated joint venture

HISTORY AND DEVELOPMENT

Shareholding and corporate structure immediately after the completion of the Placing and the Capitalisation Issue



* unincorporated joint venture

BUSINESS

OVERVIEW

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. We are also engaged in site formation works for the public and private sectors in Hong Kong.

Kwan On, a member of our Group, is one of the Group C contractors (confirmed) for waterworks engineering services and one of the Group C contractors (confirmed) for road works and drainage services. 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. Kwan On is also one of the Group A contractors (probationary) for building works and Group B contractors (confirmed) for site formation works. In addition, Kwan On is one of the contractors on the Specialist List for “Landslip Preventive/ Remedial Works to Slopes/Retaining Walls” category. Members of our Group also hold other licences and certificates granted by BD and EMSD. Please refer to the paragraph headed “Licences and certificates held by our Group” below under this section for further details.

During the Track Record Period, most of the works undertaken by us were civil engineering projects for WBDB. 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, school, hospital and private residence.

The following table sets forth a breakdown of our revenue by categories of services provided during the Track Record Period:

Types of services	Year ended 31 March		Six months ended	
	2013	2014	30 September	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>			
Waterworks engineering services	158,892	208,084	87,007	119,767
Road works and drainage services	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>

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we had completed 13 projects for both the public and private sectors in Hong Kong with a total value of works certified of approximately HK\$833.91 million. As at the Latest Practicable Date, we had 13 projects in progress, of which 10 were tendered by Kwan On and 3 were tendered by our Group's joint venture or joint operations. For details of the projects undertaken by us, please refer to the sub-section headed "Contracts completed and contracts in progress" under this section below.

Depending on our manpower availability, the expertise required, the level of complexity of works involved, cost effectiveness and licencing requirements, we may appoint subcontractors to carry out certain parts of the contracts 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 the respective main contracts and the relevant laws, rules and regulations. For details of the arrangement between our subcontractors and us, please refer to the sub-section headed "Control over subcontractors" under this section below.

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 more than 200 materials suppliers on our approved list of suppliers, with our five largest suppliers having maintained business relationship with us for up to nine years. Before admitting a supplier to our approved list, we will take into account a host of factors including its product quality, punctuality of delivery, job references and reputation in the industry. Please refer to the paragraph headed "Material suppliers" under the sub-section headed "Suppliers" in this section below.

MAJOR SERVICES

Waterworks engineering services

Our waterworks engineering services mainly involve the replacement and rehabilitation of aged water mains, including laying associated service pipes and making service connections to the water mains. Our services also include construction of pumping stations, service reservoirs, mainlaying and all the associated civil, structural, geotechnical, landscaping, electrical and mechanical works including site formation, excavation, pipe jacking, and permanent and temporary accesses.

Set out below are the main types of our waterworks works:



1. *Laying of water mains*

Contract number: 10/WSD/10
Replacement and rehabilitation of water mains, Stage 4 Phase 1 – mains in Shatin and Sai Kung



2. *Construction of pumping stations*

Contract number: 6/WSD/06
Construction of salt water supply system for Penny's Bay



3. *Construction of service reservoirs*

Contract number: 6/WSD/11
Construction of water supply system to housing development at Anderson Road

BUSINESS

Road works and drainage services

Our road works and drainage services generally include construction of local roads with junction improvement and the associated footpaths and planting areas; restoration of area; slope stabilisation works; and construction of associated drains, sewers and water mains and landscaping works.

Set out below are the main types of our road and drainage works:



1. *Construction of local roads with junction*

Contract number: TK/2008/01
Tseung Kwan O Development – Site Formation and infrastructure works at Pak Shing Kok



2. *Construction of associated drains, sewers and water mains and landscaping works*

Contract number: TK/2008/01
Tseung Kwan O Development – Site Formation and infrastructure works at Pak Shing Kok

BUSINESS

LPM Services

Our LPM Services generally include upgrading of slopes and retaining walls, installation of soil nails and raking drains, rock slope stabilisation works and slope cutting in association with surface drainage channel construction and landscaping works.

Set out below are the main types of our LPM Services:



1. *Slope maintenance*

Contract number: GE/2011/03
Landslip Prevention and Mitigation Programme, 2008, Package C, landslip prevention and mitigation works in Kowloon and Hong Kong



2. *Installation of soil nails*

Contract number: GE/2011/03
Landslip Prevention and Mitigation Programme, 2008, Package C, landslip prevention and mitigation works in Kowloon and Hong Kong

BUSINESS

Site formation works

Site formation works broadly involve demolition of existing structures, excavation to the design formation level and/or filling to form a new site for later development and associated drainage and slope stabilization works.

Set out below is the main type of our site formation works:



1. *Site formation works*

Contract number: TK/2008/01

Tseung Kwan O Development – Site Formation and infrastructure works at Pak Shing Kok

Building works

General building contractors may carry out general building works and street works which do not include any specialised works designated for registered specialist contractors. We provide building works for both the public and private sectors in Hong Kong.

Our Directors consider that the financial, technical and management requirements for a contractor to engage in civil engineering projects for the public sector in Hong Kong create effective barriers to international and local contractors who are not currently on the Contractor List and Specialist List from entering the sector. Our Directors also consider that the contract sums of civil engineering projects for the public sector in Hong Kong are always larger than those of projects for the private sector. As such, we focus on undertaking civil engineering projects for the public sector in Hong Kong and our revenue is largely derived from the provision of waterworks engineering services, road works and drainage services and LPM Services for the public sector in Hong Kong during the Track Record Period.

BUSINESS

COMPETITIVE STRENGTHS

Our Directors believe that with our experienced management team and extensive project experience in the implementation of waterworks projects, road works and drainage projects and landslip preventive and mitigative projects, our Group has established a reputation in the civil engineering and construction industry in Hong Kong. In particular, our Directors believe that our Group possesses the following competitive strengths:

Established operating history and proven track record

We have an operating history of over 30 years. Since the acquisition of Kwan On in 1993, we have undertaken more than 30 projects including civil engineering contracts of waterworks engineering, roads and drainage works and landslip preventive and mitigative works in Hong Kong. Kwan On's quarterly performance ratings as appraised by WBDB were above the industry averages in the recent ten consecutive quarters up to the third quarter of 2014. Our Directors consider that our proven track record and our ability to execute works of satisfactory quality are the crucial factors to our success in the industry.

Diversified experience and capabilities

We are one of the Group C contractors (confirmed) for waterworks and one of the Groups C contractors (confirmed) for road works and drainage services on the Contractor List. As at the Latest Practicable Date, there were 22 and 41 Group C contractors (confirmed) under the categories of "Waterworks" and "Roads and Drainage", respectively, in the Contractor List. We are also one of the Group A contractors (probationary) for building works and Group B contractors (confirmed) for site formation works on the Contractor List. In addition, we are one of the approved specialist contractors on the Specialist List for LPM Services. We also possess other licenses granted by BD and EMSD which could benefit us to obtain contracts from the private sector. Details of the licences and certificates held by us are set out in the subsection headed "Licences and certificates held by our Group" under this section below. Throughout the years of operations, we have accumulated experience in a variety of civil engineering projects, including waterworks projects, road works and drainage projects and landslip preventive and mitigative projects. Our Directors consider that with the abovementioned qualifications and accumulated experiences, we will be able to continue undertaking civil engineering projects of various kinds.

Experienced management team

Our management team has extensive experience in the civil engineering industry. Mr. Tony Wong, who is an executive Director, has more than 20 years of experience in handling various civil engineering projects in Hong Kong. Mr. Kwong and Mr. Chung, both are executive Directors, have more than 20 years of experience in the construction industry in Hong Kong respectively. As at the Latest Practicable Date, all members of our senior management team had received tertiary education and/or above or obtained professional qualifications. For further details of the biographies and relevant industry experience of our management team, please refer to the section headed "Directors and senior management" in this prospectus. Our Directors consider that the qualifications and experience of our senior

BUSINESS

management team help us formulate competitive tenders, which are essential to securing new contracts, and in carrying out efficient and timely implementation and management of project works.

Stable relationships with our subcontractors and construction materials suppliers

We have established stable business relationships for up to nine years with our five largest subcontractors during the Track Record Period. Having stable working relationship with our subcontractors enables us to have comprehensive assessment of their ability and quality of works and also allows us to enjoy stable subcontracting services. We also maintain stable relationships for up to nine years with our five largest materials suppliers during the Track Record Period to ensure adequate supply of materials to us, in terms of both quality and quantity. Please refer to the sub-section headed “Suppliers” under this section below for further details.

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. We intend to achieve our business objective by pursuing the following strategies:

Expanding our business scale and diversifying our source of income

Kwan On was upgraded to Group C contractor (confirmed) under the “Roads and Drainage” category and Group B contractor (confirmed) under the “Site Formation” category on 26 February 2013 and 19 June 2013 respectively, which has further enhanced our ability to tender for and secure works projects with larger contract values under these two categories. Our Directors plan to expand our business scale through securing more works contracts with contract sum of HK\$300 million or above and diversify our source of income by tendering for more contracts originated from CEDD and DSD in view of the upcoming opportunities arising from projects and continuous capital expenditure from the two departments. Please refer to the section headed “Industry Overview” in this prospectus for the details of works and opportunities under the aforesaid two departments.

Further strengthening our manpower

Apart from the requirements on the employed capital and working capital, Kwan On is also required to employ a minimum number of full time management and technical personnel with the necessary qualifications as stipulated in the ETWB Handbook in order to be retained on the Contractor List (both on confirmed and probationary status). As such, with the expansion of our business scale in the future, we plan to recruit additional management and technical personnel to fulfill the requirements for retaining on the Contractor List. In addition, in order to uphold the work quality of the projects undertaken by our Group and to provide a safety and healthy working environment for our workers, subcontractors and the public, we intend to recruit additional personnel to strengthen our quality assurance and safety teams.

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Acquisition of additional equipment and machinery to strengthen our ability of project implementation

We intend to source and purchase additional equipment and machinery to strengthen our project implementation ability in anticipation of the expansion of our business scale in the future. Such equipment and machinery include but are not limited to excavator, air compressor and crane. We intend to allocate approximately HK\$2.1 million or approximately 8.0% of the net proceeds from the Placing for the acquisition of additional equipment and machinery. Please refer to the section headed “Statement of business objective and use of proceeds” in this prospectus for details of the relevant time frame, estimate capital expenditure and implementation plan.

As at the Latest Practicable Date, we have not identified any target for acquisition and do not have any acquisition plan.

LICENCES AND CERTIFICATES HELD BY OUR GROUP

The following tables summarise the details of the licences held by the members of our Group as approved contractors as at the Latest Practicable Date:

Relevant authority	Relevant List	Licence/ Certificate	Holder	Date of Expiry (Note 7)
WBDB	Approved Contractors for Public Works – Waterworks Category	Group C (confirmed) (Notes 1, 2 and 8)	Kwan On	Not applicable
WBDB	Approved Contractors for Public Works – Roads and Drainage Category	Group C (confirmed) (Notes 1, 3 and 8)	Kwan On	Not applicable
WBDB	Approved Contractors for Public Works – Site Formation Category	Group B (confirmed) (Notes 1, 4 and 8)	Kwan On	Not applicable
WBDB	Approved Contractors for Public Works – Buildings Category	Group A (probationary) (Notes 1, 5 and 8)	Kwan On	Not applicable
WBDB	Approved Suppliers of Materials and Specialist Contractors for Public Works – Landslip Preventive/Remedial Works to Slopes/ Retaining Walls	Confirmed (Note 6)	Kwan On	Not applicable

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Notes:

1. The financial criteria for retention on the Contractor List for the respective categories (on confirmed and probationary status) are established by WBDB. Such financial criteria primarily concern the levels of employed capital and working capital of a contractor. To ascertain that the required financial criteria and requirements are met, our Group is required to:
 - (a) submit the original or a certified true copy of their latest audited accounts;
 - (b) submit certified statements of outstanding workload;
 - (c) provide supplementary information as and when required to enable WBDB to carry out ad hoc financial assessment; and
 - (d) answer all reasonable enquiries from WBDB.

Apart from the aforesaid financial criteria, our Group is also required to employ a minimum number of full time management and technical personnel with the required qualifications as stipulated in the ETWB Handbook in order to be retained on the Contractor List (on confirmed and probationary status).

2. As at the Latest Practicable Date, the minimum management and technical personnel criteria for the “Waterworks” category were fulfilled by Mr. Tony Wong and Mr. Kwong, respectively.
3. As at the Latest Practicable Date, the minimum management and technical personnel criteria for the “Roads and Drainage” category were fulfilled by Mr. Tony Wong and Mr. Sit Cheung Yee, Simon, project manager of our Group, respectively.
4. As at the Latest Practicable Date, the minimum management and technical personnel criteria for the “Site Formation” category were fulfilled by Mr. Tony Wong and Mr. Chung, respectively.
5. As at the Latest Practicable Date, the minimum management and technical personnel criteria for the “Buildings” category were fulfilled by Mr. Tony Wong and Mr. Mak Kam Ho, Danny, procurement manager (building materials and plants) of our Group, respectively.
6. As at the Latest Practicable Date, the minimum management and technical criteria for the “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” category were fulfilled by Mr. Tony Wong and our other employees respectively.
7. These licences granted by WBDB do not have specified expiry dates and their retention are subject to fulfillment of criteria provided in the ETWB Handbook and regulatory actions taken by WBDB.
8. Apart from Mr. Tony Wong, the Group have submitted the proposed nomination letter to Development Bureau, Government Secretariat in relation to the nomination of Ms. Tai Mei Kiu and Dr. Wong Chun Hung, who can fulfil the requirement as stipulated in the ETWB Handbook, as top management in addition to Mr. Tony Wong.

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Relevant authority	Type of registration	Holder	Date of registration	Date of expiry
BD	Registered Specialist Contractor – Demolition	Kwan On	8 June 2000	28 March 2015 <i>(Note)</i>
BD	Registered Specialist Contractor – Foundation	Kwan On	8 June 2000	13 March 2018
BD	Registered General Building Contractor	Kwan On	27 October 2005	4 November 2017
BD	Registered Specialist Contractor – Site Formation	Kwan On	26 May 2000	25 February 2018
BD	Registered Specialist Contractor – Demolition	UEL	28 January 2002	3 December 2016
BD	Registered General Building Contractor	UEL	30 October 2000	6 November 2015
BD	Registered Specialist Contractor – Site Formation	UEL	19 March 2001	25 July 2016
EMSD	Registered Electrical Contractor	UEL	20 November 1998	19 November 2016

Note: Pursuant to section 8C(2)(c) of the Building Ordinance, a registered contractor shall apply to the BD for renewal of registration not later than 28 days prior to the date of expiry of the registration. As at the Latest Practicable Date, applications for renewal in respect of these registration have been submitted to BD.

As advised by the Hong Kong Legal Advisers, provided that Kwan On and UEL fulfill all prerequisite requirements as set out by the relevant authority, there is no legal impediment for Kwan On and UEL to renew the requisite licences upon their expiry. The respective Government departments will issue reminders for renewal of our licences before their expiry dates. Our Administration Department will arrange the application for renewal accordingly before expiry.

Our Directors confirm that each member of our Group has been granted all the required licences and approvals for carrying on our business activities and confirm that such required licences and approvals were valid and subsisting as at the Latest Practicable Date. Up to the Latest Practicable Date, our Group did not have any historical incidents of non-satisfaction of the statutory minimum employed capital and working capital requirements for maintenance of our approved contractor status.

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During the Track Record Period, our contracts for public sector were tendered by and awarded to (i) Kwan On, a member of our Group which held the 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 works by itself or subcontract the contract works to any one of UEL, UECL and UEWL. Contractors who tender for contracts from the Government are required to hold the relevant licences granted by WBDB as approved contractors. Contractors are not required to subcontract works only to subcontractors which are holders of the relevant licences granted by WBDB as approved contractors. Accordingly, other subsidiaries of our Group, which act as subcontractors of Kwan On in the execution of works contracts, are not required to obtain licences granted by WBDB. As for 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 contracts 4/WSD/11 and 9/WSD/13, the joint operations subcontract all of the works to subcontractor(s) who will be responsible for the necessary labour, plant, materials and all the expenses to complete the project. Further details of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2 can be found under the subsection headed “Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2” in this section below.

CONTRACTS COMPLETED AND CONTRACTS IN PROGRESS

During the Track Record Period, most of the works undertaken by us were civil engineering projects for the public sector. The duration of our projects in 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 stabilisation, upgrading and remedial works for HA, school, hospital and private residence.

Contracts completed

Set out below are the details of the contracts completed by us during the Track Record Period and up to the Latest Practicable Date:

Contract number	Customer	Particulars of the contract	Contract period (Note 1)	Time of completion (Note 2)	Amount of works certified (Note 3)	Reason(s) for extension of time (Note 10)
SX X121	ArchSD	Slope upgrading works of geotechnical feature No.11SE-A/F435 at the Woodside, Mount Parker Road	17 August 2011 to 12 May 2012	18 July 2012	HK\$12.83 million	Inclement weather and variation orders
YL/2008/01	CEDD	Kau Hui Development, Engineering Works in Area 16, Yuen Long, Phase 2 Extension of Road L3	12 September 2011 to 9 July 2013 (Note 9)	9 July 2013	HK\$2.66 million	Variation orders
TK/2008/01	CEDD	Tseung Kwan O Development – Site Formation and infrastructure works at Pak Shing Kok	27 March 2009 to 21 September 2012	26 September 2012	HK\$166.72 million	Inclement weather, variation orders and unpredictable obstructions

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Contract number	Customer	Particulars of the contract	Contract period (Note 1)	Time of completion (Note 2)	Amount of works certified (Note 3)	Reason(s) for extension of time (Note 10)
20090074	HA	Landslip preventive works for slopes and retaining walls – Term contract for slop maintenance and improvement works for Region D	7 December 2009 to 7 June 2012	14 March 2013	HK\$27.12 million	Inclement weather and variation orders
Not applicable	Tung Wah Hospital	Slope upgrading works for Feature No.11SW-A/CR82 at Tung Wah Hospital, 12 Po Yan Street, Sheung Wan, Hong Kong	27 September 2010 to 26 April 2011	4 June 2012 (Note 7)	HK\$4.81 million	Inclement weather and variation orders
GE/2011/03	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package C, Landslip Prevention and Mitigation Works in Kowloon and Hong Kong Island	27 October 2011 to 25 April 2013	17 July 2013	HK\$60.95 million	Inclement weather, variation orders and identification of potential unexploded ordinance
DC/2009/25	DSD	Construction of Intercepting Drains at Shun Tat Street, Tuen Mun and Remaining Works at Sha Po Tsuen, Yuen Long	12 September 2011 to 15 November 2012 (Note 9)	19 August 2013	HK\$10.89 million	Inclement weather and variation orders
24/WSD/09	WSD	Salt Water Supply for Northwest New Territories – Construction of Tan Kwai Tsuen Salt Water Service Reservoir and Associated Works	11 January 2010 to 11 October 2012	12 November 2013	HK\$105.83 million	Inclement weather and variation orders and unpredictable obstructions
YL/2009/01	CEDD	Hang Hau Tsuen Channel at Lau Fau Shan	29 December 2009 to 27 December 2012	30 May 2013	HK\$79.41 million	Inclement weather and variation orders
20100095	HA	Underground Utilities Investigation Term Contract (2011-2013)	31 August 2011 to 31 August 2013	31 August 2013	HK\$8.22 million	Not applicable
26/WSD/06	WSD	Replacement and Rehabilitation of water Mains, Stage 2, Mains in Wong Tai Sin, Kowloon Bay and Kwun Tong	6 June 2007 to 4 April 2011	4 July 2011	HK\$217.93 million	Inclement weather
11/WSD/08	WSD	Replacement and Rehabilitation of water Mains, Stage 3 – Mains in HK Zoological & Botanical Gardens & Mid-level Areas	4 May 2009 to 2 May 2012	30 April 2012	HK\$125.72 million	Non-possession of site, late issuance of excavation permit and variation orders
SD B807	ArchSD	Demolition of Block B of ex-Kennedy Town police married quarters, Kennedy Town, Hong Kong	24 September 2013 to 19 August 2014	27 November 2014 (Note 13)	HK\$10.82 million	Not applicable
Total					<u>HK\$833.91 million</u>	

Contracts in progress as at the Latest Practicable Date

Set out below are the details of our contracts in progress as at the Latest Practicable Date:

1. Contracts tendered by Kwan On

Contract number	Customer	Particulars of the contract	Contract period (Note 1)	Extended date for completion	Reason for extension of time	Estimated contract sum (Note 4)	Value of works certified	Percentage of works certified (Note 5)	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 J and M, Landslip prevention and mitigation works in Wan Chai	11 November 2011 to 11 May 2014	15 January 2015 (Note 8)	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\$32.79 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\$49.70 million
DC/2012/05	DSD	Sewerage at Yuen Long Kau Hui and Shap Pat Heung	6 September 2012 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\$32.49 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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2. Contracts tendered by our Group's joint venture or joint operations

Contract number	Customer	Tendered by	Particulars of the contract	Contract period	Estimated contract sum (Note 4)	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 (Note 6)	22 August 2011 to 21 April 2015	HK\$276.59 million	HK\$276.59 million	HK\$209.68 million	HK\$66.91 million
4/WSD/11 (Note 14)	WSD	Kwan On – China Geo	Construction of Butterfly Valley Fresh Water Primary Service Reservoir extension and associated mainlaying (Note 11)	24 September 2013 to 22 January 2017	HK\$285.80 million	HK\$145.76 million	HK\$140.23 million	HK\$5.53 million
9/WSD/13 (Note 14)	WSD	Kwan On – U-Tech 2	Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2 (Note 12)	31 December 2013 to 15 October 2016	HK\$56.18 million	HK\$28.09 million	HK\$26.40 million	HK\$1.69 million
					HK\$618.57 million	HK\$450.44 million	HK\$376.31 million	HK\$74.13 million

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Notes:

1. Contract period is the period from the date of commencement under the notice for commencement of works issued by the customer or the date of novation agreement (whichever is applicable) to the original contract completion date provided in the contract or works order for projects with HA.
2. Time of completion is determined with reference to the report on contractor's performance issued by relevant customer except for contract 20100095, YL/2008/01 and 26/WSD/06 and explicitly excludes maintenance period/defect liability period. For contract YL/2008/01, which is a novated contract, time of completion is determined with reference to the notification of expiry of the maintenance period for the works except landscape works. For contract 26/WSD/06, the time of completion indicated the expiry of contract period, actual works were completed in December 2012. For contract 20100095, the time of completion refers to the ending date of the relevant contract period.
3. Amount of works certified is based on the certificates of payment received from the relevant customer up to the Latest Practicable Date.
4. The estimated contract sum is based on (i) the tender sum awarded and gazetted; (ii) the estimated final contract sum (for WBDB jobs) in the report on contractor's performance, adjusted based on drawings, variation orders, proposed works and related information provided by customers whichever is the latest; or (iii) budget forecast prepared by our Quantity Surveying and Tendering Department. For HA jobs, the estimated contract sum is based on the tender sum or aggregate of estimated value of works order issued by HA if the amount of works orders received exceeds the original tender sum.
5. The percentage of works certified as at the Latest Practicable Date is based on the certificates issued by the customer on the relevant projects. It represents the amount of works certified as a percentage of the estimated contract sum. For details of contract certification and payment, please refer to the paragraph headed "Application for contract payment and certification" under the sub-section headed "Operations" in this section below.
6. Kwan On – U-Tech 1 is an unincorporated joint venture formed between Kwan On and U-Tech, in July 2011 for the purpose of submitting tenders and the subsequent execution of the works relating to the contract 10/WSD/10. Please refer to the paragraph headed "Kwan On – U-Tech 1" under the section headed "History and development" in this prospectus and the sub-section headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under this section headed below for details.
7. For private sector works, completion is by reference to final payment certificate.
8. 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.
9. Novated contracts.
10. To provide for certain unforeseen circumstances which are beyond the control of the contractor, an "extension of time" clause may be included in contracts for public sector. In addition, a clause in relation to "extension of time" may be included for both public and private works arising out of variation orders.
11. Kwan On – China Geo is a joint operation formed between Kwan On and China Geo in August 2013 for the purpose of preparing and submitting the tender relating to the contract 4/WSD/11. Please refer to the paragraph headed "Kwan On – China Geo" under the section headed "History and development" in this prospectus and the sub-section headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under this section below for details.
12. Kwan On– U-Tech 2 is a joint operation formed between Kwan On and U-Tech in December 2013 for the purpose of preparing and submitting the tender relating to the contract 9/WSD/13. Please refer to the paragraph headed "Kwan On – U-Tech 2" under the section headed "History and development" in this prospectus and the sub-section headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under this section below for details.

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13. We had notified the customer for substantial completion of the works on 9 August 2014 and the certificate of completion was issued by the customer on 4 March 2015 to certify the works being completed on 27 November 2014.
14. The estimated total revenue 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 has been accounted for and recognised as the revenue of our Group in accordance with HKFRS 11. Expenses incurred by the relevant joint operation are 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.

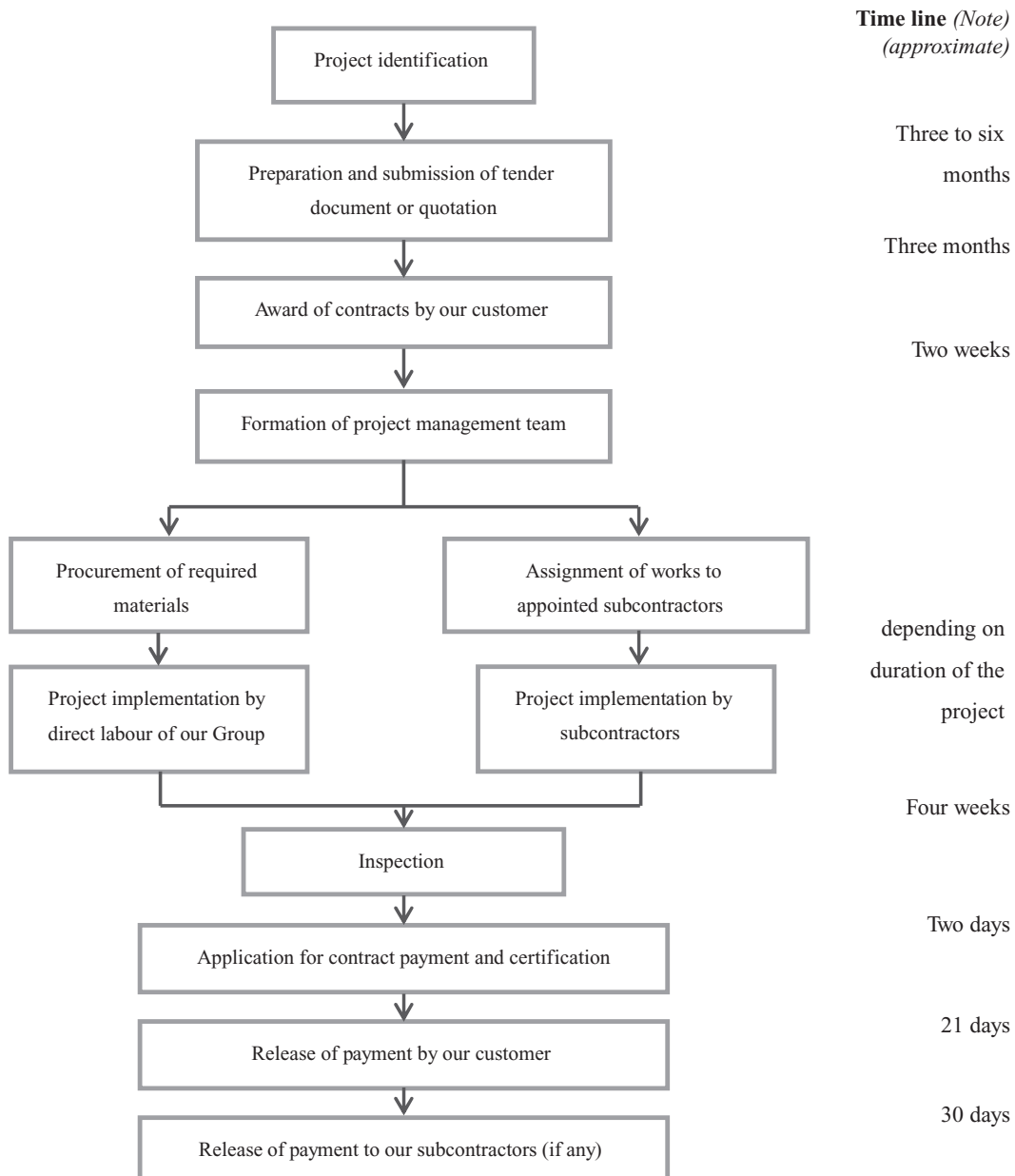
For further details of the respective accounting treatments of our joint venture and joint operations, please refer to the sub-section headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under this section below.

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OPERATIONS

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. We are also engaged in site formation works for the public sector in Hong Kong.

The typical operational procedures for the abovementioned types of our principal business are largely identical. The following diagram illustrates the typical operational procedures undertaken by us:



Note: The time line may vary for different projects depending on factors such as terms of contract, nature of works and other unforeseeable circumstances.

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Project identification

Projects for the public sector in Hong Kong are generally identified by our Quantity Surveying and Tendering Department through reviewing the Government Gazette and the Government's website on which tender notices from different Government departments are published. A typical tender notice includes brief description of the works required, the expected commencement date and contract period, the contact details of the relevant parties from which forms of tender and further particulars of the project may be obtained and the closing time and date of the tender. Information in respect of projects for the private sector in Hong Kong subject to tender may be received directly from clients by way of invitation letters, phone calls or verbal invitation.

Preparation and submission of tender document or quotation

Once the tender documents including the forms of tender and further particulars from the Government department concerned or clients in private sector are obtained by us, our Quantity Surveying and Tendering Department will commence preliminary work for the preparation of tender submissions such as understanding the specifications and requirements of the project by visiting the site at which the project is to be undertaken. Depending on the complexity of the project, external consultants such as architects, engineers and costing consultants may be engaged by us.

Market information and data relevant to our business and, in particular, preparation of tenders such as price trend of construction materials, wage trend and our tender record are maintained and updated regularly by us to facilitate the preparation of competitive tenders. After conducting the aforesaid analysis, our quantity surveyor will prepare a preliminary pricing list with the preliminary prices for each item inserted in the bill of quantities and submit to our contract manager for review. Our contract manager will scrutinise the preliminary pricing list and bill of quantities and make adjustments (if necessary) based on experience and recent market information for final review and approval of our executive Directors. As at the Latest Practicable Date, there were 12 staff in our Quantity Surveying and Tendering Department headed by a quantity surveying manager.

For contracts for the public sector in Hong Kong, we, through Kwan On, which holds the licences granted by WBDB or through the joint venture or the relevant joint operation formed by Kwan On and its business partner, will submit the tender documents to the Government upon finalising the bill of quantities and other documents required for submission. In order to be recommended for the award of a contract, our Accounting Department will in connection with the tender for each public sector works contract also submit the original or a certified true copy of the latest audited accounts and latest half-yearly management accounts, certified statements of outstanding workload and supplementary information of Kwan On and respond to all reasonable enquiries from the Government to demonstrate that the requisite amount of employed and working capital is met. The employed capital and working capital requirements are determined based on the latest statement of outstanding workload and would take into account the annual value of the new tender. In addition, our Accounting Department will from time to time review the level

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of employed capital and working capital, which will also be subsequently reviewed by Mr. Tony Wong, one of our executive Directors, to ensure that the requisite financial criteria and requirement are met at all times.

We will submit the duly completed form of tender together with quotation, bill of quantities or other documents required directly to our private sector clients for bidding contracts.

A table summarizing the number of tenders submitted by, and awarded to, our Group and the overall success rate for each of the two years ended 31 March 2014 and since 1 April 2014 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

Kwan On was upgraded to Group C contractor (confirmed) under the “Roads and Drainage” category on 26 February 2013 and thus the number of tenders submitted for works contracts under such category was increased during the year ended 31 March 2014. Our Directors consider that there is no assurance that the tenders submitted by us are competitive and contracts will be awarded to us. Accordingly, there is no assurance that the tender success rate will improve in the future. In the event that we are unsuccessful in tendering, we will review our tendering strategies and will continue to prepare and submit tenders for projects that we consider are profitable in the future.

Award of contracts by our customer

Award of contracts is generally notified to us by a letter of acceptance for both public and private sectors in Hong Kong and is also published in the Government Gazette for public sector contracts. To formalise the award of contracts for the public sector in Hong Kong, an article of agreement incorporating terms and conditions specified in the general and special conditions of contract, the tender, the bill of quantities and other tender documents will be executed between the Government and our Group. When a contract is awarded to Kwan On, Kwan On may undertake the contract by itself or subcontract the contract works to any one of UEL, UECL and UEWL or other subcontractors. During the Track Record Period, 3 contracts (contracts 10/WSD/10, 4/WSD/11 and 9/WSD/13) were awarded to the joint venture or joint operations formed by Kwan On and its business partners, namely, Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2. 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 joint operations subcontract all of the

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works to subcontractor(s) who will be responsible for the necessary labour, plant, materials and all the expenses to complete the project. For further details of the Kwan On – U- Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2 please refer to the sub-section headed “Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2” under this section below.

Formation of project management team

Once a contract is awarded and the relevant article of agreement has been executed, a project management team will be formed which typically comprises full-time staff of our Group, including but not limited to a project manager, a site agent, quantity surveyor(s), site engineer(s), a site foremen, a safety officer, an environmental officer and workers. Depending on the nature of project, the project management team may also involve a technical manager, a traffic arrangement implementation co-coordinator and an excavation permit application controller. The project management team is also responsible for obtaining approvals, permits, licenses and certificates required by the Government for the contract. The site agent will be responsible for the on-site supervision, work progress monitoring, issues resolution and the overall co-ordination of the day-to-day work of the project.

Procurement of required materials

The project management team will prepare works programmes, material procurements and the construction equipment specifically required for the project. Material requests will be made accordingly by the project management team to our Purchasing Department whereby our Purchasing Department will solicit quotations from the suppliers on our approved list for the requested materials and equipment. We will then submit a proposal together with the certificates and catalogues of the materials manufacturer, technical data sheets and test certificates for the materials and job references of the material supplier to our customer for approval before using such material. The customer may review and approve the aforesaid proposal subject to the test results and its inspection on the workmanship of material delivered on site. Where purchase orders will be placed whenever necessary, we will also regularly review the inventory level to ensure that a sufficient level of inventory is maintained for implementing contract works and for contingencies. Depending on the terms of arrangement with our subcontractors, we may be required to purchase materials for our subcontractors for carrying out our projects which will be satisfied by our subcontractors by way of deduction of the subcontracting fees payable by us to them from time to time.

In order to prevent costs overrun of the projects, our Group will enter into bulk purchase contracts with suppliers of major materials to fix their prices to mitigate the risk of subsequent price hikes. In addition, our Accounting Department will be responsible for compiling project costs summary to monitor the actual costs incurred against income and check for any cost overrun. Any cost overrun for the project will be investigated. The project costs summary is required to be approved by our Group’s financial controller and Mr. Tony Wong, one of our executive Directors.

During the Track Record Period, most of our works contracts for the public sector in Hong Kong provide for a contract price adjustment mechanism, details of which are set out in the paragraph headed “Contract price adjustment mechanism” under this section below.

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The sum payable in each interim payment by our customers will be increased or decreased by a price fluctuation factor. There is no price adjustment clause stipulated in the contracts with our subcontractors. Prior to the Track Record Period, our failure to fully shift the additional costs in relation to project TK/2008/01 to our customer led to loss in such project. The loss from such project had an adverse impact on our Group's profit margin for the year ended 31 March 2013. For further details, please refer to the section headed "Financial Information" in this prospectus.

Assignment of works to approved subcontractors

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. The list of approved subcontractors is reviewed and updated when necessary based on the performance assessment of each subcontractor by us. We generally sub-contract the works to our subcontractors by way of negotiation.

For public sector contracts, we enter into an article of agreement for subcontracting and for private sector contracts, we may enter into a subcontracting agreement with some of the subcontractors appointed which generally, require such subcontractor to observe all the requirements and provisions of the relevant main contract entered into between us and our customers except for situations where the subcontracting rates and specifications of subcontracted works are particularly stated in the subcontracting agreement, if any. During the Track Record Period, certain subcontractors had not entered into any subcontracting agreement with us, the risks associated with such omission is disclosed in the section headed "Risk factors" in this prospectus and the corresponding recommendations are set out under the subsection headed "Internal control" under this section below. Notwithstanding these subcontractors had not entered into written subcontracting agreements with us, they will normally submit written quotations to us which set out the maximum subcontracting unit rate for their works. We will issue a payment statement to each subcontractor containing the quantity of work done by such subcontractor, the unit rate, the value of work, retention withheld, any materials charged back and the then net payable amount to such subcontractor on a job basis. 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. We may make advances to subcontractors on a short-term basis to alleviate their cash flow problems. In the event where the collectability of advances is doubtful, the doubtful amount will be deducted from the amount payable to the relevant subcontractor under the abovementioned payment statement immediately and therefore no provision was made in the past due to such advances.

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Project implementation

The project management team, headed by a project manager, is responsible for all aspects of the project including preparation of the project plan, resources allocation, budget monitoring and overall project execution and administration. The site agent who is normally stationed at the site is responsible for site supervision and monitoring work progress. Meetings between our customers and the project manager are held to review work progress, to resolve issues identified during implementation of the project and to revise the work program, if necessary.

Our customer may, in the course of project implementation, order variation to any part of the works that is necessary for the completion of the works (“**variation orders**”). The variation orders may include: (i) additions, omissions, substitutions, alterations, changes in quality, form, character, kind, position, dimension, level or line; (ii) changes to any sequence, method or timing of construction specified in the main contract; and (iii) changes to the site or entrance to and exit from the site. Our customer’s engineer may determine the sum of variation orders which shall be added to or deducted from the contract sum mainly with respect to rate of works of the same or similar character as set out in the main contract. A variation order will be notified to our site agent by a letter from our customer’s engineer describing the detailed works to be carried out as a result of such variation order. Our Quantity Surveying and Tendering Department will obtain quotation from subcontractors and then prepare and submit the rate for such variation order to our customer for approval. At the end of each month, we will apply to our customer for the amount of variation order carried out and receive progress payment. The value of the variation orders has to be agreed between our customers and us. However, if both parties failed to reach an agreement, our customer’s engineer is authorized to fix the value as he thinks fit and notify us accordingly. The principal contract terms and settlement of variation orders are generally in line with the terms of the main contract. The financial impact of variation orders on our results is disclosed in the sub-section headed “Significant factors affecting operating results and financial conditions of our Group” and the paragraphs headed “Comparison of the year ended 31 March 2014 and 31 March 2013” on pages 232 to 233 and paragraphs headed “Comparison of the six months ended 30 September 2013 and 30 September 2014” on pages 235 to 236 under the section headed “Financial Information” in this prospectus.

Inspection

During the course of project implementation, our quantity surveyor will conduct inspection on all works completed on a regular basis to ensure that the works performed by our Group comply with the requirements as set out in the relevant contract. At the request of our customers, further inspection may be conducted together with the customers’ representative.

Application for contract payment and certification

We receive progress payment pursuant to the terms of each contract for both public and private sectors in Hong Kong and our application for progress payment is normally made by our quantity surveyor manager on a monthly basis. After examination by the engineers or any other authorised person of our customers, a payment certificate would be issued to us certifying the portion of work completed which normally takes around 21 days from the date of application.

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Release of payment by our customer

Under the current practice, payments for public sector projects will be made by our customer to us within 21 days from the date of issue of the payment certificate as stipulated in the relevant contracts. For private sector projects, payments will generally be made by our customer to us according to the terms of the relevant contracts ranging from 30 days to 60 days from the date of issue of the payment certificate.

Release of payment to subcontractors (if any)

We normally pay our subcontractors on a monthly basis with reference to the value of the work done. We will verify the actual works completed by our subcontractors as certified by the customers, and deduct any materials consumed by or purchased on behalf of them, expenses paid on behalf of them and advances made to them (if any). Payment will be made to our subcontractors after the verification process has been conducted.

Our Directors consider and the Sponsor concurs that the existing project management and control procedures are adequate and effective to ensure the smooth operation of our Group.

MODE OF OPERATION OF KWAN ON – U-TECH 1, KWAN ON – CHINA GEO AND KWAN ON – U-TECH 2

During the Track Record Period, Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2 had been awarded three contracts (namely contracts 10/WSD/10, 4/WSD/11 and 9/WSD/13) with a total estimated contract sum of approximately HK\$618.57 million, details of which are described under the paragraphs headed “Kwan On – U-Tech 1”, “Kwan On – U-Tech 2” and “Kwan On – China Geo” in the section headed “History and Development” in this prospectus. China Geo is a state-owned enterprise established in the PRC with headquarter in Beijing, which is principally engaged the provision of domestic and international engineering services. U-Tech is a company incorporated in Hong Kong and a wholly-owned subsidiary of an energy supply group in Hong Kong. U-Tech is principally engaged in provision of a full range of customer services such as consultancy, construction and maintenance in various engineering projects.

Contract 10/WSD/10

Kwan On – U-Tech 1 was awarded the contract for the Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 – Mains in Shatin and Sai Kung by WSD with an estimated contract sum of approximately HK\$276.59 million. The administration of the contract 10/WSD/10 by Kwan On – U-Tech 1 is under the management and direction of the board of Kwan On – U-Tech 1 (the “**10/WSD/10 Management Committee**”), which comprises a total of three members nominated by Kwan On, being Mr. Tony Wong (as Chairman of the 10/WSD/10 Management Committee), Mr. Kwong and Mr. Chung and two members nominated by U-Tech. According to the joint venture agreement entered into between Kwan On and U-Tech dated 29 July 2011, Kwan On and U-Tech are entitled to share 70% and 30% respectively of the profits and losses arising out of or in connection with the contract 10/WSD/10. Having considered that (i) Kwan On – U-Tech 1 has

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established the 10/WSD/10 Management Committee which decides the operational and financial policies of Kwan On – U-Tech 1; (ii) a simple majority voting by members of the 10/WSD/10 Management Committee is required to pass a decision; (iii) the 10/WSD/10 Management Committee comprises 5 members, of which, 3 are nominated by Kwan On and the other 2 are nominated by U-Tech, as provided in the joint venture agreement; and (iv) profit and loss resulting from Kwan On – U-Tech 1 is shared between Kwan On and U-Tech in the ratio specified in the joint venture agreement, our Directors are of the view that Kwan On, through its majority voting right of the 10/WSD/10 Management Committee stated above, has the power to control the operational and financial activities of Kwan On – U-Tech 1 and is subject to variable returns from Kwan On – U-Tech 1. Therefore, Kwan On has control over Kwan On – U-Tech 1 and Kwan On – U-Tech 1 has been classified a subsidiary of Kwan On and its financial position and results of operation are consolidated into the financial statements of our Group in accordance HKFRS 10 “Consolidated Financial Statements”.

Under HKFRS 11 “Joint Arrangements”, joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In addition, an entity that is a party to an arrangement assesses whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities). As Kwan On has control over Kwan On – U-Tech 1 and Kwan On – U-Tech 1 is classified as a subsidiary of Kwan On, the joint venture arrangement under Kwan On – U-Tech 1 does not fall within the scope of HKFRS 11. Kwan On – U-Tech 1 undertakes part of the works while subcontracts the remaining works to subcontractors, one of which is U-Tech, the joint venture partner. Kwan On – U-Tech 1 entered into a subcontracting agreement with U-Tech on 24 August 2011 in respect of the subcontracting works under the contract 10/WSD/10 which constitutes a connected transaction for the Company, details of which can be found under the paragraph headed “Subcontracting arrangements” under the section headed “Connected Transactions” in this prospectus.

For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, revenue generated from Kwan On – U-Tech 1 amounted to approximately HK\$74.6 million, HK\$71.6 million and HK\$40.0 million, respectively. Net profit contributed by Kwan On – U-Tech 1 amounted to approximately HK\$14.2 million, HK\$11.9 million and HK\$10.8 million respectively for each of the two years ended 31 March 2014 and the six months ended 30 September 2014.

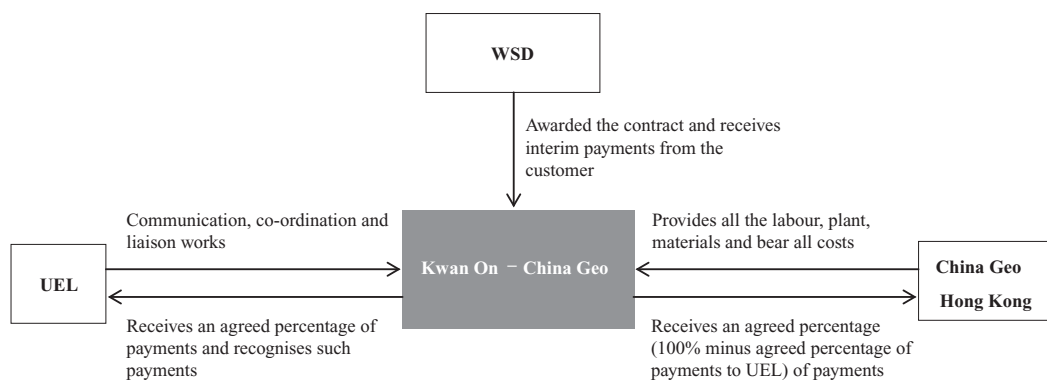
Contract 4/WSD/11

Kwan On – China Geo was a joint operation formed by Kwan On and China Geo on 12 August 2013 for the purpose of preparing and submitting the tender in relation to the construction of Butterfly Valley Fresh Water Primary Service Reservoir Extension and Associated Mainlaying (contract 4/WSD/11). Both Kwan On and China Geo agreed to appoint China Geology (Hong Kong) Industry Ltd. (“**China Geo Hong Kong**”), a wholly-owned subsidiary of China Geo as the major subcontractor of this contract. The estimated contract sum for the contract 4/WSD/11 amounted to approximately HK\$285.80

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million. According to the agreement entered into between Kwan On and China Geo on 12 August 2013, Kwan On and China Geo are entitled to share 51% and 49% of the surplus, loss, assets, liabilities, rights and obligations arising from Kwan On – China Geo.

The mode of operation of Kwan On – China Geo is different from Kwan On – U-Tech 1 in that the burden of costs of this project is shifted from Kwan On – China Geo to the subcontractors and that an agreed percentage of return will be received by our Group. Set out below is a simplified diagram illustrating the operation mode of the contract 4/WSD/11:



Note: According to the subcontracting agreements, UEL receives an agreed percentage of payment from the customer. In the preparation of our Group’s combined financial statements, our Group recognises our share of revenue and expenses arising from Kwan On – China Geo in accordance with the participating interest of 51% as mentioned above under HKFRS 11 “Joint Arrangements”. The profit attributable to our Group from this contract is represented by the revenue less expense recognised, which is equivalent to the payment in accordance with the agreed percentage as aforesaid.

As illustrated above, the contract was awarded to Kwan On – China Geo by WSD. Kwan On – China Geo acts as the main contractor for this contract. Kwan On and China Geo are jointly and severally liable to the Government for the due observance and punctual performance of the obligations of Kwan On – China Geo.

According to the subcontracting agreements made by Kwan On – China Geo with UEL and China Geo Hong Kong respectively, UEL provides one project manager who will be responsible for communication, co-ordination, assisting planning and arrangement of the project works, inclusive of ongoing decision making jointly with China Geo about the progress of the project in this project in return for an agreed percentage of payments paid by the customer in respect of this contract while China Geo Hong Kong will be responsible for all the works of this contract and providing all the labour, plant, materials and bearing all costs for the completion of the project in return for an agreed percentage of payments paid by the customer in respect of this contract. The said agreed percentages of payments payable to UEL and China Geo Hong Kong make up the whole 100% of payments made by the customer in respect of this contract (the “**Kwan On – China Geo Agreed Percentages**”) and thus all payments received from the customer in respect of this contract are to be distributed between UEL and China Geo Hong Kong based on the Kwan On – China Geo Agreed Percentages as a return for their respective works done in accordance with the above respective subcontracting agreements.

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Our Directors consider that the above arrangement facilitates the distribution of all payments received from the customer under this contract directly between our Group and China Geo Hong Kong in accordance with the Kwan On – China Geo Agreed Percentages, thereby resulting in no profit or loss at the level of Kwan On – China Geo.

No financial statements were prepared for Kwan On – China Geo during the Track Record Period because Kwan On – China Geo had been established for less than one year and there were no statutory requirements in Hong Kong for unincorporated entities such as the joint operation to prepare audited financial statements. Prior to the maintenance of separate books and records for Kwan On – China Geo before the first year of its establishment, our Group recognised its share of revenue and expenses attributable to Kwan On – China Geo based on its source documents, including but not limited to interim payment certificates issued by the customer, subcontracting agreements and bank statements of Kwan On – China Geo, rather than based on the books and records maintained for Kwan On – China Geo, which usually should also include the accounting ledger, trial balance and financial statements. Revenue of Kwan On – China Geo was determined using the percentage of completion method under HKAS 11 “Construction Contracts” with reference to the amounts certified in the interim payment certificates issued by the customer. On the other hand, since the subcontractors appointed by Kwan On – China Geo for the execution of contract 4/WSD/11 are responsible for all the works and will provide necessary labour, plant and materials and bear all the costs for the completion of the contracts, the expenses of Kwan On – China Geo comprise the subcontracting charges only. Expenses of Kwan On – China Geo, which comprised only its subcontracting charges, could be completely and reliably determined by multiplying the agreed percentages stipulated in the respective subcontracting agreements with the monthly interim payment certificates. Given that the revenue and expenses of Kwan On – China Geo could be determined accurately and reliably based on the source documents as described above, the management of the Company did not at the time of establishment of Kwan On – China Geo and prior to the first year of its establishment consider it necessary to maintain separate books and records, which usually should also include the accounting ledger, trial balance and financial statements, for Kwan On – China Geo. Despite the absence of statutory requirements for the preparation of audited financial statements for unincorporated entities but for the sake of implementing a robust financial control system for our Group (including entities in which our Group has a participation interest) upon the Listing, our Directors have decided to prepare financial statements for Kwan On – China Geo and to maintain separate books and records, which should usually also include the accounting ledger, trial balance and financial statements, for Kwan On – China Geo after its first year of establishment.

Under the above arrangement, our Group shares the income deriving from this contract with China Geo Hong Kong based on the interim payment certificates issued by the customer and the expenses of Kwan On – China Geo based on the subcontracting agreements between Kwan On – China Geo and the relevant parties with respect to our Group’s participating interest in accordance with the agreement entered into between Kwan On and China Geo on 12 August 2013. In addition, disbursement of cash and operation of the bank account of Kwan On – China Geo require the joint signature of Kwan On and China Geo, which could prohibit Kwan On – China Geo from incurring any debt or encumbrance on its assets. Our Directors are of the view that it is not uncommon to adopt this mode of operation in the local construction industry to utilize respective expertise and

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resources of the business partners. These resources include (i) the pool of human resources of the business partners, in particular project managers and/or quantity surveyors and (ii) the reputation, experience and job references of the business partners in the construction industry. In addition to the aforesaid benefits, the primary reason for using a contractual arrangement such as the joint operation instead of a limited company is that one of the eligibility requirements to tender for public sector contracts in Hong Kong is satisfied by a joint operation where one of its contractual parties holds the requisite licences granted by WBDB whereas it will not be satisfied by a limited company despite it is formed by an approved contractor because these licences may not be transferred to or used by other third parties including the subsidiaries of such approved contractor. Therefore, the joint operation with Kwan On, which is the holder of the requisite licenses granted by WBDB, as one of the partners can satisfy the relevant licensing requirements and will be eligible to tender for the contract 4/WSD/11.

Having considered that (i) both Kwan On and China Geo jointly decided the terms of tender sum and subcontracting fee for execution of this contract; and (ii) Kwan On and China Geo are jointly responsible for ongoing decision making about the progress of the project which will affect the fulfilment of contract obligations jointly by both Kwan On and China Geo under this contract such that the inability to achieve due observance and punctual performance of the obligations under the contract will result in liabilities to both Kwan On and China Geo, our Directors are of the view that Kwan On has joint control of the contractual arrangement under HKFRS 11 “Joint Arrangements”. There is no initial investment made by Kwan On to Kwan On – China Geo. Furthermore, Kwan On has confirmed that it has no dominant influence or control over Kwan On – China Geo by virtue of the provisions of the agreement entered into with China Geo, nor is it able to direct its overall policies or alter the terms of the aforesaid agreement. As such, Kwan On – China Geo has not been classified as a subsidiary of our Company under the Companies Ordinance, applicable accounting standards or for the purpose of the GEM Listing Rules.

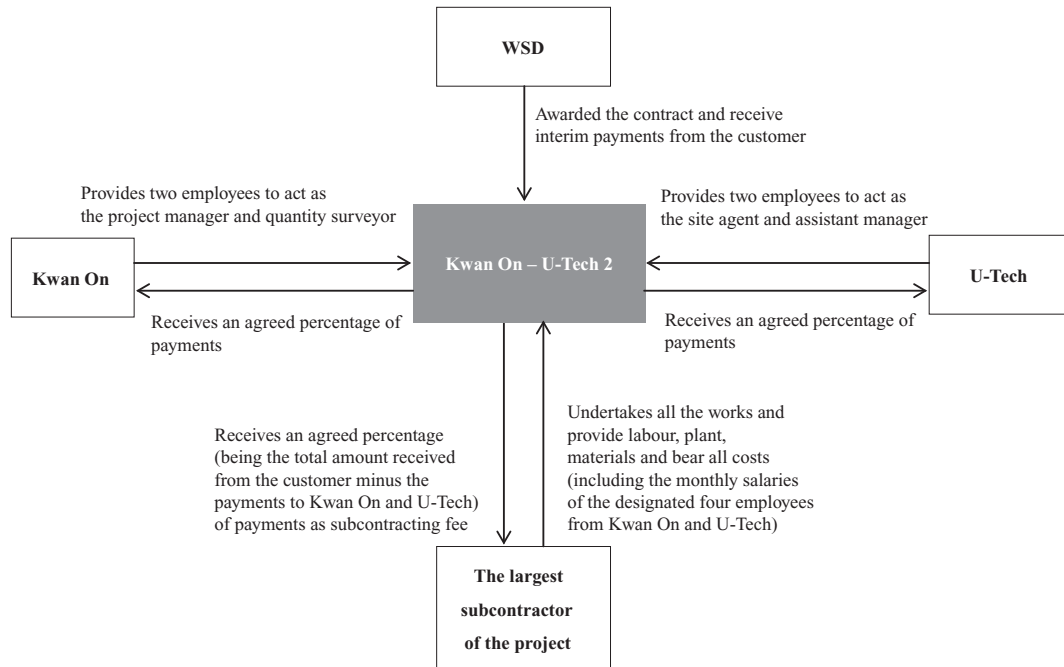
Contract 9/WSD/13

Kwan On – U-Tech 2 is a joint operation formed by Kwan On and U-Tech on 16 December 2013 for the purpose of submitting the tender and the subsequent execution of the works in relation to the water supply to Pak Shek Kok reclamation area, Tai Po – Stage 2 Phase 2 (contract 9/WSD/13). The estimated contract sum for the contract amounted to approximately HK\$56.18 million. According to the agreement entered into between Kwan On and U-Tech on 16 December 2013, Kwan On and U-Tech are entitled to share 50% each of the surplus, loss, assets, liabilities, rights and obligations arising from Kwan On – U-Tech 2.

Both parties agreed to appoint a major subcontractor to undertake almost all the contract works as well as the amount to be paid to such subcontractor. Kwan On and U-Tech jointly approved the project budget and other necessary documents for tendering the contract and submitting the tender to WSD.

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Set out below is a simplified diagram illustrating the operation mode of the contract 9/WSD/13:



Note: According to the subcontracting agreements, Kwan On receives an agreed percentage of payment from the customer. In the preparation of our Group’s combined financial statements, our Group recognises our shares of revenue and expenses arising from Kwan On – U-Tech 2 in accordance with the participating interest of 50% as mentioned above under HKFRS 11 “Joint Arrangements”. The profit attributable to our Group from this contract is represented by the revenue less expense recognised, which is equivalent to the payment in accordance with the agreed percentage as aforesaid.

Kwan On – U-Tech 2 acts as the main contractor for this contract. Kwan On and U-Tech are jointly and severally liable to the Government for the due observance and punctual performance of the respective obligations of Kwan On – U-Tech 2.

According to the subcontracting agreements entered by Kwan On – U-Tech 2 with Kwan On, U-Tech and the largest subcontractor in this project respectively, Kwan On and U-Tech will mainly be responsible for project management and the largest subcontractor in this project will undertake all works of this project and will be responsible for the necessary labour, plant, materials and will bear all costs (including the monthly salaries of the four designated employees of Kwan On and U-Tech as mentioned below) for the completion of the project in return for an agreed percentage of payment paid by the customer in respect of this contract. The said agreed percentages of payments payable to Kwan On, U-Tech and the largest subcontractor in this project make up the whole 100% of payments made by the customer in respect of this contract (the “**Kwan On – U-Tech 2 Agreed Percentages**”) and thus all the payments received from the customer in respect of this contract are to be distributed among Kwan On, U-Tech and the largest subcontractor based on the Kwan On – U-Tech 2 Agreed Percentages as a return for their respective works done in accordance with the above respective subcontracting agreements.

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Our Directors consider that the above arrangement facilitates the distribution of all payments received from the customer under this contract directly among our Group, U-Tech and the largest subcontractor of the project in accordance with the Kwan On – U-Tech 2 Agreed Percentages, thereby resulting in no profit or loss at the level of Kwan On – U-Tech 2.

No financial statements were prepared for Kwan On – U-Tech 2 during the Track Record Period because Kwan On – U-Tech 2 had been established for less than one year. Prior to the maintenance of separate books and records for Kwan On – U-Tech 2 before the first year of its establishment, our Group recognised its share of revenue and expenses attributable to Kwan On – U-Tech 2 based on its source documents, including but not limited to interim payment certificates issued by the customer, subcontracting agreements and bank statements of Kwan On – U-Tech 2, rather than based on the books and records maintained for Kwan On – U-Tech 2, which usually should also include the accounting ledger, trial balance and financial statements. Revenue of Kwan On – U-Tech 2 was determined using the percentage of completion method under HKAS 11 “Construction Contracts” with reference to the amounts certified in the interim payment certificates issued by the customer. On the other hand, since the subcontractors appointed by Kwan On – U-Tech 2 for the execution of contract 9/WSD/13 are responsible for all the works and will provide necessary labour, plant and materials and bear all the costs for the completion of the contracts, the expenses of Kwan On – U-Tech 2 comprise its subcontracting charges only. Expenses of Kwan On – U-Tech 2, which comprised only the subcontracting charges, could be completely and reliably determined by multiplying the agreed percentages stipulated in the respective subcontracting agreements with the monthly interim payment certificates. Given that the revenue and expenses of Kwan On – U-Tech 2 could be determined accurately and reliably based on the source documents as described above, the management of the Company did not at the time of establishment of Kwan On – U-Tech 2 and prior to the first year of its establishment consider it necessary to maintain separate books and records, which usually should also include the accounting ledger, trial balance and financial statements, for Kwan On – U-Tech 2. Despite the absence of statutory requirements for the preparation of audited financial statements for unincorporated entities but for the sake of implementing a robust financial control system for the Group (including entities in which the Group has a participation interest) upon Listing, our Directors have decided to prepare financial statements for Kwan On – U-Tech 2 and to maintain separate books and records, which should usually also include the accounting ledger, trial balance and financial statements, for Kwan On – U-Tech 2 after its first year of establishment.

Under the above arrangement, our Group shares the income deriving from this contract with U-Tech and the largest subcontractor of the project based on the interim payment certificates issued by the customer and expenses of Kwan On – U-Tech 2 based on the subcontracting agreements between Kwan On – U-Tech 2 and the relevant parties with respect to our Group’s participating interest in accordance with the agreement entered into between Kwan On and U-Tech on 16 December 2013. In addition, disbursement of cash and operation of the bank account of Kwan On – U-Tech 2 require the joint signature of Kwan On and U-Tech, which could prohibit Kwan On – U-Tech 2 from incurring any debt or encumbrance on its assets. Our Directors are of the view that is not uncommon to adopt this mode of operation in the construction industry to utilize respective expertise and resources of the business partners and subcontractors. These resources include (i) the pool of human resources of the business partners, in particular project managers and/or quantity surveyors and (ii) the reputation, experience and job references of the business partners in the

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construction industry. In addition to the aforesaid benefits, the primary reason for using a contractual arrangement such as the joint operation instead of a limited company is that one of the eligibility requirements to tender for public sector contracts in Hong Kong is satisfied by a joint operation where one of its contractual parties holds the requisite licences granted by WBDB whereas it will not be satisfied by a limited company despite it is formed by an approved contractor because these licences may not be transferred to or used by other third parties including the subsidiaries of such approved contractor. Therefore, the joint operation with Kwan On, which is the holder of the requisite licenses granted by WBDB, as one of the partners can satisfy the relevant licensing requirements and will be eligible to tender for the contract 9/WSD/13.

Kwan On – U-Tech 2 has entered into subcontracting agreements with Kwan On, U-Tech and the largest subcontractor of this project respectively to set out the scope of works to be undertaken by and agreed percentage of return to be granted to them. Pursuant to the articles of agreement entered into between Kwan On – U-Tech 2 and Kwan On, Kwan On will designate two employees to act as the project manager and quantity surveyor of the project in return for an agreed percentage of the payments paid by the customer in respect of this contract. Pursuant to the subcontracting agreements entered into between Kwan On – U-Tech 2 and U-Tech, U-Tech will designate two employees to act as the site agent and assistant manager of the project in return for an agreed percentage of the interim payments paid by the customer in respect of this contract. Pursuant to the subcontracting agreement entered into between Kwan On – U-Tech 2 and the largest subcontractor of the project, such subcontractor agreed that it would undertake all of the works of this project and would be responsible for the necessary labour, plant, materials and would bear all costs (including the monthly salaries of the four designated employees of Kwan On and U-Tech) in return for an agreed percentage of the payments received from the customer (being the total amount received from the customers minus the payments to Kwan On and U-Tech) as subcontracting fee.

Having considered that the unanimous consent of both Kwan On and U-Tech is required in respect of (i) the approval of project budgets; and (ii) selection, determination of remuneration and appointment/removal of subcontractors, the Directors are of the view that Kwan On and U-Tech have joint control over Kwan On – U-Tech 2 and HKFRS 11 “Joint Arrangements” will apply. In addition, there is no evidence to demonstrate that Kwan On has significant influence over the financial and operating policies of the relevant activity of Kwan On – U-Tech 2, for which HKAS 28 “Investments in Associates and Joint Ventures” applies. There is no initial investment by Kwan On to the Kwan On – U-Tech 2. Furthermore, neither of the parties has dominant influence or control over Kwan On – U-Tech 2 by virtue of the provisions of the agreement entered into between Kwan On and U-Tech, nor is it able to direct the overall policies or alter the terms of the aforesaid agreements. As such, Kwan On – U-Tech 2 has not been classified as a subsidiary of our Group either under the Companies Ordinance, applicable accounting standards or for the purpose of the GEM Listing Rules.

According to the terms of the contract agreed with the Government in respect of contracts 4/WSD/11 and 9/WSD/13, Kwan On and its business partners are jointly and severally liable to the Government for the due observance and punctual performance of the respective obligations of Kwan On – U-Tech 2 and Kwan On – China Geo. Should the subcontractors who are appointed by the relevant joint operation to undertake the works under the relevant contract be in default of their subcontracting obligations towards the

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relevant joint operation due to bankruptcy, liquidation or any other reason which lead to losses, damages, costs and expense suffered by the Government, Kwan On and its business partners shall indemnify the Government against such losses, damages, costs and expenses arising out of any act, default or omission on the part of the relevant joint operation in the performance of the relevant contract. In addition, a partnership is dissolved as regards all the partners by the death or bankruptcy of any partner subject to any agreement between the partners under section 35(1) of the Partnership Ordinance (Chapter 38 of the Laws of Hong Kong). Accordingly, in the event that the business partners of the joint operations become bankrupt or liquidated, the relevant joint operation will be dissolved and Kwan On, being the sole surviving partner, shall continue to perform its obligations under the relevant works contracts on its own account.

Our Directors confirm that relevant financial reporting standards are properly adopted in the preparation of the accountant's report of our Group.

CONTRACT TERMS

Generally the contracts with our customers contain terms and conditions relating to the contract price, contract period, the scope of work and the payment terms. There may also be retention money clause, contract price fluctuation adjustment, performance bonds/liquidated damages requirements and maintenance/defect liability period provisions in some of our contracts.

Retention money

According to the terms and conditions of the contracts which are still in progress, during the Track Record Period, the retention money for public sector contracts is 1% of the total contract sum whereas the retention money for private sector contracts is usually 5% of the total contract sum. Pursuant to the terms of each contract for the public sector, retention money withheld will be released within 21 days upon issue of the certificate for the payment of retention money subject to the customers' satisfaction of the works.

Contract price adjustment mechanism

During the Track Record Period, save for two contracts with ArchSD and two contracts for the private sector in Hong Kong, all of our works contracts provide for a contract price adjustment mechanism (both upward and downward adjustments) with reference to price indices listed in the "Index Numbers of the Costs of Labour and Materials used in Public Sector Construction Projects" published by CSD ("**CSD Price Indices**") applicable to period of time which is close to the period covered by the relevant interim payment. The contract price adjustment mechanism does not fully mitigate the inflation of construction costs, including labour and materials costs because of the difference between the time when the construction costs are incurred and the applicable time of the CSD Price Indices referred by the contract price fluctuation adjustment for the calculation of each interim payment. As such, the contract price adjustment mechanism is independent of the actual amounts paid and is not a back-to-back reimbursement of the actual additional costs incurred by such works contract. The contract price also would not be adjusted for events that do not relate to the prices of construction materials and labour, such as changes in macroeconomic conditions or the Government's expenditure policies on any particular works project or public infrastructure generally.

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For each of the two years ended 31 March 2014 and the six months ended 30 September 2014, the amount of contract price fluctuation adjustment paid by our clients under the abovementioned contract price adjustment mechanism for our works contracts amounted to approximately HK\$18.08 million, HK\$28.53 million and HK\$21.16 million respectively, which covered approximately 6.41%, 8.36% and 6.76% of our cost of services respectively for the same period. Our Directors consider that additional construction costs arising from inflation for those works contracts which provide for a contract price adjustment mechanism could be partly compensated by our customers during the Track Record Period.

Performance bonds/liquidated damages requirement

In order to secure due and timely performance of the main contractor, some customers may request the main contractor to take out performance bonds issued by a bank or an insurance company in favour of the customers, and to include a liquidated damages clause to project itself against the main contractor's late completion of works in the contracts for both public and private sectors.

Our Group would issue a performance bond only if it is required by the contract. During the Track Record Period, there was only one contract (contract 20100095) with HA that required a performance bond. As at the Latest Practicable Date, there were two contracts (contracts 20100095 and 20130375) with HA that required performance bonds. Generally, the amount of performance bond required for a project undertaken by us would not exceed 5% of the tendered amount and the performance bond normally expires six months from the date of issue of the last certificate of completion or upon the expiry of the contract period, whichever is later. As at 31 March 2013 and 2014 and 30 September 2014, we had guarantees on performance bonds of approximately HK\$0.6 million, HK\$0.6 million and HK\$0.6 million respectively. During the Track Record Period and up to the Latest Practicable Date, no performance bond had been called by our customers by reason of late completion of any of the contracts undertaken by us.

During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customer against us.

Maintenance/defects liability period

Our customers would normally require a maintenance/defects liability period of 12 months during which we are responsible to rectify works defects and we would require an identical defect liability/maintenance period from our subcontractors in respect of the portion of works completed by such subcontractors.

If any defects are identified, our project manager will agree on a rectification works programme with the customers so that the defects are remedied at the most convenient time. Where the defect requires remedy by our subcontractor, the relevant subcontractor will be responsible for rectifying the defects and will bear all the associated rectification costs.

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MACHINERY AND EQUIPMENT

Principal machinery

Our works require the use of various equipment and machinery. At the commencement of each project, our project manager will review the construction method for such project and determine the machinery to be used, and in the event that machinery or equipment in addition to those possessed by our Group is required for undertaking the project, we may acquire such machinery or equipment or lease the same from local suppliers depending on factors such as availability of the machinery in the market, acquisition/leasing cost and maintenance costs. During the Track Record Period and up to the Latest Practicable Date, we purchased machinery such as excavators, crane, trucks and butt fusion machine from local suppliers and we leased machinery such as air compressors and generators for undertaking certain projects of our Group.

The average remaining useful lives of our principal machinery and equipment is approximately 2 years. A machinery or equipment will be replaced when the cost for repairs and maintenance exceeds the cost for replacement.

Repairs and maintenance

We perform annual checks on our machines in accordance with relevant regulations in force from time to time. Repairs and maintenance of machinery and equipment are outsourced to independent service providers who are general engineering companies. The total costs for operating and maintenance of machinery and equipment for each of the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 amounted to approximately HK\$1.1 million, HK\$0.9 million and HK\$0.7 million respectively.

Service capacity and utilisation rate

Our Directors consider that due to the nature of our business and operations, it is not feasible and practicable to quantify the service capacity and utilisation rate for the following reasons:

- (i) the service capacity of our Group could be adjusted and increased by acquisition and/or leasing of additional machinery and equipment and outsourcing to subcontractors;
- (ii) different types of machinery and equipment have different functions and therefore it is not feasible to quantify the capacity of each piece of machinery and equipment by making reference to an objective and comparable scale or standard of measurement; and
- (iii) it is impracticable to quantify the output of each worker due to their different ages, skills and experience.

SEASONALITY

Our Directors are of the view that the civil engineering industry in Hong Kong does not exhibit any significant seasonality.

BUSINESS

PRICING POLICY

The bill of quantities and quotations prepared by us for works contracts are determined on a case-by-case basis by taking into account (i) the complexity and difficulties of the project; (ii) the completion time requested by customers; (iii) the estimated number and types of workers required and respective wage trend; (iv) the estimated cost of construction materials; (v) the estimated subcontracting cost, if necessary; (vi) the estimated number and types of workers required; and (vii) the prevailing market conditions.

MARKETING

We did not conduct any marketing or promotional activity during the Track Record Period. Most of the works undertaken by us were civil engineering projects for the public sector in Hong Kong which were normally awarded through open tendering procedures. In respect of projects for the private sector in Hong Kong, we obtain information regarding the tender directly from clients by way of invitation letters, phone calls or verbal invitation. Our Directors consider that our licences held, proven track record and ability to execute works of satisfactory quality could enhance our competitiveness in the open tendering and help us attract customers in private sector.

CUSTOMERS

Our customers are mainly various departments of the Government. During the Track Record Period, all of our customers are located in Hong Kong and all of the settlements between our customers and us took place in Hong Kong. During the Track Record Period, our largest customer accounted for approximately 50.9%, 52.9% and 55.5% respectively of our revenues for the two years ended 31 March 2014 and the six months ended 30 September 2014. Our five largest customers together accounted for approximately 100%, 99.2% and 99.9% of our revenues for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 respectively. The general credit terms granted by us are on an average of 21 days to customers in public sector and on an average of 30 days to customers in private sector respectively. Payments by our customers are usually settled by bank transfer or cheque.

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Set out below is a breakdown of the revenue attributable to our five largest customers during the Track Record Period and their respective background information:

For the year ended 31 March 2013

	<i>HK\$'000</i>	<i>%</i>
WSD	158,892	50.9
CEDD	123,158	39.5
HA	13,998	4.5
DSD	12,512	4.0
ArchSD	<u>3,320</u>	<u>1.1</u>
Total turnover attributable to our top five customers	<u><u>311,880</u></u>	<u><u>100.0%</u></u>

For the year ended 31 March 2014

	<i>HK\$'000</i>	<i>%</i>
WSD	208,084	52.9
CEDD	105,110	26.7
DSD	62,761	16.0
ArchSD	8,351	2.1
Customer A	<u>6,070</u>	<u>1.5</u>
Total turnover attributable to our top five customers	<u><u>390,376</u></u>	<u><u>99.2%</u></u>

For the six months ended 30 September 2014

	<i>HK\$'000</i>	<i>%</i>
CEDD	184,380	55.5
WSD	119,767	36.0
DSD	23,823	7.1
ArchSD	3,979	1.2
HA	<u>408</u>	<u>0.1</u>
Total turnover attributable to our top five customers	<u><u>332,357</u></u>	<u><u>99.9%</u></u>

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

Customer	Principal business	Location	Service provided by our Group	Years of business relationship with our Group	Typical credit terms offered by the Group and payment method
WSD	Waterworks	Hong Kong	Waterworks engineering	19	Payment is due 21 days after certification, paid by bank transfer
CEDD	Geotechnical and roads and drainage	Hong Kong	Slope maintenance and road works	16	Payment is due 21 days after certification, paid by bank transfer
HA	Civil engineering	Hong Kong	Slope maintenance	12	Payment is due 21 days after certification, paid by bank transfer
DSD	Wastewater and stormwater drainage services	Hong Kong	Road works	10	Payment is due 21 days after certification, paid by bank transfer
ArchSD	Buildings and related facilities	Hong Kong	Slope maintenance and building demolition	20	Payment is due 21 days after certification, paid by bank transfer
Customer A	Incorporated owners of a residence	Hong Kong	Building maintenance	2	Payment is due 30 days after certification, paid by cheque

During the Track Record Period, the customer base of our Group was highly concentrated. Revenue generated from Government contracts, including those awarded by WSD, CEDD, ArchSD and DSD, represented approximately 95.5%, 97.7% and 99.8% of our Group's total revenue for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 respectively. Our Directors consider that our reliance on the Government during the Track Record Period is attributable to a combination of factors including (i) the financial, technical and management requirements for a contractor engaging in civil engineering projects of the Government provide effective barriers for those contractors who are not on the Contractor List and the Specialist List from entering the sector; and (ii) the contract sums of projects of the Government are always larger than those projects for private sector in Hong Kong.

Our Directors are of the view that reliance on the Government is not uncommon for construction companies which are mainly engaged in projects for the public sectors in Hong Kong given that (i) all contracts for the public sector in Hong Kong are generally commissioned by the Government and other public bodies in Hong Kong; (ii) contracts for the public sector in Hong Kong are normally awarded through open tendering procedures; and (iii) the increasing opportunities arising from the Government's expenditure on projects

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for the public sector in the future, details of which are set out in the section headed “Industry Overview” in this prospectus. In addition, two members of our Group hold various licenses and certificates to undertake projects of different categories and the revenue of our Group during the Track Record Period was derived from contracts awarded by different departments of the Government.

None of our Directors or their close associates or any Shareholder holding more than 5% of our Company’s issued share capital had any interests in our five largest customers as at the Latest Practicable Date.

SUPPLIERS

Our suppliers are categorised into (i) materials suppliers for provision of construction materials used in our projects and (ii) subcontractors for provision of specific services required by our contracts.

During the Track Record Period, our largest supplier accounted for approximately 12.3%, 9.2% and 20.9% of our cost of services and our five largest suppliers accounted for approximately 36.3% and 31.9% and 47.5% of our cost of services respectively. During the Track Record Period, all of our five largest suppliers are subcontractors who provide services required by our works contracts. Set out below is a breakdown of our Group’s cost of sales by our five largest suppliers during the Track Record Period:

For the year ended 31 March 2013

	<i>HK\$’000</i>	<i>%</i>
Supplier A	34,682	12.3
Supplier B	25,176	8.9
Supplier C	20,698	7.4
Supplier D	11,832	4.2
Supplier E	<u>9,842</u>	<u>3.5</u>
Total cost of services attributable to our top five suppliers	<u>102,230</u>	<u>36.3</u>

For the year ended 31 March 2014

	<i>HK\$’000</i>	<i>%</i>
Supplier A	31,275	9.2
U-Tech	23,292	6.8
Supplier F	21,757	6.4
Supplier B	17,586	5.1
Supplier G	<u>15,002</u>	<u>4.4</u>
Total cost of services attributable to our top five suppliers	<u>108,912</u>	<u>31.9</u>

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For the six months ended 30 September 2014

	<i>HK\$'000</i>	<i>%</i>
U-Tech	65,528	20.9
Supplier A	32,935	10.5
Supplier H	29,641	9.5
Supplier F	13,364	4.3
Supplier I	7,308	2.3
 Total cost of services attributable to our top five suppliers	 148,776	 47.5

Connected transactions

Except for U-Tech, all of the five largest suppliers during the Track Record Period are Independent Third Parties and have business relationships with us from one to nine years. Except for Supplier F, the credit terms granted by our largest suppliers are generally 30 days from the date of invoice. Payments to our suppliers are usually made by cheque. Saved as disclosed in the section headed “Connected Transactions” in this prospectus, none of our Directors or their close associates or any Shareholder holding more than 5% of our Company’s issued share capital had any interests in our five largest suppliers as at the Latest Practicable Date. Set out below is the background information of our five largest suppliers during the Track Record Period:

Supplier	Principal business	Major service provided	Location	Years of business relationship with our Group	Typical credit terms
Supplier A	Civil engineering services	Pipe works and main laying	Hong Kong	5	30 days
Supplier B	Civil engineering services and construction	Earth works and structure works	Hong Kong	5	30 days
Supplier C	Civil engineering services	Flexible barrier	Hong Kong	3	30 days
Supplier D	Provision of construction and transportation services	Pipe works and main laying	Hong Kong	4	30 days
Supplier E	Civil engineering services	Asphalt supply and laying	Hong Kong	3	30 days
U-Tech	Civil engineering services	Pipe works/main laying	Hong Kong	5	30 days
Supplier F	Civil engineering services	Pipe works/main laying	Hong Kong	9	7 days
Supplier G	Civil engineering services	Trenchless pipe work	Hong Kong	2	30 days
Supplier H	Civil engineering services	Earth works and structure works	Hong Kong	1	30 days
Supplier I	Electrical and mechanical engineering services	Electrical and mechanical works	Hong Kong	4	30 days

Materials suppliers

During the Track Record Period, there were over 200 materials suppliers on our approved list of suppliers. Before admitting a materials supplier to our approved list, we will take into account a host of factors including its product quality, punctuality of delivery, job references and reputation in the industry.

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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. All of our materials suppliers are located in Hong Kong and all of our purchases are denominated in HK\$.

Our Group typically entered into bulk purchase orders with materials suppliers where the prices would be fixed within the bulk ordered quantity in order to mitigate the effect arising from the increase in material prices. Our works contracts for the public sector in Hong Kong typically provide for a contract price adjustment mechanism with reference to the Price Indices. Please refer to the paragraph headed “Contract price adjustment mechanism” under the sub-section headed “Contract terms” in this section above for further details. Prior to the Track Record Period, our failure to fully shift the additional costs in relation to project TK/2008/01 to our customers led to losses on such project.

Our largest materials supplier accounted for approximately 17.6%, 13.1% and 26.3% of our total purchases respectively and our five largest materials suppliers accounted for approximately 55.3%, 46.1% and 52.8% of our total purchases for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 respectively. All of our five largest materials suppliers are Independent Third Parties. We have established business relationship with our five largest materials suppliers during the Track Record Period from one year to nine years. We have entered into legally binding supply contracts with certain suppliers for supply of concrete pipes and steel bars, with term of over one year. The duration of these supply contracts ranged from one year to four years. The specifications, purchases price and quantity of construction materials are usually specified in such contracts. Generally, there is no automatic renewal of the contract term or minimum purchase requirement under these supply contracts. Save as disclosed, no long-term contract has been entered into between us and our materials suppliers.

None of our Directors or their close associates or any Shareholder holding more than 5% of our Company’s issued share capital had any interests in our five largest materials suppliers as at the Latest Practicable Date. During the Track Record Period, we had not experienced any significant shortage or delay in the supply of materials by our materials suppliers.

Subcontractors

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, including excavation, formwork, rebar fencing, etc. 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 during the Track Record Period having maintained business relationship with us for up to nine years. Please refer to the paragraph headed “Subcontracting agreements” under the sub-section headed “Control over subcontractors” in this section below for details of subcontracting arrangements

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between us and our subcontractors. Our subcontracting costs amounted to approximately HK\$187.6 million, HK\$221.8 million and HK\$231.8 million respectively, representing approximately 66.5%, 64.9% and 74.0% of the total cost of services for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 respectively. During the same period, the subcontracting costs paid to our largest subcontractor accounted for approximately 18.5%, 14.1% and 28.2% of our total subcontracting costs and the subcontracting costs paid to our five largest subcontractors accounted for approximately 54.2%, 48.2% and 63.6% of our total subcontracting costs respectively. All of our five largest subcontractors are small to medium-sized local firms and have had business relationships with us for up to nine years. Except for U-Tech, all of our five largest subcontractors are Independent Third Parties.

None of our Directors or their close associates or any Shareholder holding more than 5% of our Company's issued share capital had any interests in our five largest subcontractors as at the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incidents whereby our subcontractors have caused significant delay in completing the required services which resulted in any material adverse impact on our operations or financial position.

SENSITIVITY ANALYSIS

During the Track Record Period, the cost of services of our Group consists of (i) subcontracting charges; (ii) direct staff costs; (iii) material costs; (iv) plant and depreciation; (v) overhead costs; (vi) provision for obsolete stocks; and (vii) other contract costs.

The subcontracting charges payable by us to our subcontractors are determined with reference to the works performed by such subcontractor measured at a rate provided under such subcontracting agreement in which allowance for price fluctuation is generally not provided. As such, the subcontracting charges usually do not vary with the fluctuations of labour costs or material costs.

The following tables illustrate the impact of hypothetical fluctuations in direct staff costs and material costs on our profit before tax during the Track Record Period.

Fluctuations in direct staff costs

Hypothetical fluctuations in	+5%	+15%	+20%	-5%	-15%	-20%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in profit before tax						
Year ended 31 March 2013	(2,770)	(8,310)	(11,080)	2,770	8,310	11,080
Year ended 31 March 2014	(2,879)	(8,638)	(11,517)	2,879	8,638	11,517
Six months ended 30						
September 2014	(1,782)	(5,345)	(7,126)	1,782	5,345	7,126

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Fluctuations in material costs

Hypothetical fluctuations in	+5%	+15%	+20%	-5%	-15%	-20%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in profit before tax						
Year ended 31 March 2013	(1,323)	(3,968)	(5,291)	1,323	3,968	5,291
Year ended 31 March 2014	(1,203)	(3,609)	(4,813)	1,203	3,609	4,813
Six months ended 30						
September 2014	(1,064)	(3,193)	(4,257)	1,064	3,193	4,257

The above sensitivity analysis is for illustrative purpose only. As most of our works contracts provide for a contract price adjustment mechanism, details of which are set out in the paragraph headed “Contract price adjustment mechanism” under the sub-section headed “Contract terms” in this section above, our Directors consider that additional construction costs incurred by us for those works contracts which provide for a contract price adjustment mechanism due to inflation could be partly compensated by our customer in normal circumstances.

INVENTORY CONTROL

Our inventories mainly comprised various pipes and fittings for water supply system for waterworks engineering projects. The undertaking of our construction projects also required other major materials, including concrete, asphalt and steel bars. Concrete and asphalt are ordered and delivered as required and are used immediately upon delivery. Steel bars are ordered when demanded as the delivery lead time is short. Where purchase orders will be placed whenever necessary, we will also regularly review the inventory level to ensure that a sufficient level of inventory is maintained for implementing contract works and for contingencies. Depending on the terms of arrangement with our subcontractors, we may be required to purchase materials for our subcontractors for carrying out our projects and typically charge the total costs of such materials together with a handling fee to our subcontractors, which will be settled by our subcontractors by way of deduction of the subcontracting fees payable by us to them from time to time. The ownership of the materials purchased by us on behalf of our subcontractors shall, until they have been collected by our subcontractors, remain with us and form part of our inventories.

Provision for stock obsolescence will be made at each reporting date after our Directors take into account a number of factors concerning stock obsolescence which include (i) no usage/sale during the last 12-month period and lack of future expected movement and (ii) stocks known to be obsolete or damaged or unusable. Stock provision shall be made to reduce stock from cost to net realisable value when a stock is identified as obsolete or there are concerns that a stock could not be sold or used. The provision for such obsolete stock can be written back if a future need is identified.

CONTROL OVER SUBCONTRACTORS**Subcontracting agreements**

As at the Latest Practicable Date, we had entered into subcontracting agreements with over 20 subcontractors. A typical subcontracting agreement contains (i) subcontracting services undertaken by the subcontractor; (ii) duration of the agreement, which is usually coterminous with the duration of related main contract entered into between us and our customer; (iii) basis of determining the subcontracting fees, which is usually the value of works completed by such subcontractor as certified by our customer; (iv) monthly payment date, which is usually 7 days after completion of our verification of works completed by such subcontractor; (v) retention money withheld, which is 5% of the monthly subcontracting fee payable by us to such subcontractor and will be released as to half within 3 months after the issue of completion certificate by our customer and as to half after the completion of the main contract and maintenance period; and (vi) maintenance period and service provided by such subcontractor. It is also stipulated in a subcontracting agreement that the terms and conditions, specification and plan of the related main contract shall apply to such subcontracting agreement. The subcontractor shall assume the same duties and responsibilities as shall be borne by us under the main contract.

During the Track Record Period, certain subcontractors had not entered into any subcontracting agreement with us. Subcontracting charges paid to subcontractors who had not entered into subcontracting agreements for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$149.4 million, HK\$120.2 million and HK\$73.8 million respectively, representing approximately 79.7%, 54.2% and 31.8% of the total subcontracting charges incurred respectively. Please refer to the paragraph headed “Some of our subcontractors had not entered into written subcontracting agreements with us during the Track Record Period and the interests of our Group may not be well protected if any conflict or dispute arises” under the section headed “Risk Factors” in this prospectus and the sub-section headed “Internal control” under this section below.

Subcontractor management plan

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, which mainly covers various aspects such as:

- (i) Scope of works to be subcontracted;
- (ii) Approach to control subcontractors by requiring the subcontractors to abstain from subcontracting the whole of the works subcontracted to them, by requiring the subcontractors to report upwards their subcontracting arrangements and any subsequent changes, and by requesting the subcontractors to submit written declarations of no “hidden” subcontracts for any part of the works subcontracted to them;

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- (iii) Proposed measures for supervision of the works and monitoring the performance of subcontractors, particularly the aspects of the works programming, quality and safety of the works and environmental protection;
- (iv) Criteria for the selection of subcontractors;
- (v) Details of our management team of the relevant contract who shall be responsible for direct supervision and management of subcontractors;
- (vi) Declaration that members of staff in our management team are prohibited to be given a subcontract to any part of the works or to have a vested interest in any of the subcontractors irrespective of tiers; and
- (vii) Proposed measures to ensure our subcontractors' timely payments of wages to the site personnel and timely payments by our subcontractors to subcontractors of lower tiers.

Details of our quality and safety control measures over our subcontractors are disclosed in the subsections headed "Quality Assurance" and "Safety Policy" in this section below. Our project manager will be responsible for monitoring and supervision of the works provided by our subcontractors and their compliance with the requirements and provisions set out in the respective main contracts and the relevant laws, rules and regulations.

Measures to prevent the hiring of illegal workers

According to section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

We require our subcontractors to carefully check the identification documents of their workers to ensure that no illegal workers are hired to work on the sites for which we are responsible. Our labour officers will check the identity card of on-site workers to prevent our subcontractors from using illegal workers. During the Track Record Period, no illegal workers were reported on the sites for which we are responsible.

Environmental performance control

We have an environmental management plan for each contract undertaken by our Group, which sets out our general environmental policies, organisational structure and responsibilities of Environmental Protection Team, in-house rules and regulations, environmental performance monitoring, implementation measures, waste management measures and review of requirements. We instruct our subcontractors to adopt environmental protection measures in order to satisfy EPD's requirement and minimize the effects on the air, noise, water quality as well as nuisance of waste within and outside the site. Our environmental supervisors carry out daily site inspection to ensure that follow-up action has

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been taken by promptly to rectify any defects and deficiencies identified, potential pollution on site. In addition, our environmental officers carry out environmental inspection of the site to assess the environmental impact due to the execution of works.

QUALITY ASSURANCE

Our Directors believe that our success and growth depend on our ability to fulfill the needs of our customers by providing quality services. We have established formal quality management system in accordance with the requirements of ISO9001:2008 quality management system applicable to construction of civil engineering works (site formation, waterworks, roads and drainage) in Hong Kong and construction of landslip preventive and remedial works to slopes and retaining walls in Hong Kong to ensure the quality of our work.

We normally assign a project manager to oversee the quality management of projects undertaken by us. We generally procure the materials and equipment required in the project from the suppliers on our approved list. We also conduct regular sample checks on the materials used to ensure a consistent quality. We also provide a maintenance or defects liability period of twelve months to our customers after completion of each project. Kwan On's quarterly performance ratings as appraised by WBDB were higher than the industry averages in the recent 11 consecutive quarters up to the fourth quarter of 2014.

To ensure all the works are carried out and completed in accordance with the contract requirements with proper working sequence as required under the contract, we will invite our customers to inspect our works. For each project, our project management team will hold monthly meetings with our subcontractors to ensure their understanding of our requirements and concerns, particularly in relation to compliance with safety and environmental standards and prohibition of employment of illegal workers. Our project management team reviews the performance of subcontractors in terms of a number of criteria such as sufficiency of manpower, progress, workmanship, response to instructions and planning and management annually by completing a subcontractor assessment report. In cases of major non-performance by an approved subcontractor, the project management team will review its suitability to remain on our approved list.

SAFETY POLICY

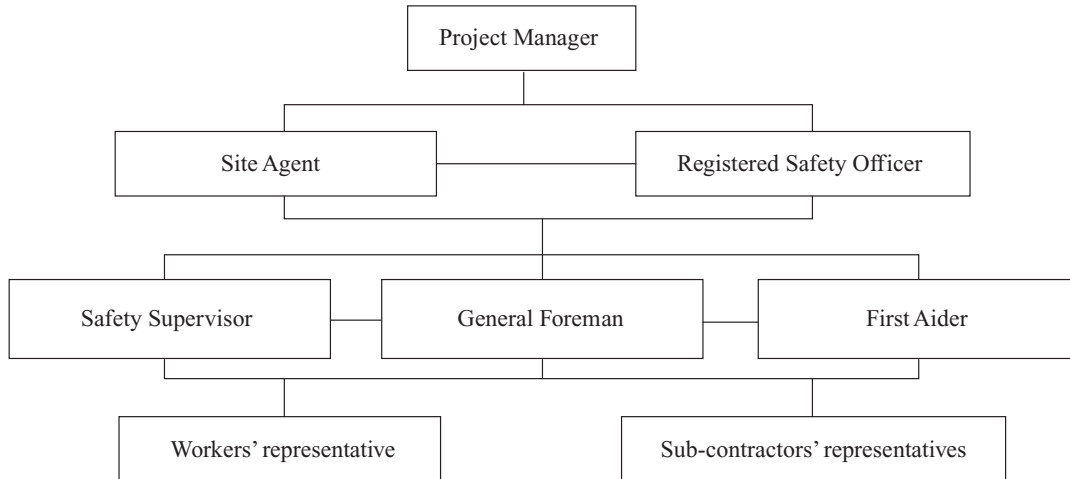
Our Directors are of the view that safety is the first priority during the delivery of our services. We are committed to providing a safe and healthy working environment to our staff and workers of our subcontractors by managing various kinds of risks in relation to implementation of our projects.

Our safety management system is documented in written procedures and supplemented with oral instructions, trainings and demonstrations. We have comprehensive safety plan for each contract undertaken by us, which covers general safety policies, safety organisational chart, safety training, in-house safety rules and regulations, safety and health inspections, job hazards analysis, personal protective equipment, accident investigation, emergency preparedness, safety promotion, health assurance programme, control of subcontractors and

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process control programme. Communications of safety working procedures and risk control measures are made through the site safety committee, safety trainings, daily coordination meeting and internal circulations and reports.

A site safety committee is formed for each construction site upon or after a contract is awarded. Members of the site safety committee meet every month for communication and reporting on safety and health issues amongst all levels from top management down to labour force. Set out below is the organizational chart of a typical site safety committee for each project:



Members of the site safety committee may vary from project to project. In general, a project manager has more than 10 years of experience in civil engineering and construction and obtained a bachelor's degree or above in engineering related discipline. Please refer to the section headed "Directors and Senior Management" in this prospectus for the background and industry experience of our project managers. The safety officers shall be registered under the Factories and Industrial Undertakings Regulations (Chapter 59A of the Laws of Hong Kong). The safety officers employed by us shall have at least three years of experience in construction works and have completed training courses in relation to occupational safety.

Project manager

The main responsibilities of the project manager are (i) initiating and reviewing the safety policies for prevention of injury, ill health, damage and wastage; (ii) setting targets for reduction of accident rates; (iii) ensuring that the site safety plan is regularly reviewed and kept up to date and implemented; (iv) ensuring that all levels of staff receive adequate and appropriate training; (v) ensuring that line management is conversant with the relevant requirements of current legislation and the site safety plan and that all are assigned appropriate duties and responsibilities for implementation of safety policies; (vi) carrying out disciplinary action against those subcontractors and their employees who have repeatedly violated relevant safety regulations; and (vii) maintaining regular communication with the site safety officer.

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Site agent

The site agent reports to the project manager for implementing the pertinent requirements of the safety plan. He is responsible for (i) receiving verbal and written report or checklist from the safety officer and implementing the recommendations to enhance the safety and health of the employees on site; (ii) reporting accidents and dangerous occurrence within 24 hours; (iii) chairing the monthly site safety committee meeting; (iv) carrying out daily site safety inspection and chairing the daily safety co-ordination meeting; (v) issuing warning letters to workers for health and safety violations and imposing penalties or even removing offenders from site for subsequent misdemeanors; and (vi) taking urgent action to protect the safety of the site and preventing unsafe working practices or other violations of the safety plan or statutory regulations.

Registered safety officer

The site's registered safety officers report directly to the project manager or project director. They are mainly responsible for (i) carrying out safety inspections and preparing inspection reports; (ii) supervising and monitoring implementation of the safety plan and risk control measures; (iii) ensuring that subcontractors and all persons working on site comply with the requirements of the safety plan; (iv) investigating accidents and injuries and reporting with recommendations for prevention of re-occurrence; (v) preparing training programmes and conducting training; (vi) maintaining a record of all examinations and test certificates for plant and temporary structures and safety diary for recording all matters related to safety and health; (vii) maintaining a register of first aiders, competent persons and examiners required under the relevant legislations and persons responsible for conducting different levels of safety training; (viii) conducting internal safety audits at intervals of not less than once every six months; and (ix) contacting the Labour Department, manufacturers and trade associations once it is required. As at the Latest Practicable Date, our Group had seven safety officers registered under the Factories and Industrial Undertakings Regulations (Chapter 59A of the Laws of Hong Kong).

Safety supervisor

The site's safety supervisors are accountable to the registered safety officers. They are mainly responsible for (i) carrying out daily inspection and completion of the daily inspection checklist; (ii) supervising workers to ensure their observance of the safety standards; (iii) promoting and improving site safety conciseness and awareness; (iv) preparing weekly safety report to the safety officer; and (v) conducting daily and weekly cleaning and tidying of the site and checking of the site after each day's work.

General foreman

The site's general foreman is responsible for (i) incorporating safety and health instructions in routine orders; (ii) reporting to the safety officer and site agent of any workers or subcontractors who consistently fail to perform safety or ignoring safety instructions; (iii) supervising any particular task which would associate with potential

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hazards so as to ensure the health and safety of the workers engaged; (iv) reporting defects in plant or equipment; and (v) reporting any accident in the first notice to the safety officer and site agent.

First Aider

The site's first aider is responsible for (i) providing first aid treatment to the injured and accompanying the injured to hospital; (ii) maintaining records of site injuries; (iii) reporting all injuries to safety supervisor or safety officer immediately; and (iv) maintaining an adequate stock of first aid equipment.

Workers' representative and subcontractors' representatives

Workers' representative and subcontractors' representatives attend the site's safety committee meeting to provide opinions for improvement of site's safety.

We have also implemented a stringent set of safety control measures over our subcontractors to ensure the entire safety performance of our projects. Pursuant to section 24 of the Employees' Compensation Ordinance, when an employee of a subcontractor is injured at work, the principal contractor shall be liable for any claim of compensation made by the injured employee under the Employees' Compensation Ordinance. Therefore, for any action regarding personal injuries instituted by the employees of our subcontractors or subcontractors of lower tiers, we would always be named as one of the defendants due to its liability to settle the claim of compensation pursuant to section 24 of the Employees' Compensation Ordinance even without any fault on our part. Such payment is recoverable from our subcontractors pursuant to section 24 of the Employees' Compensation Ordinance. Since either we or the direct employers of the employees in question should have taken out employee's compensation insurance policy, the payment should be ultimately recoverable from the insurance companies.

We implement the following safety control measures in order to ensure our subcontractors to comply with the safety standards:

- (i) We have set up general rules for subcontractors and their employees to observe on site. All subcontractors and their employees are informed of the details and responsibilities stated in the outline safety plan prepared for each contract before commencement of the works and during site specific induction training. Subsequent amendments to such outline safety plan will be posted on safety notice board for every site and introduced to workers during on-site safety training;
- (ii) Safety supervisors and safety representatives appointed under each contract carry out daily safety inspection to ensure that all identified or potential safety hazards/abnormalities are rectified within the required time frame;
- (iii) Our on-site safety officers carry out weekly site inspection. A safety inspection report is used by the safety officers to check and monitor the compliance of our safety rules;

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- (iv) We conduct monthly site safety and environmental management committee meetings with customers and monthly site safety and environmental meeting with our subcontractors and workers to discuss safety issues and review their safety performance;
- (v) An evaluation is conducted for assessment of the safety performance of each subcontractor every two months; and
- (vi) We carry out disciplinary action against those subcontractors and their employees who have repeatedly failed to comply with our safety rules. Our site agents and safety officers have the authority to issue safety warning notice to subcontractors and their employees to ensure their compliance with the safety rules.

Our Group's handling and recording system for accidents and dangerous occurrence are designed to satisfy both statutory and contractual obligations and apply to all subcontractors engaged in the project.

In the event of personal injury or an accident happened in the workplace which could have resulted in serious injury or damages to the works or plant or a dangerous occurrence, the general foreman or safety supervisor will immediately initiate the reporting procedure by verbally advising site agent and safety officer. Upon receiving notification of an accident, incident or other dangerous occurrences on site, the site agent will verbally report to the engineer's site staff or engineer's representative immediately. A written preliminary report within 24 hours of the accident or incident with adequate information will be submitted to the engineer's representative.

For personal injury or an accident, a completed statutory Form 2 (a prescribed form in the Employees' Compensation Ordinance) in duplicate copies together with the supplementary information on accidents on construction site will be submitted to the Labour Department and engineer's representative within 7 days of the accident for employee compensation. A complete injury or accident report form with safety recommendations for accident recurrence and a copy of all the correspondence to the Government departments will be submitted to the engineer's representative. We will report minor accidents to Labour Department with temporary incapacity not more than 3 days using Form 2B with a copy to the engineer' representative for record following the same procedures as for the reportable accidents describe above.

For dangerous occurrence, we will report in writing to the Occupational Safety and Health Branch of Labour Department within 24 hours, irrespective of whether there are casualties or not, on the Labour Department's standard "Dangerous Occurrence Report Form".

An investigation team comprises safety officer, site agent, safety supervisor and the immediate supervisor of the injured, other specialist as appropriate will be formed for accident investigation. Investigation will be conducted by (i) taking photos and making sketches for narration; (ii) examining the equipment/tool/material involved in the accident; (iii) reporting on the environment of the accident scene; (iv) interviewing the injured person, eye-witness and any other parties involved; (v) consulting expert opinion when necessary;

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and (vi) identifying the specific employer of those involved. After investigating the accident, our safety officer will complete an accident investigation report. The site agent will arrange an appropriate competent person to inspect the workplace to determine whether it is safe for work before allowing work to restart at the incident place. Such inspection will include a check on the stability of the workplace, the function of the plant and machinery, the installation of the electric devices and etc.

We have established procedures to ensure that all accidents, incidents, dangerous occurrence and near misses are recorded in the prescribed forms. Each entry will show the name and occupation of the injured party, the name of employer, the date and time of the injury, the precise nature and cause of the injury, the estimated period of incapacity (if any) and the first aid treatment administered. The entry will also indicate whether the injury was reportable under the Factories and Industrial Undertakings Regulations. Our safety officer will collate the above information into a consolidated report for the project manager and submit the same to the engineer. Our safety officer will maintain comprehensive accident and incidents statistical data based on the monthly returns. The database will provide information on the cumulative total number of reportable injury accidents on the project and cumulative reportable injury accident/incident and frequency rates.

A case study approach is employed by us in site safety meetings monthly or when necessary with on-site workers. Lessons learned from recent injuries or accidents occurred on our site or in the construction industry will be reported in such meetings to strengthen site safety conciseness and awareness. Our safety officer will prepare recommendations to improve our existing project safety plan and prevent re-occurrence of similar injuries or accidents. Furthermore, we will review our safety policy regularly and will make amendments to our safety policy to incorporate new rules and regulations applicable to the industry when necessary.

In accordance with section 13 of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong), semi-annual corporate safety audits for our Group are carried out by an external registered safety auditor to collect and assess the information on and suggest improvements to our safety management system during the Track Record Period. Such external safety auditor has been registered as a safety auditor under section 4(1) of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong) since 14 November 2003. Normally, one project undertaken by us and related workplace will be selected and visited by the safety auditor to verify the implementation of safety management system. In addition, pursuant to schedule 3 of the Factories and Industrial Undertaking (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong), additional safety audits will be conducted towards the projects with contract value of HK\$100 million or more. The objectives and scope of audit include: (i) to determine the conformity of the safety management system elements with the requirements of the Code of Practice on Safety Management issued by the Occupational Safety and Health Branch of the Labour Department; (ii) to determine the efficiency, effectiveness and reliability of the safety management system in meeting the planned arrangements and specified safety objectives and requirements; (iii) to assess the safety performance against the regulatory requirements; and (iv) to provide our Group with an opportunity to continuously improve the safety management system through correction actions. During the audit, physical site inspections,

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system documents examination and interview of site personnel were conducted. A corporate safety report which contains audit details, audit tool, status of project being audited, objectives and scope of audit, audit process and criteria, findings and recommendations and follow-up action plan will be prepared and submitted to the Safety Management Administration Office of the Labour Department of the Government. As evaluated by the external safety auditors, our corporate safety performance during the Track Record Period ranged up to 81.51%.

In recognition of our safety performance, we received the 10th and 11th Hong Kong Occupational Safety and Health Award – Safety Performance Award (Construction) from the Occupational Safety & Health Council in 2011 and 2012. Please refer to the subsection headed “Awards and recognition” in this section below for further details of our safety awards.

Although we have established comprehensive safety management system and implemented various safety control measures to mitigate safety risks, the occurrence of accidents or injuries to workers on our sites cannot be completely eliminated due to the nature of the works of the construction industry. We have taken out insurance for our workers as required by the contracts and the Employees’ Compensation Ordinance. For each of the two years ended 31 March 2014 and since 1 April 2014 up to the Latest Practicable Date, we recorded one, nil and nil non-fatal reportable accident(s) respectively. No fatal accidents were recorded during the Track Record Period and up to the Latest Practicable Date.

A table comparing the overall accident rates for the construction industry against us with regard to accident rate per 1,000 workers per year is set out below:

	Construction industry average <i>(Note 1)</i>	Our Group <i>(Note 2)</i>
Year 2012	44.3	6.1 <i>(Note 3)</i>
Year 2013	40.8	0 <i>(Note 4)</i>
Year 2014	Not available	0 <i>(Note 5)</i>
Year 2015 up to the Latest Practicable Date	Not available	0 <i>(Note 6)</i>

Notes:

1. Extract from “Report on Accident Statistics and Analysis for Public Works Contracts for 2013” published by the Safety Section of the Development Bureau in June 2014.
2. Cumulative number of accidents per 1,000 workers per year, based on a conversion of 1.67 accidents per 100,000 man-hours worked equivalent to 60 accidents per 1,000 workers per year.
3. Based on one cumulative non-fatal reportable accident and 593,958 man-hours worked converted in accordance with note 2 above.

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4. No reportable accident occurred in 2013.
5. On 12 November 2014, a general worker of a subcontractor of our Group was injured when a hydraulic soil excavator operated by him was tipped over during lunch hour. As the worker operated the hydraulic soil excavator without our or our subcontractor's authorisation and the accident happened during non-business hour, the accident was disregarded for the purpose of computation of the accident rate.
6. No reportable accident occurred in 2015 up to the Latest Practicable Date.

Based on the above, our Directors are of the view that our accident rate is lower than the construction industry average during the Track Record Period and up to the Latest Practicable Date.

The following table shows the lost time injury frequency rate (“**LTIFR**”) for the accidents occurred to us:

	Number of lost time injuries	Number of man-hours worked	LTIFR (Note 1)
Year 2012	4	1,295,959	3.09
Year 2013	1	1,138,072	0.88
Year 2014	0	1,412,137	0
Year 2015 up to 28 February 2015 (Note 2)	0	234,404	0

Note:

1. The LTIFR is calculated based on the number of lost time injuries multiplied by 1,000,000 divided by the number of man-hours worked.
2. The number of man-hours worked is only reported by us on a monthly basis. Therefore, the information was only updated to 28 February 2015.

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During the Track Record Period and up to the Latest Practicable Date, we had five outstanding claims for personal injuries and employees' compensation involving five incidents, of which a sum (inclusive of sick leave allowance and medical fees but exclusive of the damages that may be payable by us under civil claims) of approximately HK\$1.5 million had been paid by our Company during the Track Record Period and up to the Latest Practicable Date. The table below sets out the work injuries occurred at our sites and compensated by our Company during the Track Record Period and up to the Latest Practicable Date relating to the said five incidents:

Case	Year	Date of incident	Nature of incident	Compensation paid by our Company up to the Latest Practicable Date <i>(Note 1)</i>	Amount reimbursed by insurance company	Rectification actions
A	2012	9 December 2012	Fall from height	HK\$378,350	To be assessed	Use of safety belt and attach to a suitably located anchorage
B <i>(Note 2)</i>	2012	13 July 2012	Leg injured by timber cutting saw	HK\$468,528	To be assessed	<ul style="list-style-type: none"> ● Select the correct weight, size and tool for the job ● Ensure that handles have a smooth finish, should be easy to grasp and should have no sharp edges or corners
C	2012	28 June 2012	Flying particles causing injury to eye	HK\$218,120 <i>(Note 4)</i>	Nil <i>(Note 3)</i>	<ul style="list-style-type: none"> ● Keep maintenance to avoid blockage of the pipeline ● Worker should wear conceal type goggles ● Conduct safety training on precaution on blowout of grouting hose
D	2012	15 May 2012	Hit by falling objects	HK\$395,830	Nil <i>(Note 5)</i>	Surround scaffolds and elevated work area with toe-boards and safety nets to prevent objects falling off from height
E	2014	12 November 2014	Tipping over of hydraulic soil excavator	HK\$55,774	N/A <i>(Note 6)</i>	Remind staff to leave construction sites during lunch hour

Notes:

1. Compensation paid by our Group comprised sick leave allowance, medical fees and compensation (if any) but excluded the damages that may be payable by us under civil claims and is calculated up to the nearest thousand;
2. This is the non-fatal reportable accident recorded in Year 2012;
3. The injured person is an employee of a subcontractor of our Group. The insurance company rejected the employees' compensation claim on the ground that the insurance coverage does not extend to a subcontractor's employer liability;

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4. A District Court Action (DCEC 1971/2013) was commenced by the injured person against UEL and one other respondent in respect of the claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by him, details of which were disclosed in the subsection headed "Legal proceedings" under this section below;
5. The insurance company rejected the employee's compensation claim as the accident had not been reported within the required period. The injured person was an employee of a subcontractor of our Company. We have not been informed by such subcontractor at the time of the accident and consequently we have failed to notify the accident to the insurance Company within the required period;
6. The injured person is an employee of a subcontractor of our Group. The accident was caused by the tipping over of a hydraulic soil excavator operated by the injured person during lunch hour without our or our subcontractor's authorisation. We have notified the insurance company in writing dated 19 November 2014 and we have not received any rejection from the insurance company up to the Latest Practicable Date. As at the Latest Practicable Date, we had not received any complaint from the Government nor claim from the injured person in relation this accident.

All of the above accidents and injuries had been reported to the Labour Department. According to the Certificate of Review of Assessment issued by the Employees' Compensation (Ordinary Assessment) Board (the "EC Board") dated 27 October 2014, the loss of earning capacity permanently caused by the injury under Case A is 2%. Therefore, the total amount of compensation payable would be approximately HK\$37,000. According to the Certificate of Review of Assessment issued by the EC Board dated 12 March 2014, the loss of earning capacity permanently caused by the injury under Case B has been revised from 3% to 3.5%, pursuant to an appeal filed by the applicant on 7 October 2013 against the initial assessment by the EC Board under section 16G of the Employees' Compensation Ordinance. Therefore, the total amount of compensation payable under Case B would be approximately HK\$59,000. According to the Certificate of Assessment issued by the EC Board dated 19 November 2013, the loss of earning capacity permanently caused by the injury under Case C is 25%. Therefore, the total amount of compensation would be HK\$306,000 for Case C. As advised by the legal advisers as to our Group's litigation and claims, it is difficult to estimate the maximum potential liabilities of our Group for Case D at this stage since the compensation payable by our Group will be subject to an assessment of the permanent loss of earning capacity by the EC Board. It would not be feasible to assess the maximum amount of compensation and penalties potentially payable by our Group with reference to similar cases since the decisions of the EC Board are not published and available in public record. Further, each of these assessments is based on individual circumstances and cannot be generalised, save for clear-cut cases of permanent total incapacity where the respective percentages of the loss of earning capacity are set out in the First Schedule to the Employees' Compensation Ordinance.

In our case, none of the above cases fall within the First Schedule to the Employees' Compensation Ordinance. As such, it is considered that our Group should rely on the assessment of the EC Board, and that the results of any attempt by our Group to assess the above cases by adopting the percentages of the loss of earning capacity for cases of permanent total incapacity as specified in the First Schedule of the Employees' Compensation Ordinance would be misleading and exaggerating.

Having said that, our Group has appointed a medical expert to assess the maximum potential liability of our Group in respect of Case D. According to an assessment report dated 23 January 2014 and issued by a private medical practitioner, the loss of earning

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capacity permanently caused by the injury under Case D is 3%. Subject to the assessment by the EC Board, it is estimated that the amount of compensation under Case D would be approximately HK\$12,000.

All insurance claims are handled by our Human Resources & Administration Department, headed by the Head of Human Resources. Upon receipt of an injury case, our Human Resources Officer will submit the relevant information to the insurance company directly or through the broker. The insurance company will then send request for further information and our Human Resources Officer will prepare the requested information for submission to the insurance company.

Our Company will implement enhanced internal controls on handling insurance claims before Listing. We will procure our general foremen to check regularly with each subcontractor whether there were accidents/injuries occurred on our construction sites to ensure timely reporting of accidents/injuries by our subcontractors. In the event that subcontractors fail to report accidents timely or comply with our safety policy, we will consider disciplinary action including termination of works by such subcontractors. In addition, our Group will purchase employees' compensation policy to cover employees of subcontractors in the future to mitigate the risk.

During the Track Record Period, there had been three claims for property damages in relation to damage to the vehicles of our Group with an aggregate claim amount of approximately HK\$71,000, of which approximately HK\$40,000 had been reimbursed by an insurance company in respect of one claim during the same period. In respect of the remaining two claims, the Group has paid approximately HK\$9,000 for the settlement of one claim and has submitted to the insurance company the other claim which is now under the insurance company's consideration. During the Track Record Period, no material injury and fatal accidents had happened on our sites.

Our Directors confirmed that save as disclosed in this subsection and the subsection headed "Legal Proceedings" in this section below, we have complied with all the relevant laws, rules and regulations relating to safety and health in all material respects. None of the Directors, senior management members and personnel involved has been investigated and sued by the relevant government authorities and/or injured victims. Upon perusal of the results of the latest litigation search conducted against each member of our Group, the Hong Kong Legal Advisers confirmed that they are not aware of any material non-compliance by our Group in relation to the relevant laws, rules and regulations relating to safety and health as at the Latest Practicable Date save as disclosed in this subsection and the subsection headed "Legal Proceedings" in this section below.

As summarised in the above paragraphs, our safety management system is documented in written procedures and supplemented with oral instructions, trainings and demonstrations. We have comprehensive safety plan for each contract and established handling and recording system for accidents and dangerous occurrence. We have engaged external registered safety auditor to conduct semi-annual corporate safety audits and additional safety audits towards the projects with contract value of HK\$100 million or more. We have also adopted additional preventive measures to improve the workers' awareness on safety and strengthen

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the control over our subcontractors. On such basis, our Directors believe, and the Sponsor concurs that, the existing safety measures are adequate and effective to ensure ongoing compliance with relevant laws and regulations by our Group.

During the Track Record Period and up to the Latest Practicable Date, there were seven prosecution cases laid by different departments of the Government against our Group, six of which were either acquitted after trial or the prosecutions were dismissed. Accordingly, no rectification actions would be needed by our Group for these six prosecution cases. Our Group has no potential liability (including civil liability) for the abovementioned prosecution cases. As at the Latest Practicable Date, the following prosecution case against Kwan On – U-Tech 1 was still pending:

Department of the Government	Contract number	Case number	Date of incident	Date of hearing	Offence/Cause
Labour Department	10/WSD/10	KTS 12067/2014	25 February 2014	15 April 2015 (<i>Note</i>)	Being the contractor responsible for the site where workers employed thereat were liable to come into contact with live electric cable or apparatus, failed to take such measures as will prevent the workers from being endangered by the cable or apparatus

Note: The above case was originally scheduled to be heard on 18 December 2014 but was adjourned to 12 February 2015 pending resolution of a point of law regarding the capacity of a joint venture company by the Hong Kong Court of Final Appeal in another legal proceeding unrelated to our Group. This case has been further adjourned to 15 April 2015.

The offence in respect of the above case number KTS 12067/2014 is stipulated in sections 47(1), 68(1)(a) and 68(2)(a) of Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong). The maximum fine for the above prosecution case is HK\$200,000 pursuant to rule 68(2)(a) of Construction Sites (Safety) Regulations.

Save as disclosed above, our Directors confirm that no prosecution has been laid against our Group by any relevant authorities in respect of violation of applicable laws or regulations.

Furthermore, having considered that (i) risks of accidents or injuries to workers are inherent due to the nature of works in the construction industry; (ii) our Group have implemented various safety measures to mitigate safety risks; (iii) our Group has not recorded any fatal accident and our accident rate is lower than the average for public works contracts during the Track Record Period and up to the Latest Practicable Date, our Directors are of the view, and the Sponsor concurs that, the past litigations, prosecutions and non-compliance safety issues 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 Rules 5.01 and 5.02 of the GEM Listing Rules.

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INTERNAL CONTROL

We strive to maintain the integrity of our business, results of operations and reputation by strictly adhering to internal control system in respect of our construction engineering services. As such, we have implemented an effective internal control system by developing and enhancing, from time to time, different sets of internal control procedures and manuals covering a number of key control areas such as financial management, tendering, budgeting, purchase and procurement management, control over subcontractors, safety and environment compliance management, with a view to ensuring compliance by our Group with applicable laws and regulations.

In preparation for the Listing and to further improve our internal control system, we have engaged BDO Financial Services Limited (the “**Internal Control Adviser**”) on 13 September 2012 to undertake a review on the internal control system of our Group. During the internal control review, our Internal Control Adviser has reviewed the internal control system of our Group according to the agreed scope which included: (1) entity-level controls; (2) tendering, budgeting and running construction projects; (3) subcontracting and accounts payable; (4) procurement and accounts payable; (5) project expenses reimbursement; (6) expenditure on human resources and payroll cycle; (7) treasury and cash management; (8) financial reporting and disclosure; (9) budgeting and profit forecast; and (10) general computer controls. The Internal Control Adviser has recommended measures to improve and rectify significant weakness of the internal control systems identified during the review, and the significant weaknesses and recommended measures identified have been summarised in the following paragraphs:

In respect of the imperfection in recognition of revenue, the Internal Control Adviser observed that our Group in the past has recognised contract revenue with reference to the monthly interim payment (“**IP**”) certificate issued by the customers concerned. The period covered by the IP certificate may span across different financial reporting periods. Recognizing revenue based on the receiving date of the IP certificate may result in cutoff issue. Moreover, there were no periodic reviews of the estimated total contract revenue and costs. This practice may not be in line with HKAS 11 which stipulated that contract revenue shall be recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In addition, any expected loss on the contract may not be recognised as an expense immediately. We have identified five entities within the Group namely, Kwan On, Kwan On – U-Tech 1, UEL, UECL and UEWL having the aforesaid issue and engaged BDO Tax Limited (“**Tax Adviser**”) as our tax adviser to review and comment on whether the financial difference quantified by us between our previous contract revenue recognition that did not comply with HKAS 11 and the revenue recognition based on the stage of completion method under HKAS 11 (the “**Financial Difference**”) would attract additional tax liability for the years of assessment 2010/11 and/or 2011/12 and any resulting Section 82A penalty imposed by the IRD.

According to the aforesaid tax review, the Tax Adviser is of the view that there is additional tax liability for Kwan On-U-Tech 1 for the year of assessment 2011/12 as a result of the Financial Difference. There may be also a potential Section 82A penalty up to treble the amount of the tax undercharged due to the understatement of profits in filing the Profits Tax Return for the year of assessment 2011/12 by Kwan On – U-Tech 1. The maximum

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Section 82A penalty that may be imposed on Kwan On – U-Tech 1 by the IRD as a result of the understatement of the assessable profits for the year of assessment 2011/12 is HK\$2,581,731 which is derived by arithmetically trebling the amount of tax undercharged of HK\$860,577 based on the estimated assessment issued by the IRD on 10 February 2014. However, if the IRD imposes the penalty, on the basis that Kwan On – U-Tech 1 voluntarily reported the understatement of profits, the percentage of penalty is generally in the range of 30% to 60% of the tax undercharged according to the penalty policy of the IRD. The percentage may be adjusted upwards or downwards after taking into consideration of the aggravating and mitigating factors. The tax representative of Kwan On – U-Tech 1 has already informed the IRD under its letter dated 9 December 2013 on the additional profit by submitting a revised profits tax computation for the year of assessment 2011/12 which takes into account of the Financial Difference and other prior year adjustments mainly for the recognition of the proceeds received from customer to income as resulted from receipt in advance. Kwan On – U-Tech 1 has received the estimated assessment from the IRD dated 10 February 2014 for the year of assessment 2011/12 based on the revised profits tax computation submitted. The total tax payable of HK\$860,577 for the year of assessment 2011/12 was settled by Kwan On – U-Tech 1 in about March 2014. Our Group has accounted for such additional tax liability of HK\$860,577 in the financial information presented in the Accountant’s Report. Our Group has not made any provision for the Section 82A penalty given that such potential tax penalty may or may not be incurred and such amount could not be ascertained unless we have received the relevant notice from IRD.

As for Kwan On, the Tax Adviser is of the view that it will have a tax refund of approximately HK\$8,000 and additional tax liability of approximately HK\$44,000 for the years of assessment 2010/11 and 2011/12 respectively resulting from the Financial Difference without taking into account of other prior year adjustments. The tax impact of the Financial Difference on Kwan On can only be ascertained after taking into account of all other prior year adjustments which may have tax implications for the same year of assessment affected, which are mainly discount of non-current portion of retention money receivable and payables and staff annual leave and long service payments provision. The tax representative of Kwan On has already filed revised tax computations for the years of assessment of 2010/11 and 2011/12 under its covering letter dated 11 November 2013 as a result of the Financial Difference and other prior year adjustments claiming reduction of assessable profits of HK\$3,599,641 for year of assessment 2010/11 and HK\$528,352 for the year of assessment 2011/12 by setting them off against the assessable profits for the year of assessment 2012/13 in the 2012/13 Profits Tax Return. The IRD has issued an assessment for the year of assessment 2012/13 on 29 November 2013 in accordance with the Profits Tax Return filed under the IRD’s assessing programme of “Assess First Audit Later”. In the assessment, the assessable profits for the year of assessment 2012/13 are reduced by the reduction of assessable profits of HK\$3,599,641 for year of assessment 2010/11 and HK\$528,352 for the year of assessment 2011/12. Under the programme of “Assess First Audit Later”, assessments will be issued based on the information reported in the Profits Tax Returns first and, assessments may be selected for tax examination later. Should Kwan On fail to claim the reduction of assessable profits for the years of assessment 2010/11 and 2011/12, it will incur additional tax liabilities of HK\$681,119 [(HK\$3,599,641 + HK\$528,352) X 16.5%] for the year of assessment of 2012/13. However, such potential tax liabilities are subject to the examination of the IRD. As at the Latest Practicable Date, we had not received any response from the IRD in examining the claim.

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The Tax Adviser is of the view that there is no additional tax liability for the other three entities, namely UEL, UECL and UEWL as the Financial Difference represents changing the assessable profits situations of UEL and UECL to tax loss positions for the year of assessment 2011/12, and to increase the tax loss claimed by UEWL for the years of assessment 2010/11 and 2011/12.

The Indemnifiers will indemnify the Group against, among other things, any further tax liabilities and any Section 82A penalty which may be payable by the five entities in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date pursuant to the Deed of Indemnity.

To prevent the recurrence of this non-compliance incident, we have assigned our financial controller to prepare a revenue recognition schedule to adjust for the time difference between the date of certificate and reporting date so that comparison between the percentage completion by costs and by certificate could be conducted. We have also assigned our Quantity Surveying and Tendering Department and our responsible project managers to prepare budgets to the estimated contract sum and total cost for each project. Details of the significant judgments and estimates involved in revenue recognition are disclosed in the paragraph headed "construction contracts" under the section headed "Financial information".

A follow-up review was performed by the Internal Control Adviser for the enhanced internal controls for the period from January 2013 to August 2013 for the abovementioned non-compliance issue identified during the review of the Internal Control Adviser. After the follow-up review, the Internal Control Adviser concurs with our Directors' and our Sponsor's view that the enhanced internal controls have been properly designed and operated effectively by our Company.

In respect of the deficiencies in financial reporting, the Internal Control Adviser observed that our Company has not yet documented a comprehensive monthly financial closing procedure. In addition, there is neither month-end nor period-end financial closing. The Internal Control Adviser has recommended that our Group should adopt monthly closing procedure and prepare closing checklist as a tool to ensure all financial data is being captured under accrual basis. We have adopted the monthly closing procedure. Month-ending closing checklist is prepared by our Accounting Manager and reviewed by our Financial Controller. Our Accounting Department compiles reports in standard format which include a profit and loss account and balance sheet to present to our Board on a monthly basis. Our Accounting Officer prepares a monthly cash count record sheet attaching a printed general ledger which is checked by our Assistant Accountant and reviewed by our Accounting Manager.

In respect of the deficiencies in the preparation of financial budget and forecast, the Internal Control Adviser observed that no formal budget and plan had been prepared for our Company as a whole. In fact, the budget is only prepared for each individual project. The Internal Control Adviser recommended that an annual budget and cash flow forecast shall be prepared by our Company and reviewed and approved by our Board. Variance analysis was also recommended by the Internal Control Adviser to be performed regularly. We have formalized the procedure of preparing, reviewing and updating of budget and cash flow

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forecast in our internal control manual. Our Accounting Manager has prepared a profit forecast and cash flow forecast for the year ended 31 March 2013, which was reviewed by our Financial Controller and approved by the Managing Director. The profit forecast and cash flow forecast will be prepared on an ongoing basis. On a quarterly basis, actual figures are compared to the budget and cash flow forecast. Amendment to the budget and forecast would be considered.

In respect of the shortcomings in the purchase of materials, the Internal Control Adviser observed that no formal periodic assessment on the existing vendors to ensure the vendors can meet the criteria set by our Company. Besides, the Internal Control Adviser also recommended that all purchase requisition forms shall be duly filled and processed at the site office before sending to our purchase department at the head office. The Internal Control Adviser also suggested that all purchase orders shall be validated by stamping the company chop by authorized staff before sending to the vendor. We have assigned our Quantity Surveying Manager and Purchasing Clerk, respectively, to prepare subcontractor assessment form and vendor assessment form. The assessment will be conducted annually. We have also requested our Purchasing Department to keep a list of personnel at the site office who is authorised to initiate purchase of materials and to process duly signed purchase requisition form hereinafter. In addition, we have asked our Project Director to sign and affix the company chop on every purchase order to signify his approval. The company chop concerned shall be kept by the Project Director.

In respect of the deficiencies in the maintenance of subcontractors' masterfile and periodic assessment of our subcontractors, the Internal Control Adviser observed that there was no review procedure before adding the subcontractor's details into the list of subcontractors. In addition, more than one list of approved subcontractors were maintained by the Quantity Surveying Department. Update on the list was not centralized and may create different versions. Furthermore, the Internal Control Adviser observed that there was no periodic review on the subcontractors' masterfile. The Internal Control Adviser recommended that formal procedures for subcontractor assessment shall be established. All qualified subcontractors should be added to the masterfile of subcontractors, which should be maintained centrally. Periodic review of such masterfile should be conducted at least annually and the process should be formally documented. We have formalized the procedure of periodic assessment of existing subcontractors. The assessments for existing subcontractors have been performed annually by our Quantity Surveying Department. If the assessment result of a subcontractor is unsatisfactory, such subcontractor will be removed from the subcontractors' masterfile by our Quantity Surveying Manager.

In respect of the failure to enter into written subcontracting agreement with certain subcontractors, the Internal Control Adviser has recommended that we should, as soon as possible, execute contracts with all subcontractors with terms and conditions that are mutually agreed before commencement of work. We will enter into written subcontracting agreements with all subcontractors going forward unless rejected by the counterparties. Our Directors consider that based on their past experience in communicating with those subcontractors, they declined to enter into written subcontracting agreements due to their limited knowledge to formulate all terms, rights and obligations in writing and our Directors also consider that the practice of engaging subcontractors without written agreement is not uncommon in the construction industry. For those subcontractors who have not entered into

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subcontracting agreements with us, quotations were submitted by them to us before commencement of works. Works were carried out by them at the same time as details of the quotation were finalised. Although verbal contracts shall be as equally valid and binding as written contracts, the interests of our Group may not be well protected if any conflict or dispute arises out of the verbal contracts. It would be difficult for us to prove the existence and/or the contents of the verbal terms in court since such terms had not been recorded in writing. We will issue a payment statement containing the quantity of work done by respective subcontractor, the unit rate, the value of work, retention withheld, any materials charged back and the then net payable amount to each subcontractor on a job basis. However, in the future, where a subcontractor refuses to enter into written subcontracting agreement with us, we will consider replacing such subcontractor with other suitable subcontractors who possess similar skills, experience and adequate workforce to complete the subcontracting works and are willing to enter into written subcontracting agreements with us. As at the Latest Practicable Date, we had entered into subcontracting agreements with over 20 subcontractors.

Save as disclosed above, the Internal Control Adviser has identified the following significant weaknesses in relation to our internal control system:

- the corporate governance framework of a listed company has not yet been fully established;
- we have not yet established policies and controls regarding the compliance of the GEM Listing Rules;
- our operation manual has not yet been fully implemented and distributed to all staff;
- there are few limitations in the accounting system currently used by our Company;
- monitoring controls among the accounting system shall be enhanced;
- filing for financial documentation shall be enhanced;
- the recognition basis of accounts payable is upon the receipt of the vendor invoice and cut off issues may arise when the invoice date and the goods delivery date are not in the same accounting period;
- there is no evidence of three-way matching (purchase order to invoice) to ensure that the invoice rate agrees with the ordered rate before payments are made to vendors;
- the risk of overspending during construction increases if cost-related expenses were not properly allocated to each project;
- lack of independent review on accuracy of the salary calculation for head office staff;

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- data security for payroll system shall be enhanced;
- failure to prepare the cash flow forecast for each entity in our Group on a monthly basis;
- the delegation of power is too centralized which may lead to the possibility of management override; and
- there is no formal policy on information security.

Regarding the abovementioned significant weakness of the internal control system identified during the review of the Internal Control Adviser, the enhanced internal controls have been fully implemented by our Company since January 2013.

A follow-up review (the “**1st Follow-up Review**”) was performed by the Internal Control Adviser in January 2013 to check whether our Company has remedial deficiencies identified for the period from November 2012 to December 2012. The result of the 1st Follow-up Review is that all the deficiencies (including those significant weaknesses mentioned above) have been rectified by our Company.

In August 2013, an additional follow-up review (the “**2nd Follow-up Review**”) was performed by the Internal Control Adviser for the enhanced internal controls for the period from January 2013 to August 2013 for the abovementioned significant weaknesses of the internal control system identified during the review by the Internal Control Adviser. After the 2nd Follow-up Review, the Internal Control Adviser concurs with the Directors’ view that the enhanced internal controls have been properly designed and operated effectively by our Company.

During the 2nd Follow-up Review, the Internal Control Adviser has also performed review on the internal control measures of our safety system and tested the enhanced internal controls for the period from January 2013 to August 2013. After the review of the documents and information provided by our Company in relation to our safety system and visits to our head office and certain project sites, the Internal Control Adviser concurs with the Directors’ view that the internal controls over our safety system have been properly designed and operated effectively.

Our executive Directors are responsible for the formulation and overseeing the implementation of our internal control measures. We will engage legal advisers and a compliance adviser upon Listing to provide us with updates on the changes in the applicable laws and regulations from time to time to see if any change is required to be made to our operation and internal control procedures. Upon Listing, we will also engage internal control advisers to review our internal control systems on a regular basis and a compliance adviser to advise us on matters relating to the GEM Listing Rules.

Our Directors are of the view that the internal control measures are adequate and effective to enhance the internal control of our Group. The Sponsor has reviewed the internal control and follow-up reports prepared by the Internal Control Adviser, discussed

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with the Internal Control Adviser on the adequacy and effectiveness of the internal control measures and concurred with the Directors' view that the Company's enhanced internal controls, when fully implemented, to be sufficient and effective.

RISK MANAGEMENT

In the course of conducting our construction engineering businesses, we are exposed to various types of risks, including credit risks, operational risks, market risks, liquidity risks and regulatory risks, the details of which have been disclosed under the section headed "Risk factors" in this prospectus.

Save for establishing and implementing internal control procedures as mentioned in the paragraph headed "Internal control" above, our executive Directors are responsible for overseeing and reviewing the implementation of our Group's internal control and risk management measures. Although there are risks associated with our business operations, we have adopted the following measures to prevent or mitigate such risks:

(a) Risk of reliance on the contracts granted by the Government

Our Directors are of the view that the reliance on the Government is not uncommon for construction companies which are mainly engaged in public sector projects. Two members of our Group hold various licenses and certificates to undertake projects of different categories. During the Track Record Period, the revenue of our Group was derived from contracts granted by various Departments of the Government, including WSD, CEDD, ArchSD and DSD through open tendering process. During the Track Record Period, we had not encountered any conflict with the Government regarding our execution of the works contracts nor had we had any works contracts terminated by the Government. Save for the contracts granted by the Government for public sector, we will from time to time tender for works contracts for private sector which are considered by our Directors to be profitable.

(b) Risk of reliance on subcontractors to implement certain parts of contracts

In general, our Directors consider that the quality of works performed by our subcontractors is stable. We have put in place specific subcontractor management plan for each contract undertaken by us and implemented quality, safety and environmental control measures to monitor the performance of our subcontractors and ensure that they comply with the requirements and provision set out in the respective main contracts. Details of our control measures over subcontractors are disclosed in the paragraphs headed "Control over subcontractors", "Quality assurance" and "Safety policy" in this section above.

(c) Risk of labour shortage

We adopt a strategy in retention of staff by providing training and subsidies to staff. We had not encountered any shortage of labour supply during the Track Record Period. As at the Latest Practicable Date, we had a total of 635 employees comprising 284 staff employed on full-time basis and 351 casual workers, with longest years of services of

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approximately 30 years and average years of service of approximately 2 years, respectively. In addition, we may subcontract certain part or parts of a works contracts to subcontractors depending on our manpower availability.

(d) Risk of fluctuation in cost of materials and labour

During the Track Record Period, save for two contracts with ArchSD and two contracts for the private sector in Hong Kong, all of our works contracts for the public sector provide for a contract price adjustment mechanism (both upward and downward adjustments) with reference to the Price Indices. In addition, in order to manage fluctuations of materials prices, we entered into bulk purchase orders with material suppliers and call for delivery of materials whenever necessary. The prices would be fixed within the bulk ordered quantity even if the prices inflated subsequently.

(e) Risk of failure to maintain safe construction sites

In order to manage the risks relating to implementation of our projects, we have put in place a comprehensive safety management system, including implementing safety plan and forming a site safety committee for each contract, having site safety meetings with on-site workers monthly or as and when necessary and engaging external registered safety auditor to assess and suggest improvements to our safety management system. Details of our safety policy are set out in the subsection headed “Safety policy” under this section above. We have also taken out insurance for our workers as required by the contracts and the Employees’ Compensation Ordinance.

During the Track Record Period and up to the Latest Practicable Date, our business and financial position has not been materially affected by each of the above risks.

ENVIRONMENTAL PROTECTION

Our business operations are subject to certain environmental protection laws and regulations in Hong Kong, such as Air Pollution Control Ordinance, Noise Control Ordinance, Water Pollution Control Ordinance, Waste Disposal Ordinance and Environmental Impact Assessment Ordinance, details of which are set out in the section headed “Regulatory Overview” in this prospectus. We are committed to the minimisation of the impact on the environment resulting from our business activities and continual improvement of environmental performance to fulfill our responsibilities to both the community and environment.

The principal environmental management measures implemented by our Group are as follows:

- (i) Comply with all applicable environmental related legal requirements and contractual obligations to which our Company subscribes;
- (ii) Prevent, reduce and eliminate pollution or any other degradation of environment resulting from our business activities;

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- (iii) Reduce waste and minimise the consumption of resources;
- (iv) Educate, train and motivate employees to carry out tasks in an environmentally responsible manner;
- (v) Provide sufficient resources and facilities for the implementation of environmental nuisance abatement and waste management;
- (vi) Obtain and renew the necessary environmental licences, registrations and permit; and
- (vii) Encourage environmental protection among suppliers and subcontractors.

For all of the public sector contracts, we are required to submit an environmental management plan to the engineer appointed by us which sets out the measures to be taken and the responsible personnel to be designated by us to ensure that our works are carried out in the interests of environmental protection. We are also required to report monthly to the engineer on the effectiveness of the implementation of the environmental management plan throughout the duration of the contract. In order to make continual improvement on environmental issues and meet the changing site practices, the environmental officer and the site agent will review and update the abovementioned environmental management plan monthly or as and when necessary or as directed by the engineer appointed by the contractor. An environment protection team which consists of a project director, a contract manager, a project manager, a site agent, an environmental officer, a foremen and an environmental supervisor will be formed to implement the environmental management plan of respective contract. We also require our subcontractors to strictly comply with our environmental protection policy. Our environmental officer is responsible for monitoring the ongoing compliance with the environmental management plan, compiling the monthly environmental report for submission to the engineer and providing the environmental training for the staff and on-site workers.

The annual cost of compliance with applicable environmental laws and regulations in Hong Kong were approximately HK\$95,000, HK\$240,000 and HK\$60,000 for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 respectively, which was mainly attributable to the cost of disposal of construction waste. Our Directors consider that the cost of compliance with applicable environmental laws and regulations going forward will be subject to the nature and category of contracts awarded to us.

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AWARDS AND RECOGNITION

Over the past years, we have received the following awards from the following Governmental department and non-profit organisations:

Year of Grant	Description	Organization
2011	2011 HKCA Construction Safety Innovation Award – Certificate of Appreciation	Hong Kong Construction Association
	The 10th Hong Kong Occupational Safety and Health Award – Safety Performance Award (Construction)	Occupational Safety & Health Council
2012	Best Landslip Preventive Measures Contractor of 2011 – Winning Contractor	CEDD
	The 11th Hong Kong Occupational Safety and Health Award – Safety Performance Award (Construction)	Occupational Safety & Health Council

INSURANCE

We have taken out and maintained employees' compensation insurance and/or contractor's all risks insurance for each project. The insurance policy generally covers the entire contract period, including the defects liability period following completion of the project.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had taken out and maintained insurance policies in respect of employees' compensation and/or contractors' all risks for the projects in which members of our Group act as main contractors in accordance with the applicable laws and regulations and relevant contractual terms which is in line with industry practice. During the Track Record Period, the contractors' all risks policies cover our subcontractors and the employer of the contract to the extent of (i) vibration or removal or weakening of support; (ii) employer's property; and (iii) employer's employees as visitors, but exclude injuries to the employees of our subcontractors. Our Directors consider that it is not uncommon for contractors' all-risks policies to exclude subcontractors' employees in the civil engineering industry. In addition, we have insurance cover for our liabilities under employees' compensation and personal injury claims which meet the statutory minimum insurance coverage of HK\$100 million on a per incident basis.

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Pursuant to section 40(1B) of the Employees' Compensation Ordinance, we as principal contractor has the discretion to take out insurance policy for an amount not less than HK\$200 million per event to cover our liability and that of our sub-contractors under the Ordinance and at common law.

Nevertheless, pursuant to section 24(1) of the Employees' Compensation Ordinance, we as principal contractor shall be liable to pay to our sub-contractor's employees any compensation under the Ordinance. In light of our exposure under section 24(1) of the Employees' Compensation Ordinance, during the Track Record Period and up to the Latest Practicable Date, the coverage of the current employees' compensation insurance maintained by us for our projects in progress had been extended to the employees of our subcontractors. We will continue to maintain employees' compensation insurance covering our subcontractors' employees going forward.

The total insurance cost incurred by us amounted to approximately HK\$8.1 million, HK\$13.2 million and HK\$7.8 million respectively for each of the two years ended 31 March 2014 and the six months ended 30 September 2014. Our Directors confirm that the above insurance coverage is adequate for the operation of our business and is in line with the industry norm.

INTELLECTUAL PROPERTY RIGHTS

Trademarks

As at the Latest Practicable Date, we had registered (i) the  trademark numbered 302466072 under classes 37 and 42; (ii) the  trademark numbered 302417670 under Classes 37 and 42; (iii) the  trademark numbered 302505014 under Classes 19 and 37; and (iv) the  trademark numbered 302783638 under Class 16 in Hong Kong. Details of such trademarks are set out in the subsection headed "Intellectual property rights of our Group" in Appendix IV to this prospectus.

Domain name

As at the Latest Practicable Date, we had registered the domain name, kwanonconstruction.com in Hong Kong. Details of such domain name are set out in the subsection headed "Intellectual property rights of our Group" in Appendix IV to this prospectus.

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PROPERTY INTERESTS

As at the Latest Practicable Date, our Group did not own any property interests and leased six properties in Hong Kong, details of which are set out below:

No.	Location of property	Gross floor area (<i>sq.ft.</i>)	Lessor	Date of expiry of lease	Usage
1.	3D & Carport P11, Yiko Industrial Building, 10 Ka Yip Street, Chai Wan, Hong Kong	5,952	Shiu Mau	31 December 2015	Documents storage
2.	Unit B, 8th Floor, North Point Industrial Building, No. 78 Marble Road, No. 499 King's Road, Hong Kong	4,500	An Independent Third Party	6 December 2015	Site office
3.	5/F, So Hong Commercial Building, 41, 43, 45, 47 Jervois Street, Hong Kong	2,907	An Independent Third Party	31 July 2017	Head office and principal place of business
4.	4/F, So Hong Commercial Building, 41, 43, 45, 47 Jervois Street, Hong Kong	2,907	An Independent Third Party	31 July 2017	Head office and principal place of business
5.	Unit 6, 16/F, Block 45, Heng Fa Chuen, No. 100 Shing Tai Road, Hong Kong	777	Ms. Chiu	30 April 2015	Staff quarters
6.	Unit 11, 34/F, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories	2,883	An Independent Third Party	16 February 2018	Site office

The aforesaid properties are used for non-property activities as defined under Rule 8.01B(2) of the GEM Listing Rules. According to section 6(2) of the Companies (Exemptions of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation with respect to all our Group's interests in land or buildings, for the reason that as at the Latest Practicable Date, each of our properties has a carrying amount below 15% of our combined total assets.

During the Track Record Period, we had not experienced any difficulty in renewing our leases.

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LABOUR

The Minimum Wage Ordinance came into effect on 1 May 2011 and the current statutory wage level is fixed at HK\$30 per hour. Furthermore, our Directors confirm that as at the Latest Practicable Date, there was no material operational and financial impact on us as a result of the implementation of the Minimum Wage Ordinance at the current wage level and we have been in compliance with the requirements under the Minimum Wage Ordinance since its enactment.

We had not encountered any shortage of labour supply during the Track Record Period. We are committed to retaining our staff by providing training and subsidies to staff.

In the course of carrying out our works, we may sometimes require our subcontractors to designate its employees to perform works which our subcontractors have contracted to perform. We as the main contractor will be liable to pay wages of such employees of our subcontractors and make contributions to the Mandatory Provident Fund (“MPF”) for such employees if our subcontractors fail to do so. According to section 43C of the Employment Ordinance, a main contractor or a principal contractor and every superior subcontractor jointly and severally is/are liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, if such wages are not paid by the subcontractor within the period specified in the Employment Ordinance. In order to (i) ensure that the payments to workers are made timely and accurately and (ii) to prevent the employment of illegal workers, we may, subject to agreement with the subcontractors and the casual workers, pay wages to the casual workers directly. In doing so, our subcontractor will confirm the payroll of such employees at the end of each wage period and consent to our deduction of the payroll and relevant contributions to the MPF for such employees from the subcontracting fee payable by us to such subcontractor. Our Human Resources and Administration Department is responsible for rectifying and compiling the payroll and MPF contributions of such employees of our subcontractors.

Given that it is the principal contractor’s liability to pay any wages due to employees employed by subcontractors, our Directors believe that the aforesaid arrangements with subcontractors for employment of employees will ensure the timely payment of wages to their employees and enable us to prevent our subcontractors from using illegal workers on our sites.

We have a zero tolerance policy on the recruitment of illegal workers. When recruiting workers, we will carefully check the identification documents provided by the candidates. We will report to the police when we come across any candidate with suspicious identity. During the Track Record Period, no illegal workers have been reported for the projects we are contracted for.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any labour strike action on our construction sites.

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STAFF

Staff

As at the Latest Practicable Date, our Group had employed a total of 635 employees, comprising 284 staff employed on a full-time basis and 351 casual workers. Since all the contract works undertaken by our Group are located in Hong Kong, all of our employees work in Hong Kong. The following table shows a breakdown of our employees as at 31 March 2013 and 2014, 30 September 2014 and the Latest Practicable Date by functions:–

Function	As at 31 March		As at 30	As at the
	2013	2014	September	Latest
			2014	Practicable
				Date
Managing director	1	1	1	1
Project management	33	35	39	36
Quantity surveying and tendering	13	13	13	13
Purchasing	5	6	6	5
Safety	7	10	7	9
Finance	9	12	12	13
Human resources and administration	14	14	14	15
Direct workers	249	357	503	543
Total	<u>331</u>	<u>448</u>	<u>595</u>	<u>635</u>

Relationship with staff

Our Directors believe that our Group maintains good working relations with its employees. Our Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that our Group has a good working relationship with its employees.

Training and recruitment policies

We generally recruit our employees from the open market by placing recruitment advertisements. Our Group assesses the available manpower on a continuous basis to determine whether additional personnel are required to cope with the business development of our Group.

We provide various types of trainings to our employees, including (i) conducting in-house continuous professional development seminars; (ii) subsidizing our staff for pursuing further studies in related fields; and (iii) provision of safety training programme to

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staff to enhance their safety awareness. Our total training expenses for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$338,000, HK\$289,000 and HK\$401,000 respectively.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we did not engage in any research and development activities.

COMPETITION

During the Track Record Period, our Group primarily focused on providing waterworks engineering services, road works and drainage services and landslip preventive, remedial works to slopes and retaining walls services for the public sector in Hong Kong. Our Directors consider the minimum requirements on the financial, technical and management aspects of a contractor for inclusion on the Contractor List and the Specialist List provide effective entry barriers for international and local contractors who are not currently on the aforesaid lists from entering the sector as a main contractor. 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 us. Based on the information available from WBDB's website as at the Latest Practicable Date, there were a total of 22 Group C contractors (confirmed) under the category of "Waterworks" and a total of 41 Group C contractors (confirmed) under the category of "Roads and drainage" on the Contractor List. Our Directors are of the view that we compete directly with the contractors listed on the Contractor List. Some evaluations of tenders are based on a formula approach, in which a tenderer's performance rating is taken into account to a significant extent. Therefore, the low performance rating received will reduce the competitiveness of contractors in tendering for works contracts from the Government. As disclosed in the paragraph headed "competitive strengths" in this section above, Kwan On's quarterly performance ratings as appraised by WBDB were higher than the industry averages in the recent ten consecutive quarters up to the third quarter of 2014. Our Directors are of the view that Kwan On's recent above-industry-average performance ratings enhance its competitiveness in tendering a project.

Based on the Government's actual expenditure of approximately HK\$3,951.1 million for the fiscal year 2013 and the estimated expenditure of approximately HK\$4,499.5 million for the fiscal year 2014 on the projects of water supply, our revenue generated from provision of waterworks engineering services for the public sector for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 of approximately HK\$158.9 million, HK\$208.1 million and HK\$119.8 million represented approximately 4.0%, 4.6% and 2.7% respectively of the above expenditure.

Based on the Government's actual expenditure of approximately HK\$1,263.8 million for the fiscal year 2013 and the Government's estimated expenditure of approximately HK\$858.3 million for the fiscal year 2014 on capital projects of stormwater drainage, our revenue generated from provision of roads and drainage works for the public sector for each

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of the two years ended 31 March 2014 and the six months ended 30 September 2014 of approximately HK\$43.2 million, HK\$107.9 million and HK\$135.0 million represented approximately 3.4%, 12.6% and 15.7% respectively of the above expenditure.

Based on the Government's actual expenditure of approximately HK\$1,029.0 million for the fiscal year 2013 and the Government's estimated expenditure of approximately HK\$1,000.0 million for the fiscal year 2014 on capital projects for landslip prevention and mitigation works, our revenue generated from LPM Services for the public sector for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 of approximately HK\$109.8 million, HK\$63.3 million and HK\$74.6 million represented approximately 10.7%, 6.3% and 7.5% respectively of the above expenditure.

KEY BUSINESS DRIVERS

Government's continuous expenditure on civil engineering works in Hong Kong

During the Track Record Period, our Group derived most of our revenue from the works contracts granted by the Government. According to the Government Budgets for the fiscal year 2014-15, the Government's expenditure on (i) water supply projects under construction; (ii) capital projects of stormwater drainage; and (iii) landslip prevention and mitigation works in Hong Kong for the fiscal year 2013, amounted to approximately HK\$3,951.1 million, approximately HK\$1,263.8 million and approximately HK\$1,029 million respectively. It is expected that the Government will continue to expend on civil engineering projects in Hong Kong in the coming years. Accordingly, our business development will benefit from such continuous expenditure and upcoming projects from the Government.

Our established operating history and proven track record

We have undertaken more than 30 civil engineering projects in Hong Kong since our acquisition of Kwan On in 1993. Kwan On's quarterly performance ratings as appraised by WBDB were above the industry averages in the recent 11 consecutive quarters up to the fourth quarter of 2014. Some evaluations of tenders are based on a formula approach, in which a tenderer's performance rating is taken into account to a significant extent. Our Directors consider that the our above-industry-average performance ratings and the proven track record of Kwan On in the execution of contracts will enhance our competitiveness in tendering for works contracts from the Government, which will encourage our Group's business development in the future.

Our business strategy to diversify source of income by leveraging different types of licences held by Kwan On

In view of the upcoming projects and continuous capital expenditure from CEDD and DSD, our Directors plan to diversify our source of income by tendering of more contracts originated from these two departments. The licences held by Kwan On which had been upgraded to Group C contractors (confirmed) under the "Roads and Drainage" category and Group B contractor (confirmed) under the "Site Formation" category on 26 February 2013

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and 19 June 2013 respectively further enhance our ability to tender for and secure works projects with larger contract values under these two categories and foster the future business growth of our Group.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, our Group was engaged in the following litigation and/or proceedings that could have a material adverse effect on our business, results of operations or financial condition:

- (i) a Court of First Instance Action (HCCT 4/2006) was commenced by a subcontractor of a subcontractor of Kwan On in January 2006 against Kwan On, and the said subcontractor as other defendant, for a sum of approximately HK\$9.52 million or such sum as is due, allegedly as damages for breach of certain oral agreement made by Kwan On for paying the plaintiff should the other defendant fail or refuse to do so. Kwan On denied any liability to pay the plaintiff on the ground that Kwan On had never agreed to be responsible for paying the plaintiff should the other defendant fail or refuse to do so. Kwan On agreed to participate in the payment process in respect of labourer wages for the works and would, if called up, assist the plaintiff in paying its labourers their wages and the agreement made by Kwan On with the plaintiff was recorded under minutes. Kwan On was never called upon by the plaintiff to assist such payments. The plaintiff also claims interest and costs against Kwan On. As advised by the legal advisers to Kwan On as to the said action, they are of the view that the documents which the parties have disclosed so far do not support the plaintiff's case. The plaintiff has left the action in abeyance since September 2009;
- (ii) a Court of First Instance Action (HCPI 279/2013) was commenced by an employee of a subcontractor of Kwan On in or about April 2013 against Kwan On and one other respondent in respect of a claim for personal injury sustained by him in an accident happened on 14 December 2011 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceedings. By a consent order of the High Court of Hong Kong dated 16 December 2014, Kwan On and the other respondent were ordered to pay the plaintiff a sum of HK\$1,215,000 (inclusive of interest) in full and final settlement of his claim against Kwan On and the other respondent in respect of the above action, of which payments of HK\$915,000 were already made to the plaintiff by Kwan On's insurer. Kwan On was informed by a letter dated 15 January 2015 from the legal advisers to the said action that its insurer was in the course of arranging the final payment of HK\$300,000 for its legal advisers to discharge the only outstanding balance of such settlement sum;
- (iii) a District Court Action (DCPI 2268/2012) was commenced by an employee of the Director of Lands in or about October 2012 against Kwan On, Secretary for Justice (sued on behalf of Director of Lands Department) and one other defendant in respect of a claim for personal injury sustained by him in his course of employment arising out of the alleged negligence and/or breach of statutory duty and/or breach of common duty of care under the Occupiers Liability Ordinance

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(Chapter 314 of the Laws of Hong Kong) in an accident happened on 11 November 2009 at a construction site alleged to be occupied and managed by Kwan On. No specific amount of claim was stated in the writ of proceeding and no judgment has been entered against Kwan On in respect of the above action. By a letter dated 9 November 2012 from the Department of Justice (on behalf of the Director of Lands) to Kwan On, Kwan On was informed that the plaintiff proposed a settlement offer of HK\$231,711.32 by a letter dated 8 October 2012 from the plaintiff's legal advisers to the Department of Justice. By a further letter dated 14 November 2014 from the plaintiff's solicitor to Kwan On's solicitors and the Department of Justice, the plaintiff made a sanctioned offer in the sum of HK\$185,000 (inclusive of interest but on top of the compensation under the Employees' Compensation Ordinance in the sum of HK\$69,137.68 and exclusive of legal cost) in full and final settlement of the plaintiff's whole claim. On 11 February 2015, an agreement was reached by all parties whereby the plaintiff agreed to accept the sum of HK\$120,000 (inclusive of interest but on top of the compensation under the Employees' Compensation Ordinance already received by the plaintiff) in full and final settlement of his claims in these proceedings and all his claims arising out of and in connection with the alleged accident happened on 11 November 2009, of which HK\$80,000 would be borne and has been paid by Kwan On, subject to taxation of costs.

- (iv) a District Court Action (DCEC 1971/2013) was commenced by an employee of a subcontractor of UEL in November 2013 against UEL as the second respondent, Kwan On as the intended third respondent and the said subcontractor as the first respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 28 June 2012 arising out of and in the course of his employment. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 19 November 2013, the loss of earning capacity permanently caused by the injury is 25%. No specific amount of claim was stated in the writ of proceeding. By a letter dated 13 November 2014 from the plaintiff's legal advisers to UEL's legal advisers as to the said action, the plaintiff has agreed, without prejudice to any issue that may arise in the plaintiff's common law claim, to accept a sum of approximately HK\$341,000 (exclusive of legal cost) in settlement of the claim and the plaintiff's legal advisers have confirmed the receipt from UEL a cheque in the sum of HK\$341,000 on 7 January 2015;
- (v) a Court of First Instance Action (HCPI 173/2014) was commenced by an employee of a subcontractor of Kwan On in about February 2014 against such subcontractor as the first defendant and Kwan On as the second defendant in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 26 April 2011 at a construction site alleged to be occupied and managed by the said subcontractor. No specific amount of claim was stated in the writ of proceedings. No settlement has been reached and no judgment has been entered against Kwan On in respect of the above action. As assessed by the legal advisers to Kwan On as to the said action, assuming full deduction (if allowed by the court) of the payment received by the

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applicant of this case under the previous settled claim against Kwan On and its subcontractor commenced by him under the Employees' Compensation Ordinance of approximately HK\$396,000, it is estimated that the net compensation payable under the said action to be approximately HK\$1,253,000;

- (vi) a Court of First Instance Action (HCPI 351/2014) was commenced by an employee of a subcontractor of UEL in about April 2014 against such subcontractor as the first defendant and UEL as the second defendant in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 28 June 2012 at a construction site alleged to be occupied and managed by the said subcontractor. Approximately HK\$2.7 million plus interest is claimed under this action. No settlement has been reached and no judgment has been entered against Kwan On in respect of the above action. The plaintiff of the said action is the applicant of the District Court Action (DCEC 1971/2013) mentioned above;
- (vii) a District Court Action (DCEC 991/2014) was commenced by an employee of UCRL in about May 2014 against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 13 July 2012 arising out of and in the course of his employment. According to the Certificate of Review of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 12 March 2014, the loss of earning capacity permanently caused by the injury is 3.5%. Accordingly, it is estimated that the compensation payable under the said action will amount to approximately HK\$59,000. Our Directors confirm that our Group has taken out the necessary employees' compensation policy to cover its liability against the said proceeding; and
- (viii) a District Court Action (DCEC 2494/2014) was commenced by an employee of UCRL in about December 2014 against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident that happened on or about 9 December 2012 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceeding. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 27 October 2014, the loss of earning capacity permanently caused by the injury is 2%. Accordingly, it is estimated that the compensation payable under the said action will amount to approximately HK\$37,000.

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

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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.

As at the Latest Practicable Date, save as disclosed above, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its business, result of operations or financial condition.

NON-COMPLIANCE MATTERS

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had obtained all necessary approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong and all of them were in force.

Prior to and during the Track Record Period, our Group had leased two workshops situated in an industrial building in Chai Wan (the "**Chai Wan Workshops**") for use as our previous head office, which usage was not in strict compliance with the user provisions stipulated in the occupation permit issued by BD and the Government Lease granted by the Government to which the Chai Wan Workshops are held subject. In order to rectify such non-compliance, our Group has relocated to and operated at our present head office situated in a commercial building in Sheung Wan since 15 November 2014 and used the Chai Wan Workshops for storage of documents. As at the Latest Practicable Date, we had not received any claims, demands or proceedings from the landlord of the Chai Wan Workshops and/or the relevant Government authorities in respect of such past non-compliance.

Our Group's present use of the leased property in North Point (the "**North Point Property**") as site office is not in strict compliance with the user provisions stipulated in the occupation permit issued by the BD as well as the Government Lease granted by the Government to which such property is held subject.

The Government Lease of the North Point Property provides that the properties shall not be used for any purposes other than for factory premises, while the relevant occupation permit stipulates the user of the properties as factory space for non-domestic use. In addition, under the relevant tenancy agreement, the North Point Property shall be used for industrial use only. Our Group is currently using the North Point Property as a site office for use by the representatives of WSD, which is not in strict compliance with the relevant user provisions. The site office is provided by our Group for fulfilling part of our contractual obligations under project 15/WSD/11 that, among other matters, our Group shall provide a site office located in North Point as approved by the engineer of WSD throughout the course of the works under the said contract. Notwithstanding the breach of user as illustrated above, our Company confirms that the landlord has not raised complaint as to such breach against our Group, and there are no subsisting disputes between the landlord and our Group which demands the rectification of the breach nor termination of the said tenancy agreement nor re-entrance of the North Point Property or any part of it. Our Directors confirm that the North Point Property has not breached any statutory safety requirement. Our Directors

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currently consider that it is difficult for our Group to rectify the non-compliance of the North Point Property, as the proposed property for relocation is subject to acceptance by the customer in accordance with the contract with the customer.

The tenancy agreement in respect of the North Point Property will expire on 6 December 2015 and our Group intends to relocate our site office at North Point upon the expiry of the tenancy agreement. Based on our Directors' current estimation, it is expected that the relocation cost will amount to approximately HK\$38,000 and the difference in leasing expenses will amount to approximately HK\$18,000 per month.

The Lands Department of the Government acting on behalf of the Government has the right to re-enter the leased property in the event of any default of the terms and conditions of the aforesaid Government Lease. The Building Authority may also by order in writing (the "**Order**") serve on the landlord and our Group as occupier to require them to discontinue the present use of the leased property within one month from the service of such Order should the Building Authority considers that the leased property is unsuitable by reason of its construction for its present use. In addition, the landlord of the North Point Property shall have the right to terminate the relevant tenancy agreement, and to claim against our Group for loss and damages resulting from the breach. As advised by the Hong Kong Legal Advisers, our Group as tenant or the Directors shall be held liable on conviction to a maximum fine of HK\$50,000 (and a further fine of HK\$5,000 for each day of continuous failure to comply with the Order) and imprisonment of one year should we fail to comply with the Order within one month from the service of the same without reasonable excuse.

Our Group confirms that it had not received any such Order as at the Latest Practicable Date and further undertakes that it shall discontinue the use of the North Point Property should it receive any such Order from the Building Authority. In relation to the aforesaid, as our Group may have to seek alternative premises for its site office if our Group is required to vacate the North Point Property, the Indemnifiers have given indemnity in favour of our Group under the Deed of Indemnity pursuant to which, among others, that they will jointly and severally indemnify our Group against all relocation costs, loss of profit and business, penalties and fines and all losses and damages which may be suffered by any members of our Group as a result of or in connection with the past and present breaches of any terms of the tenancy agreements in respect of the Chai Wan Workshops and the North Point Property, the user provisions of the Government Leases and occupation permits of the Chai Wan Workshops and the North Point Property, including but not limited to the past or present usage of these leased properties as site office which were and are inconsistent with their respective permitted use.

In order to ensure on-going compliances with laws and regulations after Listing, our Group will implement the following internal control measures:

- (i) conduct search for permitted use of property before entering into any tenancy agreement;
- (ii) obtain necessary consents/approval from the landlord; and

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- (iii) appoint legal adviser to review and advise on the tenancy agreement to be entered into.

Views of our Directors and the Sponsor

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rule 5.01, 5.02 and 11.07 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by us are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules having taken into account the fact that (i) we have taken the abovementioned internal control measures to avoid recurrence of the non-compliance incidents; (ii) no additional material non-compliance incident has taken place since the measures are taken; and (iii) the above non-compliance incidents were unintentional, did not involve any fraudulent act on the part of our executive Directors and did not raise any question as to the integrity of our executive Directors.

The Sponsor, after considering the above and having reviewed the internal control measures, concurs with the view of our Directors that (i) the various internal control measures adopted by us are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules; (ii) our executive Directors have the standard of integrity and competence commensurate with positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules; and (iii) the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability of Listing of our Company under Rule 11.06 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

Ms. Chiu is the spouse of Mr. Tony Wong, who is an executive Director and a Controlling Shareholder. Shiu Mau is legally and beneficially owned by Mr. Tony Wong and Fortune Peace, which is in turn beneficially owned by Mr. Andy Wong who is a son of Mr. Tony Wong. Benease Limited (“**Benease**”) is legally and beneficially owned as to 10% by Mr. Kwong, 80% by Mr. Tony Wong and 10% by an Independent Third Party. Mr. Kwong is a director and a beneficial owner of Bennex International Limited (“**Bennex**”). As such, Ms. Chiu, Shiu Mau, Benease and Bennex are connected persons of our Company.

Kwan On – U-Tech 1 has been accounted as a subsidiary of our Company although Kwan On – U-Tech 1 is an unincorporated joint venture since its organizational and operational affairs (such as recruitment of the key personnel and decision on major subcontracts and general procurement strategy) are under the direction and management of the 10/WSD/10 Management Committee, which is constituted by 3 voting representatives appointed by Kwan On and 2 voting representatives appointed by U-Tech. Accordingly, U-Tech is regarded as a connected person of our Company by reason of its ability to exercise significant influence over the affairs of Kwan On – U-Tech 1 through its two voting representatives on the 10/WSD/10 Management Committee.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM ANNUAL REVIEW, ALL DISCLOSURE AND SHAREHOLDERS’ APPROVAL REQUIREMENTS

During the Track Record Period, the following connected transactions had been entered into between our Group and the relevant connected persons of our Company which would be considered de minimis continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules upon Listing:

Lease from Shiu Mau for two industrial units and a car parking space in Hong Kong

Background

On 10 December 2012, Shiu Mau and UEL entered into a lease agreement (the “**Shiu Mau Lease Agreement**”), pursuant to which Shiu Mau (as landlord) agreed to lease a property located at Workshop D and E on the 3rd Floor, Yiko Industrial Building, No.10 Ka Yip Street, Hong Kong with a total gross floor area of approximately 6,000 sq.ft. together with a Car Parking Space No.11 on the Basement of Yiko Industrial Building, No.10 Ka Yip Street, Hong Kong (the “**Chai Wan Properties**”) to UEL (as tenant), for a period of two years commencing from 1 January 2013 and expiring on 31 December 2014, at a total annual rental of HK\$900,000. On 19 December 2014, Shiu Mau (as landlord) and UEL (as tenant) entered into a tenancy agreement pursuant to which Shiu Mau and UEL agreed to renew the Shiu Mau Lease Agreement for 1 year from 1 January 2015 to 31 December 2015. Our Group had leased the Chai Wan Properties on monthly basis since commencement of the Track Record Period. As at the Latest Practicable Date, the Chai Wan Properties were being used by UEL for storage of documents and car parking space.

According to the Shiu Mau Lease Agreement, the monthly rentals payable by UEL is HK\$75,000 in advance and inclusive of government rents but exclusive of rates and taxes.

CONNECTED TRANSACTIONS

The payment under the Shiu Mau Lease Agreement was calculated based on the proportion of floor area occupied by UEL in the Chai Wan Properties and market rent at similar premises at the relevant time.

Historical transaction amounts

The annual rental paid by UEL to Shiu Mau for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to HK\$900,000, HK\$900,000 and HK\$450,000, respectively.

Lease from Ms. Chiu in relation to staff's quarters in Hong Kong

Background

On 1 May 2014, Ms. Chiu and UEL entered into a lease agreement (the “**Heng Fa Chuen Lease Agreement**”) pursuant to which Ms. Chiu (as landlord) agreed to lease a property located at Unit 6 on the 16/F., Block 45, Heng Fa Chuen, No. 100 Shing Tai Road, Hong Kong with a total gross floor area of approximately 777 sq.ft. (the “**Heng Fa Chuen Property**”) to UEL (as tenant), for uses as staff's quarter for a period of twelve months commencing from 1 May 2014 and expiring on 30 April 2015, at a total annual rental of HK\$264,000. Our Group had leased the Heng Fa Chuen Property on monthly basis since commencement of the Track Record Period.

According to the Heng Fa Chuen Lease Agreement, the monthly rentals payable by UEL is HK\$22,000 in advance and inclusive of government rents but exclusive of rates and taxes.

The payment under the Heng Fa Chuen Lease Agreement was calculated based on the proportion of floor area occupied by UEL in the Heng Fa Chuen Property and the market rent at similar premises at the relevant time.

Historical transaction amounts

The annual rental paid by UEL to Ms. Chiu for the Heng Fa Chuen Property for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to HK\$216,000, HK\$216,000 and HK\$128,000, respectively.

CONNECTED TRANSACTIONS

Proposed annual caps and basis of determination

We expect the annual caps (the “**Annual Caps**”) for the rental payable by UEL to Ms. Chiu and Shiu Mau under the above continuing connected transactions for each of the three years ending 31 March 2017 for the Heng Fa Chuen Property and under the Shiu Mau Lease Agreement (collectively, the “**Lease Agreements**”) are set out below:

	Historical amount for the year ended 31 March 2014 HK\$	For the year ending 31 March 2015 HK\$	Annual Caps For the year ending 31 March 2016 HK\$	For the year ending 31 March 2017 HK\$
The Heng Fa Chuen Property	216,000	242,000	22,000	–
The Shiu Mau Lease Agreement	900,000	900,000	675,000	–
Aggregate amount	1,116,000	1,142,000	697,000	–

The Annual Caps mentioned above were determined by our Group with reference to the monthly rental amount in the open market.

GEM Listing Rules Implications

Ms. Chiu is the spouse of Mr. Tony Wong and a Controlling Shareholder. Shiu Mau is legally and beneficially owned by Mr. Tony Wong and Fortune Peace, which is in turn beneficially owned by Mr. Andy Wong.

As such, the transactions contemplated under each of the Lease Agreements shall be aggregated.

Since the applicable percentage ratios (other than the profits ratio) calculated according to Rule 19.07 of the GEM Listing Rules based on the aggregate Annual Caps for the Lease Agreements are less than 5% and the aggregate annual cap for each of the three years ending 31 March 2017 is less than HK\$3,000,000, the transactions contemplated under the Lease Agreements are considered de minimis continuing connected transactions which are exempt from the annual review, all disclosure and Shareholders’ approval requirement under Rule 20.103 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

DISCONTINUED CONNECTED TRANSACTIONS

During the Track Record Period, we had entered into the following connected transactions with the relevant connected persons of our Company which have ceased before the Latest Practicable Date:

Lease from Ms. Chiu in relation to Director's quarters in Hong Kong

Background

On 22 November 2012, Ms. Chiu and UEL entered into a lease agreement (the "**Scenic Lease Agreement**"), pursuant to which Ms. Chiu (as landlord) agreed to lease a property located at Apartment F, on the 1st Floor, Block A-1, Scenic Villas, 2-28 Scenic Villa Drive, Hong Kong together with a Car Parking Space No.20 on the 1st Floor of the Garage, Scenic Villas, 2-28 Scenic Villa Drive, Hong Kong (collectively the "**Scenic Properties**") with a total gross floor area of approximately 2,787 sq.ft. to UEL (as tenant), for uses as Director's quarter for a period of thirteen months commencing from 1 December 2012 and expiring on 31 December 2013, at a total annual rental of HK\$720,000. Our Group had leased the Scenic Properties on monthly basis since commencement of the Track Record Period. The Scenic Lease Agreement has been mutually terminated by UEL and Ms. Chiu with effect from 1 August 2013.

Historical transaction amounts

Set out below are the annual rental paid by UEL to Ms. Chiu for the Scenic Properties during the Track Record Period:

	For the period from 1 April 2012 to 31 March 2013 HK\$	For the period from 1 April 2013 to 31 July 2013 HK\$
Rent	624,000	240,000

Lease from Ms. Chiu in relation to staff's quarters in Hong Kong

Background

On 22 November 2012, Ms. Chiu and UEL entered into a lease agreement (the "**Old Heng Fa Chuen Lease Agreement**"), pursuant to which Ms. Chiu (as landlord) agreed to lease the Heng Fa Chuen Property to UEL (as tenant) for uses as staff's quarters for a period of thirteen months commencing from 1 December 2012 and expiring on 31 December 2013, at a total annual rental of HK\$216,000. The Old Heng Fa Chuen Lease Agreement was ended upon its expiry.

CONNECTED TRANSACTIONS

Historical transaction amounts

Set out below are the annual rental paid by UEL to Ms. Chiu for the Old Heng Fa Chuen Lease Agreement during the Track Record Period:

	For the period from 1 December 2012 to 31 March 2013 HK\$	For the period from 1 April 2013 to 31 December 2013 HK\$
Rent	72,000	162,000

Lease from Benease in relation to open storage of our Group in Hong Kong

Background

On 1 January 2013, Benease and UEL entered into a lease agreement (the “**Benease Lease Agreement**”), pursuant to which Benease (as landlord) agreed to lease a parcel of land at Section A of Sub-Section 2 of Section A of Lot No. 1297 in D.D. 121, Yuen Long, New Territories with a total gross floor area of approximately 5,000 sq.ft. (the “**Benease Property**”) to UEL (as tenant), for uses as open storage of our Group for a period of two years commencing from 1 January 2013 and expiring on 31 December 2014, at a total annual rental of HK\$180,000. Our Group had leased the Benease Property on monthly basis since commencement of the Track Record Period. The Benease Lease Agreement has been mutually terminated by UEL and Benease with effect from 1 August 2013.

Historical transaction amounts

Set out below are the annual rental paid by UEL to Benease for the Benease Property during the Track Record Period:

	For the period from 1 April 2012 to 31 March 2013 HK\$	For the period from 1 April 2013 to 31 July 2013
Rent	180,000	60,000

Lease from Bennex in relation to Section B of Lot No. 1394 in D.D. 77, North, New Territories

Background

UECL leased a parcel of land situated at Section B of Lot No. 1394 in D.D. 77, North, New Territories with a total gross floor area of approximately 5,600 sq.ft. (the “**Bennex Property**”) from Bennex since 1 January 2011, for uses as open storage of our Group, at a total annual rental of HK\$48,000 (the “**Bennex Lease**”). The Bennex Lease has been terminated by UECL with effect from 1 January 2013.

CONNECTED TRANSACTIONS

Historical transaction amounts

Set out below are the annual rental paid by UECL to Bennex for the Bennex Property during the Track Record Period:

	For the period from 1 April 2012 to 31 December 2012 HK\$
Rent	36,000

CONNECTED TRANSACTIONS EXEMPT FROM THE CIRCULAR, INDEPENDENT FINANCIAL ADVICE AND SHAREHOLDERS' APPROVAL REQUIREMENTS

Joint operation for Kwan On – U-Tech 2

On 16 December 2013, Kwan On and U-Tech entered into an agreement pursuant to which Kwan On and U-Tech agreed to share the surplus, loss, assets, liabilities, rights and obligations arising from their cooperation in the project for the contract 9/WSD/13 in equal shares. There is no monetary consideration payable by either party under this agreement and hence no historical transaction amount has been recorded for this connected transaction.

Subcontracting arrangements

Background

During the Track Record Period, the following subcontracting arrangements had been entered into between certain members of our Group and U-Tech, and are expected to be completed after Listing:

- (1) on 31 January 2013 and 10 August 2013, Kwan On (as main contractor) and U-Tech (as subcontractor) entered into two articles of agreement pursuant to which Kwan On agreed to engage U-Tech as a subcontractor to perform the sewage and associated works at Sai Pin Wai, Yuen Long at approximately HK\$20.5 million and HK\$6.5 million (subject to adjustment) respectively as required under the main contract entered into between Kwan On and DSD for project DC/2012/05 with an estimated contract sum of approximately HK\$142.35 million (subject to actual final measurement by reference to the bill of quantities attached thereto). The subcontract sum shall be payable by Kwan On to U-Tech in stages in accordance with the terms of the article of agreement and based on the value of work done measured (the “**DC/2012/05 Subcontracting Arrangement**”);
- (2) on 16 October 2012, Kwan On (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On agreed to engage U-Tech as a subcontractor to perform the pipe laying work at approximately HK\$18.2 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On and WSD for project 15/WSD/11 with an estimated contract sum of approximately HK\$164.47 million (subject to actual final measurement by reference to the bill of quantities

CONNECTED TRANSACTIONS

attached thereto). The contract sum shall be payable by Kwan On to U-Tech in stages in accordance with the terms of the article of agreement and based on the value of work done measured (the “**15/WSD/11 Subcontracting Arrangement**”);

- (3) on 24 August 2011, Kwan On – U-Tech 1 (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On – U-Tech 1 agreed to engage U-Tech as a subcontractor to perform water mains rehabilitation in Shatin and Sai Kung at approximately HK\$33.8 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On – U-Tech 1 and WSD for project 10/WSD/10 with an estimated contract sum of approximately HK\$276.59 million (subject to actual final measurement by reference to the bill of quantities attached thereto). The contract sum shall be payable by Kwan On – U-Tech 1 to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the “**10/WSD/10 Subcontracting Arrangement**”); and
- (4) on 18 September 2013, Kwan On (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On agreed to engage U-Tech as a subcontractor to perform the sub-contract for Box Culvert and pumping station at approximately HK\$70.4 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On and CEDD for project KL/2012/03 with an estimated contract sum of approximately HK\$811.44 million (subject to actual final measurement by reference to the bill of quantities attached thereto). The subcontract sum shall be payable by Kwan On to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the “**KL/2012/03 Subcontracting Arrangement**”).

Historical transaction amounts

The total contract sum under the DC/2012/05 Subcontracting Arrangement was determined based on the tender submitted by Kwan On. The contract sum paid by Kwan On to U-Tech under the DC/2012/05 Subcontracting Arrangement for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$1.0 million, approximately HK\$6.8 million and HK\$6.6 million respectively.

The total contract sum under the 15/WSD/11 Subcontracting Arrangement was determined based on the tender submitted by Kwan On. The contract sum paid by Kwan On to U-Tech under the 15/WSD/11 Subcontracting Arrangement for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$1.1 million, approximately HK\$7.1 million and HK\$1.3 million respectively.

The total contract sum under the 10/WSD/10 Subcontracting Arrangement was determined based on the schedule of rates agreed by Kwan On – U-Tech 1 and U-Tech by reference to the prevailing market rates. The contract sum paid by Kwan On – U-Tech 1 to U-Tech under the 10/WSD/10 Subcontracting Arrangement for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to approximately HK\$1.1 million, approximately HK\$1.5 million and HK\$2.0 million respectively.

CONNECTED TRANSACTIONS

The total contract sum under the KL/2012/03 Subcontracting Arrangement was determined based on the tender submitted by Kwan On. The contract sum paid by Kwan On to U-Tech under the KL/2012/03 Subcontracting Arrangement for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 amounted to nil, approximately HK\$7.4 million and approximately HK\$55.6 million respectively.

Confirmation by our Directors

Our Directors have confirmed that the DC/2012/05 Subcontracting Arrangement, the 15/WSD/11 Subcontracting Arrangement, the 10/WSD/10 Subcontracting Arrangement and the KL/2012/03 Subcontracting Arrangement (collectively, the “**U-Tech Subcontracting Arrangements**”) have been ratified, confirmed and approved by our Board. In addition, our independent non-executive Directors have confirmed that the terms of each of the U-Tech Subcontracting Arrangements are fair and reasonable, each of the U-Tech Subcontracting Arrangements is on normal commercial terms and in the interests of our Company and our Shareholders as a whole.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed “Business strategies” under the section headed “Business” in this prospectus for our business objectives and strategies.

IMPLEMENTATION PLANS

In order to implement the business objectives and strategies as described above, set forth below are our implementation plans for each of the six-month periods until 31 March 2017. It should be noted that our implementation plans are formulated on the bases and assumptions referred to in the paragraphs under the sub-section headed “Bases and assumptions” below. These bases and assumptions are subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk factors” in this prospectus.

From the Latest Practicable Date to 30 September 2015

- Assuming Kwan On successfully obtains any projects with terms of around 24 months and estimated contract sum of HK\$450 million from the Government (the “New Projects”), prepare the kick-off of project implementation (including analysing the requirements on plant, project management and technical personnel)
- Recruit required staff for project management and technical personnel (including one project manager, one site agents, two quantity surveyors and two safety officers)
- Commence the engagement of subcontractors and enter into bulk purchase agreements with suppliers of major materials
- Form the project management team from existing staff and recruit new staff where necessary and compile master program for the Ongoing Contracts
- Monitor the progress of implementation by the subcontractors for the Ongoing Contracts
- Purchase equipment and machinery (including two motor vehicles amounted to approximately HK\$0.1 million)

For the six months ending 31 March 2016

- Monitor the tender notice published by the relevant Government departments for public works and identify prospective projects
- Form the project management team and compile master programs for the New Projects
- Implementation of works in accordance with the contract under the New Projects

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

- Submit tenders, in particular, for roads and drainage services and/or waterworks engineering contracts
- Purchase equipment and machinery (including two motor vehicles, two excavators and two air compressors amounted to approximately HK\$1.5 million)
- Recruit the project management and technical personnel required for implementation of the New Projects (including one site agent, one quantity surveyor and one safety officer)
- Implement the New Projects in progress
- Maintain ongoing quality assurance and safety review on the works performed
- Strengthening of safety team
- Recruit additional safety officer for quality assurance
- Review the safety policy to address the risk areas and potential hazards and formulate improvement steps and procedures
- Implement the Ongoing Contracts and the New Projects as programmed
- Monitor the progress of implementation by the subcontractors for the Ongoing Contracts and the New Projects

For the six months ending 30 September 2016

- Monitor the forecasts of work tenders published by the Government and participate in the tendering of prospective projects
- Implement the New Projects as programmed
- Monitor ongoing quality assurance and safety review on the works performed
- Implement the Ongoing Contracts
- Monitor the progress of implementation by the subcontractors for the Ongoing Contracts and the New Projects
- Purchase equipment and machinery (including two cranes, amounted to approximately HK\$0.6 million)

For the six months ending 31 March 2017

- Monitor the forecasts of work tenders published by the Government and participate in the tendering of prospective projects

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

- Implement the New Projects as programmed
- Monitor ongoing quality assurance and safety review on the works performed by us
- Implement the Ongoing Contracts
- Monitor the progress of implementation by the subcontractors for the Ongoing Contracts and the New Projects

BASES AND ASSUMPTIONS

Our Directors have adopted the following principal assumptions in the preparation of the implementation plan up to 31 March 2017:

- (a) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, and any other places in which any member of our Group carries on or will carry on business and provides or will provide human resources related services;
- (b) there will be no material changes in the bases or rates of taxation in Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated;
- (c) the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” to this prospectus;
- (d) we are able to maintain our customers;
- (e) we are able to retain key staff in the management and the main operational departments;
- (f) we will not be materially affected by any risk factors set out in the section headed “Risk factors” to this prospectus; and
- (g) we will be able to continue our operation in substantially the same manner as we have been operating during the Track Record Period and we will also be able to carry out our development plans without disruptions adversely affecting our operations or business objectives in any way.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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 paragraph headed "Business objectives" above. Furthermore, a public listing status on the Stock Exchange will offer us access to capital markets for corporate finance exercise to assist in our future business development, enhance our corporate profile and strengthen our competitiveness.

The net proceeds from the Placing, after deducting the related expenses, are estimated to be approximately 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 the 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.

In summary, the implementation of our Group's business objectives and strategies from the Latest Practicable Date to 31 March 2017 will be funded by the net proceeds from the Placing as follows:

	For the six months ending				Total
	30 September 2015	31 March 2016	30 September 2016	31 March 2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recruitment of staff for project management and technical personnel	1,086	1,596	1,704	–	4,386
Purchase of required equipment and machinery	100	1,450	580	–	2,130
Repayment of bank loans	18,164	–	–	–	18,164
	<u>19,350</u>	<u>3,046</u>	<u>2,284</u>	<u>–</u>	<u>24,680</u>

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

The bank loans to be repaid by using of the net proceeds from the Placing are set out below:

Bank Loan	A	B	C	Total
Loan amount	HK\$12.0 million	HK\$6.0 million	HK\$6.2 million	
Drawdown date	August 2012	February 2015	January and February 2015	
Interest rate (<i>Note</i>)	P-1.25%	5.25%	4.24%	
Maturity	August 2017	April 2015	Approximately HK\$4.2 million in April 2015 and approximately HK\$2.0 million in May 2015	
Amount to be repaid approximately	HK\$6.1 million	HK\$5.9 million	HK\$6.2 million	HK\$18.2 million

Note: P is the prime rate, being 5.25%

Bank Loan A was used as to approximately HK\$5.2 million for the payment of subcontracting charges, approximately HK\$6.7 million for the purchase of materials and the remainder for machinery maintenance, bank charges and others. Bank Loan B and C were drawn from general banking facilities and repayable in April and May 2015 used for financing the daily operation of our Group.

The balance of the net proceeds of approximately HK\$2.0 million will be used for general working capital of our Group.

Our Directors consider that the net proceeds from the Placing will be sufficient to finance our Group's business plans up to the year ending 31 March 2017.

To the extent that the net proceeds from the Placing are not immediately required for the above purposes, it is the present intention of our Directors that such net proceeds be placed on short-term interest bearing deposits with authorised financial institutions.

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 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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board consists of three executive Directors and three independent non-executive Directors. The following table sets forth information in respect of our Directors:

Name	Age	Date of joining our Group	Appointment Date	Position	Roles and responsibilities
Wong Yee Tung, Tony (黃宜通)	67	9 September 1975	6 December 2012	Managing Director	Overseeing the strategic and business development of our Group and member of the remuneration committee
Kwong Wing Kie (鄺永基)	61	1 September 1988	6 December 2012	Executive Director	Overseeing all the civil and building projects of our Group and member of the nomination committee
Chung Chi Ngong (鍾志昂)	45	1 June 1990	6 December 2012	Executive Director	Project management and safety assurance of our Group
Ho Ho Ming (何昊洺)	42	16 March 2015	16 March 2015	Independent non-executive Director	Chairman of the nomination committee and member of the audit committee
Lam Sing Kwong, Simon (林誠光)	56	16 March 2015	16 March 2015	Independent non-executive Director	Chairman of the remuneration committee and member of each of the audit committee and nomination committee
Chan Chung Kik, Lewis (陳仲載)	41	16 March 2015	16 March 2015	Independent non-executive Director	Chairman of the audit committee and member of the remuneration committee

Executive Directors

Mr. Wong Yee Tung, Tony (黃宜通), aged 67, was appointed as the Managing Director on 6 December 2012. Mr. Tony Wong is responsible for overseeing the strategic and business development of our Group. Mr. Tony Wong obtained a bachelor's degree of science in engineering from the Imperial College, University of London in August 1971 and a master's degree of science in operational research and management studies from the Imperial College, University of London in December 1972. He was admitted as a member of the Hong Kong Institution of Engineers in January 2002 and a member of the Institution of Mechanical Engineers in the United Kingdom in March 2003. He is a Registered Professional Engineer in the mechanical engineering discipline. Mr. Tony Wong established UECL, the first member of our Group, in 1975.

Mr. Tony Wong has more than 20 years of experience in handling various civil engineering projects.

Mr. Tony Wong has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwong Wing Kie (鄺永基), aged 61, was appointed as an executive Director on 6 December 2012. Mr. Kwong is responsible for overseeing all the civil and building projects of our Group. Mr. Kwong obtained from The University of Hong Kong a bachelor's degree of science in engineering in November 1976. Mr. Kwong is a registered professional engineer in civil, structural and geotechnical disciplines and also a registered safety officer. Mr. Kwong joined our Group in 1988 as a technical services manager of UEL and has been responsible for managing civil engineering contracts.

Mr. Kwong has more than 20 years of experience in the construction industry.

Mr. Kwong has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

Mr. Chung Chi Ngong (鍾志昂) (“**Mr. Chung**”), aged 45, was appointed as an executive Director on 6 December 2012. Mr. Chung is responsible for project management and safety assurance of our Group. Mr. Chung holds a bachelor's degree of engineering from The Hong Kong University of Science and Technology in November 1998 and a master's degree of science in construction project management from the University of Greenwich in September 2001. Mr. Chung is a member of The Institution of Engineers, Australia and a member of The Chartered Institute of Building, and a registered safety officer.

Mr. Chung has over 20 years of experience in the construction industry. Prior to joining our Group, Mr. Chung had not worked in other companies. Mr. Chung joined our Group as an engineer in 1990. Mr. Chung was subsequently appointed as safety manager for numerous projects.

Mr. Chung has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

Independent non-executive Directors

Mr. Ho Ho Ming (何昊洛) (**former name: Ho Wing Hang** (何榮亨)) (“**Mr. Ho**”), aged 42, was appointed as an independent non-executive Director on 16 March 2015. Mr. Ho is currently an adjunct professor of the Department of Real Estate and Construction at The University of Hong Kong. In addition, Mr. Ho is an adjunct professor of the School of Accounting and Finance of The Hong Kong Polytechnic University, a honorary institute associate of The Asia-Pacific Institute of Business of The Chinese University of Hong Kong and an external member of the Departmental Advisory Committee on Applied Mathematics at The Hong Kong Polytechnic University.

Mr. Ho has over 16 years of experience in the field of investment banking and credit rating. He was previously employed by Credit Suisse First Boston (Hong Kong) Limited, Merrill Lynch (Asia Pacific) Limited, Bear Stearns Asia Limited, Fitch (Hong Kong) Limited and Universal Credit Rating Group Company Ltd..

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho graduated from The Hong Kong University of Science and Technology with a bachelor's degree of business administration in information and systems management in November 1996. He also obtained a master's degree of business administration from the University of Cambridge, the United Kingdom in May 2000.

Mr. Ho is currently an independent non-executive director of KSL Holdings Limited (stock code: 8170) since November 2014, the issued shares of which are listed on GEM.

Mr. Ho does not have any relationship with any Directors, senior management, substantial Shareholders or Controlling Shareholders of our Company and our related companies, and does not have any interest in the shares of our Company and our related companies.

Professor Lam Sing Kwong, Simon (林誠光) (“**Professor Lam**”), aged 56, was appointed as an independent non-executive Director on 16 March 2015. Professor Lam is currently a professor of Management at the Faculty of Business and Economics of The University of Hong Kong. Professor Lam obtained a doctorate degree in commerce from The Faculty of Economics and Commerce at The Australian National University in April 1996. Professor Lam has published a number of academic papers and case analysis on the topics of corporate strategy, organisation development and operations management. Before joining The University of Hong Kong, Professor Lam worked as a regional support manager of a bank. He has extensive experience in corporate management, strategic development of organisations and corporate finance.

Professor Lam is currently an independent non-executive director of Chun Sing Engineering Holdings Limited (stock code; 2277), King Force Security Holdings Limited (stock code: 8315), Glory Flame Holdings Limited (stock code: 8059), Jin Cai Holdings Company Limited (stock code: 1250), Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) and Sinomax Group Limited (stock code: 1418), the issued shares of which are listed on the Main Board or GEM of the Stock Exchange.

Professor Lam was a director of AS & T Consultants Limited which was incorporated in Hong Kong and was dissolved by means of striking off on 8 March 2002 pursuant to section 291(6) of the Predecessor Companies Ordinance. Professor Lam confirmed that the said company was solvent and inactive at the time of it being struck off and that its dissolution has not resulted in any liability or obligation imposed against him.

Professor Lam does not have any relationship with any Directors, senior management, substantial Shareholders or Controlling Shareholders of our Company and our related companies, and does not have any interest in the shares of our Company and our related companies.

Mr. Chan Chung Kik, Lewis (陳仲戟) (“**Mr. Chan**”), aged 41, was appointed as an independent non-executive Director on 16 March 2015. He holds a bachelor's degree of commerce in accounting from The University of Canberra, Australia, and is a fellow member of HKICPA and a member of the CPA Australia. He has extensive experience in accounting, finance and corporate management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan is currently the chief financial officer of Xingye Copper International Group Limited (stock code: 505) and an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited (stock code: 719), the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Chan does not have any relationship with any Directors, senior management, substantial Shareholders or Controlling Shareholders of our Company and our related companies, and does not have any interest in the shares of our Company and our related companies.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made reasonable enquiries, there were no other matters with respect to the appointment of our Directors that need to be brought to the attention to our Shareholders and there was no information relating to our Directors that is required to be disclosed under Rule 17.50(2)(h) to (x) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets forth information in respect of our senior management:

Name	Age	Date of joining our Group	Present position	Roles and responsibilities
Mak Kam Ho (麥錦浩)	40	15 January 1996	Procurement Manager	Procurement of building materials and plants for civil engineering projects
Tai Mei Kiu (戴美嬌)	37	25 July 2001 & 16 April 2008	Quantity Surveying Manager	Tendering, cost estimation and quantity surveying
Wong Chun Hung (黃俊雄)	44	13 April 2011	Senior Project Manager	Project management
Sit Cheung Yee (薛長義)	48	27 August 2007	Project Manager	Project management
Yu Shing On (余成安)	52	12 April 2010	Project Manager	Project management
Ng Sai Cheong (伍世昌)	38	23 August 2012	Financial Controller and Company Secretary	Overall financial and company secretarial aspects

Procurement Manager

Mr. Mak Kam Ho (麥錦浩) (“**Mr. Mak**”), aged 40, joined UEL in January 1996 and is currently the procurement manager of UEL. He has approximately 17 years of experience in the procurement of building materials and plants for civil engineering projects. Mr. Mak obtained a higher certificate in civil engineering from the Vocational Training Council in

DIRECTORS AND SENIOR MANAGEMENT

July 2003 and a bachelor of science degree in civil engineering from Leeds Metropolitan University in June 2012. Mr. Mak has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

Quantity Surveying Manager

Ms. Tai Mei Kiu (戴美嬌) (“**Ms. Tai**”), aged 37, is currently the Quantity Surveying Manager of Kwan On. She has approximately 10 years of experience in working in constructions companies. She was employed by UBCL during the period from July 2001 to June 2004 as a clerk and was then employed by Kenly (H.K.) Limited as assistant contracts manager in June 2004 and later by Noble Crown Development Limited in 2005. In April 2008, Ms. Tai rejoined Kwan On as a quantity surveying manager. Ms. Tai obtained a bachelor of science degree in computing and information systems from University of London in August 2005 and a master of science degree in construction project management from The University of Hong Kong in November 2007. Ms. Tai has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

Project Manager

Dr. Wong Chun Hung (黃俊雄) (“**Dr. Wong**”), aged 44, joined Kwan On in April 2011 as the senior project manager. He has approximately 5 years of experience in civil engineering and construction. Dr. Wong obtained a bachelor of engineering degree and a doctor of philosophy degree from The University of Hong Kong in November 1993 and December 1998, respectively. Dr. Wong was employed by City University of Hong Kong as a temporary lecturer in the Physics and Materials Science Department from September to December 1998. Prior to joining the Group, from December 1999 to March 2011, Dr. Wong was employed as contracts manager by an engineering company. Dr. Wong has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

Mr. Sit Cheung Yee (薛長義) (“**Mr. Sit**”), aged 48, joined Kwan On as an assistant project manager in August 2007 and is currently a project manager of Kwan On. Mr Sit has approximately 13 years of experience in civil engineering and construction. Mr Sit obtained a bachelor of engineering degree in civil engineering from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in October 1992 and a master of science degree in engineering from The University of Hong Kong in December 1998. Mr. Sit is currently a member of The Hong Kong Institution of Engineers. Mr. Sit was employed by Scott Wilson (Hong Kong) Limited as assistant engineer from August 1992 to September 1994 and as senior assistant engineer from September 1996 to February 1998. From November 1999 to October 2000, Mr. Sit was employed by the WSD as contract engineer (civil) and from April 2001 to February 2002 by Man Wah New Concepts Engineering Limited as a site agent. In February 2002, Mr. Sit joined Hsin Chong Construction Company Limited before leaving as construction manager in November 2003. Subsequently in March 2006, Mr. Sit was employed by Leung Kee Construction Group Limited and joined Kwan On in August 2007. Mr. Sit has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Shing On (余成安) (“**Mr. Yu**”), aged 52, joined Kwan On as a project manager in April 2010. Mr Yu has approximately 20 years of experience in civil engineering and construction. Mr. Yu obtained a higher diploma in civil engineering (geotechnology) from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in November 1986 and a bachelor of engineering degree from The University of Sheffield in July 1989. Mr. Yu was admitted as a member of the Hong Kong Institution of Engineers in August 1994 and a member of The Chartered Institute of Arbitrators in May 2011. From May 1991 to September 1997, Mr. Yu was employed by Mott Connell Limited first as assistant engineer and last as resident engineer. From February 1998 to September 1999, Mr. Yu joined China Guangdong Perfect Trump (H.K.) Construction Co. Limited as site agent and from October 1999 to July 2000, he was employed by WSD as contract engineer. From August 2000 to April 2001, Mr. Yu was employed by North Lantau Dredging Limited as site agent and from April 2001 to March 2003 by Hyundai-CCECC Joint Venture as senior engineer. Mr. Yu was employed by Techwell Engineering Limited as quantity surveying manager/project manager from May 2003 to December 2006 and as project manager/contract manager/quantity surveying manager from February 2008 to December 2009. Mr. Yu has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Mr. Ng Sai Cheong (伍世昌), aged 38, was appointed as the financial controller of UEL on 23 August 2012 and the company secretary of our Company on 23 January 2013. He is responsible for the overall financial and company secretarial aspects of our Group. Mr. Ng has 14 years of experience in auditing and accounting. Mr. Ng worked as an audit graduate and semi-senior at an accountancy firm from June 1998 to April 2000 and as an auditor in the audit department of another local accountancy firm from April 2000 to February 2001. Mr. Ng was employed by a global accountancy firm as a staff accountant from February 2001 to September 2002 and as a senior accountant from October 2002 to September 2003. Subsequently, he was employed by a beauty products manufacturer and distributor first as accounting manager and later as assistant financial controller from October 2003 to August 2009. Prior to joining our Group in August 2012, Mr. Ng worked at an infrastructure and civil engineering company from September 2009 to April 2012 and his last held position was chief financial officer.

Mr. Ng graduated from The Hong Kong University of Science and Technology in November 1998 with a bachelor of business administration degree in accounting and obtained a master of corporate governance degree from The Open University of Hong Kong in June 2007. Mr. Ng is an associate of the Hong Kong Institute of Certified Public Accountants and an associate of the Hong Kong Institute of Chartered Secretaries. Mr. Ng has not been a director of any publicly listed company during the three years immediately preceding the date of this prospectus.

COMPLIANCE OFFICER

Mr. Kwong is also the compliance officer of our Company. Please refer to his biography as set out in the sub-paragraph headed “Executive Director” in this section.

DIRECTORS AND SENIOR MANAGEMENT

AUDIT COMMITTEE

Our Company established an audit committee on 16 March 2015 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules have been adopted. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee comprises three independent non-executive Directors, namely Mr. Chan Chung Kik, Lewis, Professor Lam Sing Kwong, Simon and Mr. Ho Ho Ming. Mr. Chan Chung Kik, Lewis is the chairman of the audit committee.

REMUNERATION COMMITTEE

Our Company established a remuneration committee on 16 March 2015 which, at present, comprises Professor Lam Sing Kwong, Simon, Mr. Chan Chung Kik, Lewis and Mr. Wong Yee Tung, Tony, with Professor Lam Sing Kwong, Simon being the chairman of the remuneration committee. Written terms of reference in compliance with paragraph B.1.3 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules have been adopted. Amongst other things, the primary duties of the remuneration committee are to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive Directors.

NOMINATION COMMITTEE

Our Company has established a nomination committee on 16 March 2015 with written terms of reference. The nomination committee comprises two independent non-executive Directors namely Mr. Ho Ho Ming and Professor Lam Sing Kwong, Simon and one executive Director, namely Mr. Kwong Wing Kie. Mr. Ho Ho Ming has been appointed as the chairman of the nomination committee. Written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code as set out in Appendix 15 to GEM Listing Rules have been adopted. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for our Directors.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Messis Capital to be our compliance adviser, who will have access to our Company's authorised representatives, Directors and other officers at all times. The compliance adviser will advise our Company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after the listing of our Company. The material terms of the compliance adviser's agreement entered into between our Company and our compliance adviser are as follows:

- (a) the compliance adviser's term of appointment shall commence on the date of listing of the Shares and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) the compliance adviser shall provide our Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines;
- (c) our Company agrees to indemnify the compliance adviser against all actions, claims and proceedings from time to time made against, and all losses and damage suffered and all payments, costs, expenses and legal fees made or incurred by the compliance adviser arising out of or in connection with any wilful default, fraud or gross negligence on the part of our Company in its performance of this agreement, provided that this indemnity has been caused by, or to the extent of, the wilful default, fraud or gross negligence on the part of the compliance adviser;

Our Company shall have the right, without compensation to terminate the appointment of the compliance adviser under the agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within (30) days) over fees payable by our Company to the compliance adviser as permitted by Rule 6A.26 of the GEM Listing Rules. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser under the agreement at any time without compensation being payable to our Company by giving not less than one (1) month's written notice to our Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than one month's written notice or payment in lieu to the other party. Under the arrangement in force at the date of this prospectus, it is estimated that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors for the year ending 31 March 2015 is approximately HK\$3,486,000 (subject to an annual increment at the discretion of the Board provided that it shall not exceed 10 per cent. per annum of the amount of such salary paid during the previous 12-month period). Each executive Director will also be entitled to a discretionary bonus based on our Group's performance and his individual performance and to be paid at such time at the discretion of the Board to be consistent with the terms of the service agreement. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of our Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. Further details of which are set out in the paragraph headed "Further information about Directors, management and staff" in Appendix IV to this prospectus.

The aggregate amounts of the emoluments paid to our Directors during the Track Record Period in respect of their service provided to our Group are set out below:

	Year ended 31 March				Six months ended 30 September	
	2013		2014		2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Executive Directors:						
Wong Yee Tung, Tony	1,419	48.5	1,559	44.5	720	41.4
Kwong Wing Kie	720	24.6	1,000	28.6	579	33.3
Chung Chi Ngong	788	26.9	943	26.9	441	25.3
Independent non-executive Directors:						
Ho Ho Ming	-	-	-	-	-	-
Lam Sing Kwong, Simon	-	-	-	-	-	-
Chan Chung Kik, Lewis	-	-	-	-	-	-
Total	<u>2,927</u>	<u>100</u>	<u>3,502</u>	<u>100</u>	<u>1,740</u>	<u>100</u>

Our Group's principal policies concerning remuneration of our Directors or staff of high caliber are determined with reference to the relevant Director's or staff's duties, responsibilities, experiences and skills.

Retirement benefit schemes

All of our Group's employees in Hong Kong have joined a mandatory provident fund scheme (the "MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance, Chapter

DIRECTORS AND SENIOR MANAGEMENT

485 of the Laws of Hong Kong. Our Group has complied with the relevant laws and regulations, and that relevant contributions have been paid by our Group in accordance with the aforesaid laws and regulations.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme on 16 March 2015 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Placing and the Capitalisation Issue (but without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company and are therefore regarded as Controlling Shareholders under the GEM Listing Rules:

Name	Capacity and nature of interests	Number of Shares	Approximate percentage of shareholding
Mr. Tony Wong <i>(Notes 1 to 4)</i>	Interests of controlled corporations	720,000,000 (L)	75%
Ms. Chiu <i>(Note 5)</i>	Interests of spouse	720,000,000 (L)	75%
Twilight Treasure <i>(Notes 1 and 2)</i>	Beneficial owner	332,028,000 (L)	34.59%
Success Ally <i>(Notes 2 and 3)</i>	Interest of controlled corporation	332,028,000 (L)	34.59%
Fortune Decade <i>(Notes 1 and 4)</i>	Beneficial owner	387,972,000 (L)	40.41%

Notes:

1. The entire issued share capital of our Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade and as to approximately 34.59% by Twilight Treasure.
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally and as to 12.5% by Decade Success.
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Fortune Decade is legally and beneficially owned by Mr. Tony Wong.
5. Ms. Chiu is deemed to be interested in the 720,000,000 Shares held by Mr. Tony Wong pursuant to the SFO by virtue of her being the spouse of Mr. Tony Wong.

The letter “L” denotes a long position in the shareholder’s interest in the share capital of the relevant member of our Group.

In addition, by virtue of Mr. Newton Wong’s interests in Garwealth, Ms. Chiu’s interests in Success Ally and UCRL and Mr. Andy Wong’s interests in Fortune Peace, Bright Link and Success Ally during the Track Record Period, all of Mr. Newton Wong, Ms. Chiu and Mr. Andy Wong are considered to be Controlling Shareholders under the GEM Listing Rules for the purpose of this prospectus. Furthermore, by virtue of Mr. Kwong’s interests in UEL and UEWL during the Track Record Period, and by virtue of Mr. Kwong’s interests in

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Decade Success, which in turn is interested in 12.5% of the entire issued share capital of Twilight Treasure, both Mr. Kwong and Decade Success are considered to be Controlling Shareholders under the GEM Listing Rules for the purpose of this prospectus.

COMPETITION

None of our Directors, Controlling Shareholders, nor any of their respective close associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group.

Deed of Non-competition

Subject to the terms therein, the Controlling Shareholders as covenantors (the “**Covenantors**”) entered into the Deed of Non-competition in favour of our Company, pursuant to which each of the Covenantors has undertaken to our Company (for itself and as trustee of the members of our Group) that during the continuation of the Deed of Non-competition, each of the Covenantors shall not, and shall procure each of his/her/it close associates, whether on his/her own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, which carries on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently engaged by our Group (including provision of construction and engineering services and businesses ancillary to any of the foregoing), in Hong Kong, the PRC and any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on business mentioned above from time to time (the “**Restricted Business**”). Each of the Covenantors has represented and warranted to our Group that neither he/she nor any of his/her/it close associates is currently interested, involved or engaging, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise than through the Group.

Pursuant to the Non-competition Deed, each of the Covenantors has also undertaken that if each of the Covenantors and/or any of his/her/its associates is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, he/she/it shall (i) promptly within seven days notify our Company in writing of such opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such opportunity; and (ii) use his/her/its best endeavours to procure that such opportunity is offered to our Company on terms no less favourable than the terms on which such opportunity is offered to him/her and/or his/her/its close associates.

If our Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days (the “**30-day Offering Period**”) of receipt of notice from the Covenantors, the Covenantors and/or his/its close associates shall be permitted to invest in

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or participate in the New Business Opportunity on his/its own accord. The Covenantors also agree to extend the 30 business days to a maximum of 60 business days if our Company requires so by giving a written notice to the Covenantors within the 30-day Offering Period.

In addition, upon Listing, each of the Covenantors has also undertaken:

- (i) in favour of our Company to provide our Company and our Directors (including our independent non-executive Directors) with all information necessary, including but not limited to monthly turnover records and any other relevant documents considered necessary by our independent non-executive Directors, for the annual review by our independent non-executive Directors with regard to compliance of the terms of the Deed of Non-competition and the enforcement of the non-competition undertakings in the Deed of Non-competition;
- (ii) to provide to the Company, after the end of each financial year of the Company, a declaration made by each of the Covenantors which shall state whether or not the Covenantors have during that financial year complied with the terms of the Deed of Non-competition, and if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of our Company for the relevant financial year such annual declaration shall be consistent with the principles of making voluntary disclosures in the corporate governance report; and
- (iii) to our Group to allow our Directors (including our independent non-executive Directors), their respective representatives and the auditors to have sufficient access to the records of the Covenantor and his/her/its close associates to ensure their compliance with the terms and conditions under the Deed of Non-competition.

Further, each of the Covenantors has undertaken that during the period in which he/she and/or his/her/its close associates, individually or taken as a whole, remains as a Controlling Shareholder:

- (i) he/she will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by our Group from time to time unless pursuant to the provisions stipulated in the Deed of Non-competition;
- (ii) he/she will not solicit any existing or then existing employee of our Group for employment by him/her or his/her/its close associates (excluding the Group);
- (iii) he/she/it will not without the consent from the Company, make use of any information pertaining to the business of our Group which may have come to his/her/its knowledge in his/her capacity as our Controlling Shareholder for any purposes; and

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- (iv) he/she/it will procure his/her/its close associates (excluding the Group) not to invest or participate in any project or business opportunity mentioned above unless pursuant to the provisions stipulated in the Deed of Non-competition.

The above undertakings (i) and (iv) are subject to the exception that any of the close associates of the Covenantors (excluding our Group) are entitled to invest, participate and be engaged in any Restricted Business or any project or business opportunities, regardless of value, which has been offered or made available to the Group, provided also that information about the principal terms thereof has been disclosed to our Company and our Directors, and our Company shall have, after review and approval by our independent non-executive Directors without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of our independent non-executive Directors, confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Business and provided also that the principal terms on which that relevant close associate of the Covenantor(s) invests, participates or engages in the Restricted Business are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if the relevant close associate of the Covenantor(s) decides to be involved, engaged, or participated in the relevant Restricted Business, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company and our Directors as soon as possible.

The Deed of Non-competition will take effect upon Listing and shall expire on the earlier of:

- (i) the day on which the Shares cease to be listed on the GEM or other recognised stock exchange; or
- (ii) the day on which the Covenantors and his/her/its close associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as Controlling Shareholder and do not have power to control our Board or there is at least one other independent Shareholder other than the Covenantors and his/her/its respective close associates holding more Shares than the Covenantors and his/her/its respective close associates taken together.

In order to strengthen the corporate governance and to effectively monitor the observance under the Non-competition Deed in respect of the existing and potential conflict of interests between our Group and the Covenantors, upon Listing:

- (i) our Company shall disclose in the annual reports the compliance and enforcement of the undertakings by the Covenantors in respect of the Non-competition Deed and the appropriate action to be taken by the Company;
- (ii) our Company shall disclose decision on matters reviewed by our independent non-executive Directors in relation to the compliance and enforcement of the arrangement of the New Business Opportunity in the annual reports;

CONTROLLING SHAREHOLDERS

- (iii) our independent non-executive Directors will be responsible for deciding, in the absence of any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information, but in no circumstances shall our executive Director(s), who participate in such meeting, be counted towards the quorum or allowed to vote in such meeting), whether or not to take up, or whether or not to allow any Covenantor(s) or its close associate(s) to participate in, a New Business Opportunity referred to us under the terms of the Deed of Non-Competition from time to time and if so, any conditions to be imposed;
- (iv) our Board will ensure reporting any event relating to potential conflict of interests to our independent non-executive Directors as soon as practicably when it realises or suspects any event relating to potential conflict of interests may occur during the daily operations;
- (v) following the reporting of any event relating to potential conflict of interests, our Board will hold a management meeting to review and evaluate the implications and risk exposures of such event and the compliance of the GEM Listing Rules in order to monitor any irregular business activities and alert the Board, including our independent non-executive Directors, to take any precautionous actions; and
- (vi) in the event that there is any potential conflict of interests relating to the business of our Group between our Group and our Controlling Shareholders, the interested Directors, or as the case may be, our Controlling Shareholders would, according to the Articles or the GEM Listing Rules, be required to declare his/her interests and, where required, abstain from in the relevant board meeting and/or general meeting voting on the transaction and not count as quorum where required.

UNDERTAKINGS

Our Company and each of our Controlling Shareholders has given certain undertakings in respect of the Shares to the Company, the Sponsor and the Underwriter, details of which are set out under the sub-section headed “Undertakings” in the section headed “Underwriting” of this prospectus.

LITIGATION INDEMNITY

The Indemnifiers have given an indemnity in favour of our Group under the Deed of Indemnity that, among others, they will jointly and severally indemnify and at all times keep our Group indemnified for 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.

CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed in the section headed “Connected transactions” in this prospectus, our Directors do not expect there to be any significant transactions between our Group and our Controlling Shareholders upon the Listing.

Our Directors consider that our Group is capable of carrying its business independent of our Controlling Shareholders and their respective close associates following the Listing, having taken into consideration the following factors:

Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Save as disclosed in the section headed “Directors, senior management and staff” of this prospectus, there is no other relationship among our Directors.

Our Directors are of the view that our Company is capable of maintaining management independence as:

- (i) our Group’s strategies, management, operations and affairs are formulated, led, managed and/or supervised by our Board and not by any individual Director. All major and important corporate actions of our Company are and will be fully deliberated and determined by our Board collectively and objectively as a collective body;
- (ii) our Company has maintained and will continue to maintain a balanced composition of executive Directors and independent non-executive Directors with diversified expertise and experience, so that a strong independent element is present to effectively exercise independent judgment on the corporate actions of our Company and a sufficient degree of checks and balances among members of our Board can be ensured;
- (iii) pursuant to the terms of the service contracts entered into between our Company and our executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to our Group;
- (iv) in the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by our Board, our interested Director(s) shall abstain from voting at the relevant meeting of the Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Articles and/or the GEM Listing Rules;
- (v) our Company has three independent non-executive Directors, who are not associated with any of our Controlling Shareholders or their respective close associates. Resolutions of our Board approving any matters in which any of our executive Directors has a potential conflict of interest and/or material interest

CONTROLLING SHAREHOLDERS

will, for so long as all our executive Directors are also our Controlling Shareholders and are relatives of the others, only be considered and approved by our independent non-executive Directors (as under the provisions of the Articles and the GEM Listing Rules, our executive Directors will then be prohibited from voting on the resolution(s) and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolution(s) is/are approved). The independence of our Board's decisions in respect of any matters in which any of our Group's executive Directors has a potential conflict of interest and/or material interest is and can be ensured;

- (vi) our Company has established corporate governance procedures in safeguarding the interests of the Shareholders and enhancing Shareholders' value. Each Director is fully aware of his fiduciary duty to our Group, and will abstain from voting on any matter where there is or may be a conflict of interest as required under and in accordance with the applicable Articles and the GEM Listing Rules; and
- (vii) our Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group are operated independently from the influence of the Controlling Shareholders and their respective close associates.

Operational independence

The operations of our Group are independent of and not connected with our Controlling Shareholders. Our Group has established our own set of organisational structure made up of individual divisions, each with specific areas of responsibilities, including project management, quantity surveying and tendering, purchasing, safety, finance and human resources and administration.

During the Track Record Period and up to the Latest Practicable Date, our Group had independent access to suppliers of our Group for our business operation and all of our customers are Independent Third Parties. All of the operating subsidiaries of our Company hold the licences necessary for the operation of our Group's business in their own names.

Financial independence

Our Company has established a financial system that operates independently. As at 31 March 2013 and 2014 and 30 September 2014, the aggregate amounts due to our Directors, Controlling Shareholders and their respective close associates amounted to approximately HK\$18.0 million, HK\$6.6 million and HK\$1.5 million, respectively. The above amounts will be settled prior to or upon the Listing Date. During the Track Record Period and up to the Latest Practicable Date, Mr. Tony Wong, Mr. Kwong and their close associates had provided personal guarantees for the banking facilities used by our Group. The banks have agreed in principle that the above personal guarantees will be released and replaced by our corporate guarantees executed by our Company upon Listing. Save as disclosed above, our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders

CONTROLLING SHAREHOLDERS

or their respective associates in our business operations and our Group is able to obtain external financing on market terms and conditions for our business operations as and when required.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (1) the Articles provide that a Director shall abstain from participating in Board meetings (nor would he/she be counted towards the quorum) and voting on any resolution of our Board approving any contract, arrangement or other proposal in which he/she or any of his/her close associates is materially interested, unless a majority of our independent non-executive Directors expressly requested him/her to attend, but in no circumstances shall he/she be counted towards the quorum or allowed to vote on such resolution;
- (2) our Audit Committee will review, on an annual basis, compliance with the Deed of Non-competition given by our Controlling Shareholders;
- (3) our Company will obtain (i) an annual written confirmation in respect of our Controlling Shareholders' compliance with the terms of the Deed of Non-competition; (ii) consent (from each of our Controlling Shareholders) to refer to the said confirmation in our annual reports and (iii) all information as may reasonably be requested by us and/or our independent non-executive Directors for our review and enforcement of the Deed of Non-competition;
- (4) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (5) our independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/her/its close associates to be involved in or participate in a Restricted Business and if so, specifying any condition to be imposed; and
- (6) our independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-competition or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed to be entered into between our Group and our Controlling Shareholders and/or their respective close associates will be subject to the requirements of the GEM Listing Rules, including, where appropriate, reporting, annual review, announcement and independent shareholders' approval requirements.

CONTROLLING SHAREHOLDERS

None of the members of our Group has experienced any dispute with its shareholders or among shareholders themselves, and our Directors believe that each member of our Group has maintained positive relationships with its shareholders. With the corporate governance measures in force, including the measures set out in this paragraph headed “Corporate Governance Measures”, our Directors believe that the interests of our Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of option that may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity and nature of interests	Number of Shares	Approximate percentage of shareholding
Mr. Tony Wong <i>(Notes 1 to 4)</i>	Interests of controlled corporations	720,000,000 (L)	75%
Ms. Chiu <i>(Note 5)</i>	Interests of spouse	720,000,000 (L)	75%
Twilight Treasure <i>(Notes 1 and 2)</i>	Beneficial owner	332,028,000 (L)	34.59%
Success Ally <i>(Notes 2 and 3)</i>	Interest of controlled corporation	332,028,000 (L)	34.59%
Fortune Decade <i>(Notes 1 and 4)</i>	Beneficial owner	387,972,000 (L)	40.41%

Notes:

1. The entire issued share capital of our Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade and as to approximately 34.59% by Twilight Treasure.
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally and as to 12.5% by Decade Success.
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Fortune Decade is legally and beneficially owned by Mr. Tony Wong.
5. Ms. Chiu is deemed to be interested in the 720,000,000 Shares held by Mr. Tony Wong pursuant to the SFO by virtue of her being the spouse of Mr. Tony Wong.

The letter “L” denotes a long position in the shareholder’s interest in the share capital of the relevant member of our Group.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of option that may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

The table below set out the authorised and issued share capital of our Company as at the Latest Practicable Date and immediately after Listing:

	<i>HK\$</i>
<i>Authorised:</i>	
<u>2,000,000,000</u> Shares	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
1,000,000 Shares in issue as at the date of this prospectus	10,000
839,000,000 Shares to be issued pursuant to the Capitalisation Issue	8,390,000
<u>120,000,000</u> Shares to be issued pursuant to the Placing	<u>1,200,000</u>
<u>960,000,000</u> Shares	<u>9,600,000</u>

Assumptions

The above table assumes that the Placing and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein, without taking into account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

Ranking

The Placing Shares will rank equally with all Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of the prospectus save for the entitlements under the Capitalisation Issue.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the section headed "Share Option Scheme" in Appendix IV to this prospectus. As at the Latest Practicable Date, no option has been granted under the Share Option Scheme.

SHARE CAPITAL

General mandate to issue Shares

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue; and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements providing for the allotment and issue of shares in lieu of cash dividends or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

For further details of this general mandate, see the paragraph headed “Further information about our Company” in Appendix IV to this prospectus.

General mandate to repurchase Shares

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by our Company of its own securities” in the section headed “Further information about our Company” in Appendix IV to this prospectus.

These general mandates to issue and repurchase Shares will expire:

- (a) at the conclusion of the next annual general meeting of our Company;
- (b) at the expiration of the period within which the next annual general meeting of our Company is required by any laws applicable to our Company to be held; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

SHARE CAPITAL

whichever is the earliest.

For further details of this general mandate, please refer to the paragraphs headed “Written resolutions of our Shareholders” and “Repurchase by our Company of its own securities” in the paragraph headed “Further information about our Company” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited combined financial statements, including the accompanying notes (collectively, the “Financial Information”), as set out in the accountant’s report (the “Accountant’s Report”) included in Appendix I to this prospectus. Our financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). You should read the entire Accountant’s Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as any other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectation and projections depend on a number of risks and uncertainties over which we do not have control. For further information, see the section headed “Risk factors” in this prospectus.

OVERVIEW

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. We are also engaged in site formation works for the public sector in Hong Kong.

During the Track Record Period, most of the works undertaken by us were civil engineering projects for the public sector. Revenue generated from contracts granted by the Government, including 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 following table sets forth a breakdown of our revenue by categories of services provided for during the Track Record Period:

	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>
	(Unaudited)			
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>

FINANCIAL INFORMATION

The nature of our Group's business involves complex contractual terms, uncertainties in the surrounding situation of construction sites and environmental elements, such as bad weather, which may delay the progress of construction projects at which extension of time claims may be invoked and variation of works may be subsequently requested by customers. Our Group recognises the value of work performed as revenue based on the percentage of completion of the contracts. The percentage of completion of a contract is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. As such, the revenue recognised of and gross profit generated in each particular contract in the respective reporting period may be varied due to different stage of completion. Besides, construction contracts typically provide for circumstances when (i) extra payments are to be made by the customers if certain variation work has been carried out by the contractors; and (ii) liquidated damages are to be borne by the contractors if the project cannot be completed in accordance with the contract terms. Initial disagreements in the final contract sum between customers and contractors during the preparation of final accounts and negotiation on the final contract sum are common in the construction industry, and prolonged negotiation on the final contract sum are not uncommon for moderate and large scale construction contracts. During the Track Record Period the completion dates for certain projects were extended, no liquidated damages were claimed by respective customers.

BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 6 December 2012. Pursuant to the Reorganisation as more fully explained in the paragraph headed "Corporate Reorganisation" under the section headed "Statutory and General Information" in Appendix IV to the prospectus, our Company became the holding company of the companies now comprising our Group. The combined financial information of our Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows which include the results, changes in equity and cash flows of the companies comprising our Group for the Track Record Period, have been prepared as if the Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period.

The combined statements of financial position as at the end of the reporting period have been prepared to present the assets and liabilities of the companies now comprising our Group which were in existence on those dates.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on combination.

Further information on the basis of preparation of financial information is set out in Note 2 of the Accountant's Report contained in Appendix I to this prospectus.

FINANCIAL INFORMATION

SIGNIFICANT FACTORS AFFECTING OPERATING RESULTS AND FINANCIAL CONDITIONS OF OUR GROUP

The results of operations and financial condition of our Group have been and will continue to be affected by a number of factors, including those discussed below.

Reliance on contracts granted by the Government

We rely substantially on the contracts granted by the Government. During the Track Record Period, the revenue generated from Government contracts accounted for over 90% of our total revenue. Since most of the projects are awarded by tendering, there is no assurance that our Group be able to secure contracts from the Government. In the event if we failed to obtain new contracts or the Government's budget in construction of waterworks engineering projects, road works and drainage projects and prevention on landslip and mitigation on slope decreased substantially, our financial performance would be adversely affected.

Pricing of our construction services

We obtain our construction projects mainly by way of tender. We prepare our tender based on our estimated project costs plus a mark-up margin. If the tender bid is set too high, we may lose the tender to our competitors. Therefore, there is no assurance for us to submit competitive bids without affecting profitability. Although our estimates on projects on hand had no material adverse impact on our profitability, there may be adverse fluctuations to costs, we shall take measures to strengthen costs control, including the sourcing of subcontractors of lower costs. If we cannot take effective measures to mitigate the change, our tender bid and our financial results would be adversely affected.

Fluctuations in cost of service

In determining the tender price, our Group needs to estimate the cost of service including the subcontracting fees, material costs, direct workers and overheads. The actual cost of service at the time of implementation may differ from the original estimates. In the event that fluctuations is unfavourable and such fluctuations exceed the compensation provided by customer, the financial performance and profitability of our Group will be adversely affected.

Change in scope of works and variation orders

Our customers may change the scope of work during implementation stage by issuing variation orders. The value of the variation orders has to be agreed between the customers and our Group but if both parties failed to reach an agreement, the customer's engineer is authorised to fix the value as think fit. In the event the value fixed by the customer's engineer is below the cost of executing the variation order, the results, liquidity and financial position of our Group will be adversely affected.

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CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The Financial Information has been prepared based on the historical cost basis. In addition, the Financial Information includes the applicable disclosures required by the GEM Listing Rules and the Companies Ordinance.

We have identified certain accounting policies that are significant to the preparation of our combined financial statements. Notes 2 and 3 to Appendix I to this prospectus include a summary of significant accounting policies and key sources of estimation uncertainty used in the preparation of our combined financial statements. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We believe the following represents our critical accounting judgments and estimates.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured. For projects with the Government, the total contract revenue is cross-referenced to the estimated final sum stated in the contractor's performance report as described in the paragraph headed "Contractors' Performance Index System" in the section headed "Regulatory Overview". The estimated final sum provided in the contractor's performance report is indicative and is adjusted to exclude any amount for contingency sums and compensation that it is uncertain whether economic benefits will flow to our Group. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise site labour costs (including site supervision); costs of subcontracting; costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of each of the Track Record Periods.

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The outcome of construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from construction contracts is recognised based on percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Interest income is recognised using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

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The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

Joint arrangements

Our Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to our Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

Our Group classifies its interests in joint arrangements as either:

- Joint venture: where the group has rights to only the net assets of the joint arrangement; or
- Joint operation: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, our Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangement structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

Our Group's joint arrangements are classified as joint operations under HKFRS 11 taking into account the relevant joint arrangement agreements that specify that the parties to the joint arrangements have rights to the assets and obligations to the liabilities relating to the joint arrangements.

Our Group accounts for its interests in the joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

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Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Employee benefits

Defined contribution retirement plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are recognised as an expense in profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

Short-term employee benefits are recognised when they accrue to employees. In particular, a provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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OPERATING RESULTS DURING THE TRACK RECORD PERIOD

Set out below are extracted from the combined statements of comprehensive income of the Accountant's Report included in Appendix I to this prospectus for the two years ended 31 March 2014 and the six months ended 30 September 2014, which should be read in conjunction with the Accountant's Report set forth in Appendix I to this prospectus.

	Year ended 31 March		Six months ended 30 September	
	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i>
Revenue	311,880	393,283	153,485	332,363
Cost of services	<u>(281,953)</u>	<u>(341,666)</u>	<u>(132,218)</u>	<u>(313,087)</u>
Gross profit	29,927	51,617	21,267	19,276
Other income	1,384	948	245	1,636
Other gains and losses	514	155	33	164
Administrative expenses	<u>(19,660)</u>	<u>(20,509)</u>	<u>(11,143)</u>	<u>(11,554)</u>
Operating profit	12,165	32,211	10,402	9,522
Finance costs	<u>(2,675)</u>	<u>(2,793)</u>	<u>(1,358)</u>	<u>(906)</u>
Profit before income tax expense	9,490	29,418	9,044	8,616
Income tax expense	<u>(3,762)</u>	<u>(5,790)</u>	<u>(2,766)</u>	<u>(1,181)</u>
Profit and total comprehensive income for the year/period	<u>5,728</u>	<u>23,628</u>	<u>6,278</u>	<u>7,435</u>
Attributable to:				
Owners of the Company	1,483	20,043	4,338	4,186
Non-controlling interests	<u>4,245</u>	<u>3,585</u>	<u>1,940</u>	<u>3,249</u>
	<u>5,728</u>	<u>23,628</u>	<u>6,278</u>	<u>7,435</u>

(A) Principal components of combined statements of comprehensive income

Revenue

Revenue represents construction contract revenue from contract work performed. During the Track Record Period, revenue of our Group mainly generated from the provision of (i) waterworks engineering services; (ii) road works and drainage services; (iii) LPM Services; and (iv) building works.

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The recognition of revenue is based on the percentage of completion of the contracts, determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. The amount of revenue recognised represents amount received and receivable from contract work performed and recognised in the respective period.

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>
			(Unaudited)	
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	<u>–</u>	<u>13,950</u>	<u>3,381</u>	<u>2,950</u>
	<u>311,880</u>	<u>393,283</u>	<u>153,485</u>	<u>332,363</u>

Our Group's revenue for the year ended 31 March 2014 increased by approximately 26.1% or approximately HK\$81.4 million as compared to that for the year ended 31 March 2013. The increase in revenue contribution from waterworks engineering category, road works and drainage category and building works category amounted to approximately HK\$49.2 million, HK\$64.7 million and HK\$14.0 million respectively, net of decrease in LPM Services category of approximately HK\$46.4 million.

The increase in revenue in the waterworks engineering category was attributable to the additional revenue generated from two projects 6/WSD/11 and 15/WSD/11 of a total of approximately HK\$27.3 million and HK\$28.6 million respectively plus share of revenue from Kwan On – China Geo and Kwan On – U-Tech 2 for contracts 4/WSD/11 and 9/WSD/13 of approximately HK\$8.7 million and HK\$2.5 million respectively, net of decrease in revenue as a result of completion of four projects 24/WSD/09, 26/WSD/06, 13/WSD/07 and 6/WSD/06 of approximately HK\$13.3 million and decrease in revenue from two projects 11/WSD/08 and 10/WSD/10 of approximately HK\$4.7 million in total.

Our Group has been awarded one new project in the road works and drainage category during the year ended 31 March 2014, namely KL/2012/03, with the awarded sum of approximately HK\$811.4 million. The new project KL/2012/03 has contributed approximately HK\$33.9 million in revenue. In addition, project DC/2012/05 received extra variation orders and generated additional revenue of approximately HK\$52.4

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million. The increase in revenue generated from the aforesaid 2 projects has offset, to a certain extent, the reduction in revenue contribution from 4 completed or substantially completed projects, namely TK/2008/01, YL/2009/01, YL/2008/01 and DC/2009/25.

The decrease in revenue in the LPM services category was attributable to the decrease in contribution from five completed or close-to-completion projects, namely 20090074, GE/2010/21, GE/2011/03, SX X121 and 20100095 of approximately HK\$55.9 million in total, net of the increase from three newly awarded projects GE/2012/11, GE/2013/06 and GE/2013/17 of approximately HK\$9.7 million in aggregate. In general, completion rate for projects at early stage is usually higher than the project at later stage since works undertaken at early stage are mainly preparatory and uncomplicated works which are straightforward for the purpose of measuring the works performed. As such, new projects generally have a higher revenue contribution.

The increase in revenue from building works category was mainly attributable to inception of the new project SD B807 and another project in private sector during the year ended 31 March 2014.

Turnover for the six months ended 30 September 2014 increased by approximately 116.5% or approximately HK\$178.9 million as compared to that for the six months ended 30 September 2013. The increase was mainly attributable to the increase in revenue generated from 4 projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which were commenced in the second half of 2013. Revenue contributed from these four projects during the six months ended 30 September 2014 amounted to approximately HK\$159.8 million.

During the Track Record Period, our Group has formed two joint operations, namely, Kwan On – China Geo and Kwan On – U-Tech 2, which have been awarded the contracts 4/WSD/11 and 9/WSD/13 respectively. Our Group shares revenue and expenses derived from the joint operations in accordance with our Group's participating interests pursuant to the terms of the agreement entered into between Kwan On and the relevant joint operator under HKFRS 11.

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Revenue, expenses and profit attributable to our Group arising from the contracts 4/WSD/11 and 9/WSD/13 are summarised as follows:

Contract Number	Estimated contract sum HK\$ million	Estimated total revenue to be received by our Group HK\$ million	Estimated total expenses to be recognised by our Group HK\$ million	Estimated total profit attributable to our Group HK\$ million	Year ended 31 March 2014		Year ending 31 March 2015		Year ending 31 March 2016				
					Revenue recognised by our Group HK\$ million	Costs recognised by our Group HK\$ million	Profit attributable to our Group HK\$ million	Expected revenue to be recognised by our Group HK\$ million	Expected costs to be recognised by our Group HK\$ million	Expected profit attributable to our Group HK\$ million			
4/WSD/11	285.80	145.76	140.23	5.53	8.70	8.36	0.34	87.98	84.53	3.45	29.56	28.40	1.16
9/WSD/13	56.18	28.09	26.40	1.69	2.53	2.37	0.16	10.01	9.41	0.60	10.23	9.62	0.61

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For further details of the respective accounting treatments of the joint operations, please refer to the paragraph 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.

Cost of services

Cost of services consists of (i) subcontracting charges; (ii) direct staff costs; (iii) materials; (iv) plant and depreciation; (v) overhead costs; (vi) provision for obsolete stocks; and (vii) other contract costs. Subcontracting charges represent the costs paid to our subcontractors for carrying out certain parts of the contract works, such as excavation, formwork and rebar fencing. Direct staff costs include payroll and benefits provided to direct workers involved in construction projects. Materials include the direct costs for the purchase of various kinds of pipes, fittings, steel bars, concrete and asphalt, which are directly attributed to construction projects. Plant and depreciation include (i) depreciation charges for plant, equipment and motor vehicles used in projects and (ii) equipment rental charges for projects. Overhead costs principally comprised insurance premium paid for construction project, transportation expenses and levy charges.

Other contract costs represent adjustments to cost of those contracts with foreseeable losses in prior years.

The following table set out the summary of cost of services by nature during the Track Record Period:

	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>
	(Unaudited)			
Subcontracting charges	187,555	221,878	87,953	231,829
Direct staff costs	55,402	57,585	27,611	35,632
Materials	26,455	24,063	5,925	21,284
Plant and depreciation	4,578	4,958	2,345	2,584
Overhead costs	24,846	31,982	14,253	19,436
Impairment loss on other receivables	989	107	87	–
Provision for obsolete stocks	–	1,561	–	124
Other contract costs	<u>(17,872)</u>	<u>(468)</u>	<u>(5,956)</u>	<u>2,198</u>
	<u>281,953</u>	<u>341,666</u>	<u>132,218</u>	<u>313,087</u>

The amount of each of the elements of cost of service and the composition of cost of service depend on various factors. The amount of subcontracting charges depends on the complexity and skills involved in the subcontracting works in our Group’s construction projects. When a construction project requires construction procedures or

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techniques that are beyond our Group's expertise or permitted areas, subcontractors are engaged and more subcontracting charge is incurred in general. The amount of construction material costs depends on the volume and price of materials used in construction projects. Direct staff costs are primarily related to the number of direct workers of our Group. The amount of plant and depreciation depends on the types and quantity of machinery and equipment required in our construction projects. The level of overhead costs incurred depend mainly on (i) the insurance premium rates obtained from insurance brokers and/or insurance companies, (ii) the amount of construction waste to be disposed of and the level of transportation costs which depends on the distance between locations of work sites and our site offices. Other contract costs refer to the adjustments to cost of those contracts with foreseeable losses in prior years. Impairment loss on other receivables arises when the recoverable amount of receivable for materials sold, recharged and cash advancement to subcontractors is less than the carrying amount, the difference is recognised in profit and loss. The provision for obsolete stocks of approximately HK\$1.6 million made during the year ended 31 March 2014 represented inventories purchased for projects 24/WSD/09 and 10/WSD/10 at commencement based on the drawings and information in tender documents. The usage for inventories for 24/WSD/09 was doubtful due to change in design by the customer. The usage of such inventories for project 10/WSD/10 is uncertain because it is uncertain when will customer issue work orders for utilisation of the inventories.

Other income

Other income includes mainly refund from insurance claims to recover amounts paid for work injuries, sales of scrap materials, training subsidies received from Construction Industry Council, service income received for provision of project management and quantity surveying services, imputed interest on non-current retention receivable, interest income from an insurance contract and interest income received from banks and government grants received from the Transport Department for ex-gratia payment for retirement of vehicles. The accidents and work injuries during the Track Record Period is disclosed in the paragraph headed "Safety policy" under the "Business" section in this prospectus.

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The following table set out the summary of other income during the Track Record Period:

	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>
	(Unaudited)			
Training subsidies	–	259	55	168
Refund from water charge overpaid	–	68	–	–
Refund from insurance claims	248	218	–	91
Income from sales of scrap materials	281	–	–	98
Interest income from life insurance investment	36	31	20	–
Imputed interest on non-current retention receivables	655	250	113	141
Service income	–	–	5	460
Bank interest income	60	55	27	17
Government grants	–	–	–	508
Sundry income	104	67	25	153
	<u>1,384</u>	<u>948</u>	<u>245</u>	<u>1,636</u>

Other gains and losses

Other gains and losses represent gains and losses on disposal of property, plant and equipment.

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Administrative expenses

Administrative expenses comprised primarily (i) staff costs; (ii) rental expense; (iii) entertainment expense; and (iv) professional fees. The following table sets out the administrative expenses by nature during the Track Record Period:

	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>
			(Unaudited)	
Staff costs (including directors' remuneration)	7,919	10,008	4,410	5,513
Rent	1,253	1,151	665	777
Depreciation	280	34	17	283
Travelling	893	836	451	415
Insurance	507	499	177	363
Professional fees	4,809	5,305	2,825	1,367
Entertainment	1,653	1,104	589	505
Licences and registration	555	209	162	207
Others	1,791	1,363	1,847	2,124
	<u>19,660</u>	<u>20,509</u>	<u>11,143</u>	<u>11,554</u>

Staff costs comprised compensation and benefits provided to administrative staff and our Directors. Rent represented the operating lease rentals paid for our Group's head office, a director's quarter, a staff quarter and warehouses. Depreciation classified as administrative expenses represented equipment and motor vehicles which were not involved directly in our construction projects. Travelling expenses were parking fees, petrol costs, toll fees for travelling costs incurred not directly related in our construction projects. Professional fees included audit fees, legal expenses and other professional fees incurred for the proposed Placing.

Insurance comprised expenses for office property, employees' compensation insurance and a life insurance policy for Mr. Tony Wong. The decision of buying the insurance was taken out by the board of the Group in consideration of Mr. Tony Wong as an important member of the private business. In the selection and evaluation of the investment, the Group has considered the risks associated. The policy was chosen because it provided guaranteed minimum interest rate of 3% per annum, which was higher than the average time deposits rate with banks. The Group obtained a ten year bank loan from Shanghai Commercial Bank Limited in March 2012 which was secured by the life insurance policy for Mr. Tony Wong. According to the banking facility letter dated 20 March 2012 from Shanghai Commercial Bank Limited in respect of the loan, the interest rate for the ten-year bank loan drawn by the Group is USD prime rate minus 0.5% per annum and USD prime rate was 3.25% per annum as at the date of the

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banking facility letter. Therefore, the guaranteed minimum interest rate of 3% per annum of the life insurance policy for Mr. Tony Wong was higher than the effective interest rate of the loan of 2.75%. The insurance was surrendered in March 2014.

The Group has no plan to buy similar life insurance contracts after Listing. The Group will adhere to financial prudence and adopts a conservative investment strategy after Listing. The Group will consider making principal-protected investments with the pledged deposits only for the purpose to earn a higher return.

Entertainment comprised expenses incurred for food and beverage. Licences and registration mainly include vehicle renewal fees and audit fee for ISO certification. Other administrative expenses included mainly reimbursement of training expense for staff, repairs and maintenance charges for office equipment and computer systems, printing and stationery, telecommunication charges, water and electricity and consultancy fee.

Finance costs

Finance costs include interest expense and imputed interest on non-current retention payables.

Interest expenses represent interest on bank borrowings and finance leases. Interest on bank borrowings was incurred by Kwan On, UEL, UECL and UFCL for bank loans and overdrafts raised by them and were determined by reference to current prime or HIBOR for borrowings denominated in Hong Kong dollar and current US dollar prime rate for borrowings denominated in US dollar.

Imputed interest expense on non-current retention payables represent the amortisation of retention withheld from subcontractors not payable within one year using the effective interest method.

Income tax expense

Our Group's revenue during the Track Record Period was derived in Hong Kong, and our Group was subject to profits tax in Hong Kong. Provision for Hong Kong profits tax is provided at the statutory profits tax rate of 16.5% of the estimated assessable profits for the Track Record Period. The effective tax rates of our Group for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 were 39.6%, 19.7% and 13.7% respectively. The effective tax rate for the two years ended 31 March 2014 is higher than the statutory tax rate of 16.5% for limited liability companies mainly due to loss incurred by several subsidiary companies and thus resulted in a lower combined net profit. The reason for a lower effective tax rate for the six months ended 30 September 2014 than the statutory tax rate of 16.5% was that there was an increase in utilisation of tax loss brought forward to offset against taxable profits generated.

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(B) Management discussion and analysis

Comparison of the year ended 31 March 2014 and 31 March 2013

Revenue

Our Group's revenue for the year ended 31 March 2014 amounted to approximately HK\$393.3 million, as compared to approximately HK\$311.9 million for the year ended 31 March 2013. The surge was mainly due to an increase in revenue generated from the waterworks engineering category by approximately HK\$49.2 million, road works and drainage category of approximately HK\$64.7 million and building works category of approximately HK\$14.0 million, net of the effect from decreasing revenue generated from LPM Services category with net contribution to revenue of approximately HK\$46.4 million.

For the year ended 31 March 2014, our Group had undertaken a total of 23 projects, generating an average construction income of approximately HK\$17.1 million per project; whereas, for the year ended 31 March 2013, our Group had undertaken 17 projects, generating average construction income of approximately HK\$18.3 million per project.

Cost of services

Cost of services increased from HK\$282.0 million for the year ended 31 March 2013 to HK\$341.7 million for the year ended 31 March 2014, represented an increase of approximately HK\$59.7 million. The increase was mainly attributable to the increase in insurance expense of approximately HK\$5.1 million, or by 67.1% for contractor's all-risk and employee compensation insurance acquired upon commencement of new projects. Material costs decreased by approximately HK\$2.4 million because of completion of contract TK/2008/01 and GE/2011/03. Other contract costs amounted to approximately HK\$0.5 million credit for the year ended 31 March 2014 while it was approximately HK\$17.9 million credit for the year ended 31 March 2013. The change was due to costs incurred during the year ended 31 March 2014 less than the cost incurred during the year ended 31 March 2013 for certain contracts with expected loss recognised in prior years.

The provision for obsolete stocks of approximately HK\$1.6 million made during the year ended 31 March 2014 represented inventories purchased for projects 24/WSD/09 and 10/WSD/10 at commencement without usage. The usage for inventories for 24/WSD/09 was doubtful due to change in design by the customer. The usage of such inventories for project 10/WSD/10 is uncertain because it is uncertain when will customer issue work orders for utilisation of the inventories.

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Gross profit and gross profit margin

The gross profit margins by categories of works performed are set out below:

	Year ended 31 March	
	2013	2014
Waterworks engineering	14.8%	14.7%
Road works and drainage	-10.4%	22.0%
LPM Services	11.6%	-5.0%
Building works	–	14.9%

Our overall gross profit margin improved from 9.6% for the year ended 31 March 2013 to 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 during the year ended 31 March 2014.

The gross profit margin for waterworks engineering remained at a similar level during the year ended 31 March 2013 and 2014.

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. After discounting the effect from reduction in expected loss for the 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 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.

The decrease in gross profit margin for LPM Services category was due to payments of subcontracting charges for certain variation orders for the project SX X121 of approximately HK\$1.0 million were made whilst contract revenue for the work done had not been recognised during the year ended 31 March 2014. The revenue in relation of those 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 reduction in the quantity of works upon expiry of contract period and payments to a subcontractor upon completion of works while income has not been certified and received from customer.

Our Group has 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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Other income

Other income for the two years ended 31 March 2014 amounted to approximately HK\$1.4 million and HK\$0.9 million respectively. Other income for the year ended 31 March 2014 mainly comprised amortisation of non-current retention receivables of approximately HK\$ 0.3 million, compensation received for employee's compensation of approximately HK\$0.2 million and training subsidy provided by Construction Industry Council of approximately HK\$0.3 million.

Other gains and losses

Our Group recorded other gains of HK\$0.2 million for the year ended 31 March 2014 and HK\$0.5 million for the year ended 31 March 2013. There had been 17 and 10 motor vehicles and construction equipment disposed of in each of the year ended 31 March 2013 and 2014 respectively. The decrease was mainly due to construction equipment and motor vehicles with higher net book values were disposed of while proceeds generated were similar to the prior year.

Administrative expenses

Administrative expenses for the year ended 31 March 2014 amounted to approximately HK\$20.5 million, representing an increase of approximately 4.3% compared to the year ended 31 March 2013. The main reason for the increase was due to increase in staff costs of approximately HK\$2.2 million as salary increment to staff and bonus paid.

Finance costs

Our Group recorded finance costs of approximately HK\$2.8 million and HK\$2.7 million for each of the year ended 31 March 2014 and 2013 respectively. The amount of finance costs incurred for the year ended 31 March 2014 was the same as during the year ended 31 March 2013 because the interest-bearing borrowings had maintained at similar level throughout the year, except that bank overdrafts had been fully settled at end of March 2014.

Income tax

The effective tax rates for year ended 31 March 2014 decreased to 19.7% from 39.6% in the year ended 31 March 2013. The reason for decrease in effective tax rate was because of the increase in utilisation of tax loss brought forward to offset against taxable profits generated in the year ended 31 March 2014.

Our Directors confirmed that our Group had made provision for all relevant taxes and paid all relevant taxes that were due as at Latest Practicable Date. Saved as disclosed in the paragraph headed "Internal control" in the section headed "Business" in this prospectus, we are not aware of any tax dispute or unresolved tax issues.

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Profit and total comprehensive income

Our Group's 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\$4.5 million.

Comparison of the six months ended 30 September 2013 and 30 September 2014

Revenue

Our Group's revenue for the six months ended 30 September 2014 was approximately HK\$332.4 million, as compared to HK\$153.5 million 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 of approximately HK\$107.2 million and 3 contracts for LPM Services namely GE/2012/11, GE/2013/06 and GE/2013/17, which together generated revenue contribution of approximately HK\$52.6 million.

For the six months ended 30 September 2014, our Group worked on a total of 20 projects, deriving average construction income of approximately HK\$16.6 million; whereas, for the six months ended 30 September 2013, our Group worked on 17 projects, deriving average construction income of approximately HK\$9.0 million. The increase in the average income per project for the six months ended 30 September 2014 was due to the progress for 4 projects KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which contributed a total of approximately HK\$159.8 million, representing approximately 48.0% of our revenue for the six months ended 30 September 2014.

Cost of services

Our Group's cost of services increased from approximately HK\$132.2 million for the six months ended 30 September 2013 to HK\$313.1 million for the six months ended 30 September 2014, representing an increase of approximately HK\$180.9 million or 136.8%. The substantial increase was mainly due to (i) increase in subcontracting charges by approximately HK\$143.9 million, (ii) increase in materials costs by approximately HK\$15.4 million, (iii) increase in overhead costs of approximately HK\$5.2 million and (iv) increase in other contract costs by approximately HK\$8.2 million. The increase in subcontracting charges was mainly due to the increase in works arising from the new contracts, mainly KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 which amounted to HK\$108.7 million for the six months ended 30 September 2014. The increase in materials costs was mainly attributable to (i) materials purchased for project KL/2012/03 and (ii) the utilisation of inventories brought forward, in particular, for contracts 24/WSD/09 and 6/WSD/11. Increase in overhead costs represent the initial start-up costs for new projects, including the costs relating to establishment of site office, purchase of facilities and insurance costs for the new projects.

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Gross profit and gross profit margin

The gross profit margins by categories of works performed are set out below:

	Six months ended	
	30 September 2013	2014
Waterworks engineering	9.0%	-2.4%
Road works and drainage	38.6%	10.6%
LPM Services	4.2%	9.5%
Building works	4.8%	-28.4%

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% for the six months ended 30 September 2014. The drop was due to increase in costs incurred, in particular, for 24/WSD/09 and 6/WSD/11. The contract 24/WSD/09 was in maintenance period during the six months ended 30 September 2014. Additional costs were incurred for 24/WSD/09 for rectification works and outstanding works. Interim payment certificate will be issued by the customers subject to satisfaction of our works and thus the revenue had not been recognised on the ground that recoverability was uncertain. As such, our Group recorded a gross loss for 24/WSD/09 of approximately HK\$2.1 million. For contract 6/WSD/11, additional subcontracting fees were paid as a result of the additional work performed by the subcontractor regarding to excavation of rock and the revenue had not been recognised as the recoverability was uncertain, which led to a gross loss of approximately HK\$15.1 million during the six months ended 30 September 2014.

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.

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 (SD B807). Since these extra costs incurred were dedicated to building works projects which represent contract costs as defined under HKAS 11 "Construction Contracts" while the revenue had not been recognised on the ground that recoverability was uncertain, the relevant costs had been charged to cost of service.

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Other income

Other income for the six months ended 30 September 2014 increased to approximately HK\$1.6 million, compared to HK\$0.2 million for the six months ended 30 September 2013. The increase was due to (i) a receipt of approximately HK\$0.2 million from a potential joint venture partner for reimbursement of professional fee incurred for a joint tender, (ii) training subsidy received from the Construction Industry Council of approximately HK\$0.2 million, (iii) refund of course fee paid to staff of approximately HK\$0.1 million and (iv) government grants received from Transport Department for ex-gratia payment for retirement of vehicles of approximately HK\$0.5 million.

Other gains and losses

Other gains and losses in the six months ended 30 September 2014 amounted to approximately HK\$164,000 while other gains and losses of approximately HK\$33,000 was recorded in the six months ended 30 September 2013, which was mainly attributable to the increase in the number of motor vehicles disposed of and replaced during the six months ended 30 September 2014.

Administrative expenses

Administrative expenses for the six months ended 30 September 2014 amounted to HK\$11.6 million, increased by approximately 3.7% compared to the six months ended 30 September 2013. The main reason for the increase was due to (i) increase in staff costs by approximately HK\$1.1 million for salary increment in the year 2014, (ii) increase in office insurance expenses of approximately HK\$0.2 million, (iii) increase in depreciation of approximately HK\$0.3 million, (iv) increase in other administrative expenses of approximately HK\$0.3 million representing legal costs incurred for arranging legal opinions for new banking facilities and new tenancy agreements for our Group's new head office, payments to a recruitment agency, annual maintenance charges for our Group's new accounting system and consultancy fee paid to an independent engineering consultant, and (v) net of decrease in professional fees paid in relation to the Listing of approximately HK\$1.5 million.

Finance costs

Our Group recorded finance costs of approximately HK\$1.4 million and HK\$0.9 million for each of the six months ended 30 September 2013 and 2014 respectively. The decrease in finance costs was mainly due to decrease in use of bank overdrafts for financing which had higher interest rates than other types of bank loans.

Income tax expense

Income tax expense decreased by approximately HK\$1.6 million for the six months ended 30 September 2014 and the effective tax rate dropped to 13.7%. The reason for a lower effective tax rate than the statutory tax rate of 16.5% was that there was an increase in utilisation of tax loss brought forward to offset against taxable profits generated.

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Profit and total comprehensive income

Profit and total comprehensive income for the six months ended 30 September 2014 amounted to HK\$7.4 million. The improvement as compared to the net profit recorded for the six months ended 30 September 2013 of approximately HK\$6.3 million was attributable to an increase in service income and government grants received during the six months ended 30 September 2014 and the decrease in tax expenses as a result of utilisation of tax losses brought forward.

ANALYSIS ON CERTAIN COMBINED STATEMENT OF FINANCIAL POSITION ITEMS AND SELECTED FINANCIAL RATIOS

(A) Analysis on certain items from combined statement of financial position

The following set forth the selected financial information of our combined statements of financial position as at 31 March 2013 and 2014 and 30 September 2014, which are extracted from the Accountant's Report included in Appendix I to this prospectus, which should be read in conjunction with the Accountant's Report set forth in Appendix I to this prospectus:

	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			
Property, plant and equipment	9,863	9,698	11,116
Life insurance investment	1,176	–	–
Prepayments	7,453	5,368	13,453
	18,492	15,066	24,569
Current assets			
Inventories	22,164	12,078	7,757
Amounts due from customers from contract work	–	–	2,551
Trade and other receivables	53,114	84,326	128,744
Tax recoverable	1,922	1,474	1,474
Amounts due from related parties	78	88	88
Amounts due from other partners of joint operations	–	43	193
Pledged bank deposits	31,712	24,691	39,671
Cash and cash equivalents	2,844	67,041	42,153
	111,834	189,741	222,631
Total assets	130,326	204,807	247,200

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	As at 31 March 2013 HK\$'000	2014 HK\$'000	As at 30 September 2014 HK\$'000
Current liabilities			
Bank overdrafts	25,836	–	–
Amounts due to customers for contract work	14,254	66,733	24,228
Trade and other payables	58,244	64,530	134,215
Amounts due to directors	9,805	1,950	1,500
Amounts due to related parties	4,962	4,675	–
Amount due to other partner of a joint operation	–	44	–
Borrowings	21,766	41,490	58,793
Finance lease payables	121	118	120
Current tax liabilities	3,044	6,686	2,394
	<u>138,032</u>	<u>186,226</u>	<u>221,250</u>
Net current (liabilities)/assets	<u>(26,198)</u>	<u>3,515</u>	<u>1,381</u>
Total assets less current liabilities	<u>(7,706)</u>	<u>18,581</u>	<u>25,950</u>
Non-current liabilities			
Amount due to a director	3,250	–	–
Finance lease payables	357	236	176
Deferred tax liabilities	1,084	514	508
	<u>4,691</u>	<u>750</u>	<u>684</u>
Total liabilities	<u>142,723</u>	<u>186,976</u>	<u>221,934</u>
NET (LIABILITIES)/ASSETS	<u>(12,397)</u>	<u>17,831</u>	<u>25,266</u>
Capital and Reserves			
Share capital	32,733	32,733	32,733
Reserves	(48,358)	(19,315)	(15,129)
Equity attributable to owners of the Company	(15,625)	13,418	17,604
Non-controlling interests	<u>3,228</u>	<u>4,413</u>	<u>7,662</u>
(DEFICIENCY IN ASSETS)/TOTAL EQUITY	<u>(12,397)</u>	<u>17,831</u>	<u>25,266</u>

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Property, plant and equipment

Our Group's property, plant and machinery mainly comprised motor vehicles and construction machinery, such as excavators, crane, trucks and butt fusion machine. The carrying amount of property, plant and equipment decreased from HK\$9.9 million at 31 March 2013 to HK\$9.7 million at 31 March 2014 as a result of acquisition of furniture and fixtures and additional contract vehicles in accordance with the requirements of new contracts amounted to approximately HK\$4.4 million, net of depreciation of approximately HK\$4.1 million and disposals of net book value of approximately HK\$0.5 million.

The net book value of property, plant and machinery increased to approximately HK\$11.1 million as a result of depreciation for the six months ended 30 September 2014 of approximately HK\$2.2 million, net of the additions for the same period of approximately HK\$3.6 million. The additions during the six months ended 30 September 2014 mainly comprised of motor vehicles acquired for new projects which amounted to approximately HK\$1.7 million in aggregate.

Prepayments

Prepayments comprised mainly the portion insurance paid for our Group's project which is expected to be utilised after one year. The amount of prepaid insurance as at 31 March 2014 decreased by approximately HK\$2.1 million was mainly due to the amounts to be utilised within 1 year being reclassified as current assets.

The increase in prepayments as at 30 September 2014 to approximately HK\$13.5 million from approximately HK\$5.4 million as at 31 March 2014 was mainly due to payments of insurance premium for new contracts including KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which will be amortised over the contract period.

Inventories

Inventories comprised contract work in progress and construction materials.

	As at 31 March		As at 30
	2013	2014	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials	11,312	5,327	3,204
Contract work in progress	10,852	6,751	4,553
	22,164	12,078	7,757

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The following table set out the types of construction materials as inventories at each reporting date:

	As at 31 March		As at
	2013	2014	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	2014
			<i>HK\$'000</i>
Pipes and fittings for water supply system	11,312	5,327	3,204
Subsequent sales and usage up to 31 December 2014			<u>1,398</u>

Construction materials as at 31 March 2013, 31 March 2014 and 30 September 2014 were approximately HK\$11.3 million, HK\$5.3 million and HK\$3.2 million respectively. The substantial decrease as at 31 March 2014 compared with 31 March 2013 was due to increase in utilisation of materials for project 10/WSD/10 and provision for obsolete stocks made amounted to approximately HK\$1.6 million during the year ended 31 March 2014. Contract work in progress represents contract costs relate to future activity on the contract and it is probable that they will be recovered. The decrease in contract work in progress as at 31 March 2014 was due to receipt of payment from customers in respect of completed projects during the period.

Inventories as at 30 September 2014 amounted to approximately HK\$7.8 million, representing a drop of approximately HK\$4.3 million as compared with the balance as at 31 March 2014 as a result of utilisation, in particular, in contracts 24/WSD/09 and 6/WSD/11.

Trade and other receivables

The following table sets out the components of trade and other receivables at each reporting date:

	As at 31 March		As at
	2013	2014	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	2014
			<i>HK\$'000</i>
Trade receivables	31,798	49,663	81,814
Retention receivables	10,338	11,100	13,372
Other receivables	3,414	9,667	16,009
Prepayments and deposits	<u>7,564</u>	<u>13,896</u>	<u>17,549</u>
	<u>53,114</u>	<u>84,326</u>	<u>128,744</u>

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Our Group's trade and other receivables mainly consist of progress billings receivables and retention receivables. Applications for payment are submitted to customers mostly on monthly basis, normally approximately 30 days after the date of interim payment application with the exception of project under Housing Authority, which is based on the value of works completed. It generally takes 21 days for public sector customers to issue engineer's certificate certifying the value of works for payment. For projects under the Housing Authority, it generally may take up to 60 days to get the engineer's certificate. Upon issuance of the engineer's certificate, it normally takes another 21 days for customer to settle the payment for public sector projects, while payments will be made by our private sector project customer within 30 days from date of issue of the payment certificate.

Trade receivables increased from approximately HK\$31.8 million as at 31 March 2013 to approximately HK\$49.7 million as at 31 March 2014 because of the increase in receivables of one newly commenced project, namely KL/2012/03 amounted to approximately HK\$12.2 million.

Trade receivables increased from approximately HK\$49.7 million as at 31 March 2014 to approximately HK\$81.8 million as at 30 September 2014 because of increase in receivables from CEDD for new project namely, KL/2012/03 and from WSD for project 4/WSD/11.

The following table sets forth the turnover days of the trade receivables (calculated as the average of beginning and ending total trade receivables balances for the period divided by revenue for the period, multiplied by the number of the days in the period) for the periods indicated:

	Year ended 31 March	Year ended 31 March	Six months ended
	2013	2014	30 September
	<i>days</i>	<i>days</i>	<i>2014</i>
			<i>days</i>
Trade receivable turnover days	35.5	37.8	36.2

As we usually submit application for payment and certification to customers approximately 30 days after the date of previous interim payment application and the customers normally takes around 21 days to certify our work done, the overall trade receivable turnover days was over the credit term of 30 days.

Trade receivable turnover days increased from 35.5 days for the year ended 31 March 2013 to 37.8 days for the year ended 31 March 2014, which was due to the increase in receivables of one newly commenced project, namely KL/2012/03 amounted to approximately HK\$12.2 million.

Trade receivable turnover days decreased to 36.2 days for the six months ended 30 September 2014. The slightly decrease was attributable to the faster repayment from CEDD for contracts GE/2012/11, GE/2013/06 and GE/2013/17 for the six months ended 30 September 2014.

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The following table illustrates the ageing analysis of trade receivables based on invoice date as of the end of each of the reporting dates:

	As at 31 March		As at
	2013	2014	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	2014
			<i>HK\$'000</i>
Less than 1 month	18,378	39,938	58,971
1 to 3 months	13,420	9,715	22,620
More than 3 months but less than one year	—	10	223
	<u>31,798</u>	<u>49,663</u>	<u>81,814</u>
Subsequent settlement up to 31 December 2014			<u>81,697</u>

The subsequent settlement for trade receivables up to 31 December 2014 amounted to approximately HK\$81.7 million, which represents 99.9% of the balance of trade receivables as at 30 September 2014. During the Track Record Period, trade receivables with ages more than 3 months amounted to approximately nil, HK\$10,000 and HK\$223,000 as at 31 March 2013, 31 March 2014 and 30 September 2014. No provision for doubtful debts was made against these long outstanding trade receivables because they were collected subsequently after each reporting dates.

Retention receivables represent the retention money withheld by customers at the rates ranging from 1% to 10% of the total contract sum. Retention monies will normally be released within 21 days upon issue of maintenance certificate after receipt of the certificate for release of retention money, which is to be issued within 14 days upon expiry of the maintenance period. Retention receivables increased from approximately HK\$10.3 million at 31 March 2013 to HK\$11.1 million at 31 March 2014. The increase was because of retention money withheld for existing and new projects commenced during the year ended 31 March 2014 amounted to approximately HK\$4.4 million, net off the effect from the release of retention money upon expiry of maintenance period of approximately HK\$3.7 million. Retention receivable increased further to approximately HK\$13.4 million as at 30 September 2014 because of the increase in retention withheld during the six months ended 30 September 2014 amounted to approximately HK\$2.8 million, net of retention released of approximately HK\$0.6 million.

Other receivables represent (i) materials sold to and receivable from subcontractors and (ii) amount due from U-Tech, the cooperation partner of Kwan On – U-Tech 1 and Kwan On – U-Tech 2.

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Our Group will procure materials and re-charge subcontractors to offset subcontracting charges. Other receivables in relation to the aforesaid as at 31 March 2014 amounted to approximately HK\$9.7 million while it amounted to approximately HK\$3.4 million as at 31 March 2013. The increase was mainly due to materials purchased for the newly commenced project KL/2012/03. The increase in other receivables as at 30 September 2014 to approximately HK\$16.0 million as compared to approximately HK\$9.6 million as at 31 March 2014 was mainly attributable to the increase in costs of materials and services incurred and charged back to subcontractors of approximately HK\$6.3 million.

Prepayments and deposits mainly comprise utility deposits paid for site offices and insurance costs for projects prepaid which will be amortised within 1 year. The increase in prepayments and deposits as at 31 March 2014 was due to increase in prepayments of insurance for newly commenced projects namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 amounted to approximately HK\$3.2 million.

The further increase in prepayments as at 30 September 2014 was mainly due to balance of insurance premium paid for new contracts including KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 with portion that would be amortised within one year.

Amounts due to customers for contract work

Our Group recognises the value of work performed as revenue based on the percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Amounts due to customers for contract work represent excess of progress billings over contract costs incurred plus recognised profits less any foreseeable losses.

Our Group makes an application for interim payment and progress billings every month. The engineers of our customers would issue a payment certificate after examination of the portion of work completed, which usually takes around 21 days from the date of application.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

The increase in amounts due to customers for contract work from approximately HK\$14.3 million as at 31 March 2013 to approximately HK\$66.7 million as at 31 March 2014 was mainly attributable to the four newly awarded projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, where our Group received significant amount of contract sum at early stage mainly for (i) preliminaries such as temporary accommodation for the contractor, site office and transport for the use of the engineer, and (ii) establishing monitoring system for payment of wages. Accordingly, related payments received from the customers were significantly higher than the actual work performed and costs incurred and therefore, the surplus amounts received in

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excess of actual costs incurred plus the profit recognised by using the percentage of completion method, had been treated as amounts due to customers for contract works as at 31 March 2014.

The decrease in amounts due to customers for contract work as at 30 September 2014 was mainly due to further increase in the percentage of completion for projects KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 and thus more revenue had been recognised using the percentage of completion method.

Trade and other payables

The table below sets out the breakdown of our trade and other payables at each of the reporting date as stated:

	As at 31 March		As at
	2013	2014	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
			<i>HK\$'000</i>
Trade payables	35,688	28,162	85,614
Retention payables	14,824	13,807	18,862
Other payables and accruals	7,732	22,561	29,739
	58,244	64,530	134,215

Trade payables primarily include amounts payable to suppliers of materials and subcontractors of our Group. Retention payables represent retention monies withheld to subcontractors. The retention monies are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the contracts with subcontractors. Other payables and accruals include salaries payable, provision for annual leave entitlement and long service payments and amount due to U-Tech, the cooperation partner of the Kwan On – U-Tech 1 and Kwan On – U-Tech 2.

The balance of trade payables decreased from approximately HK\$35.7 million as at 31 March 2013 to approximately HK\$28.2 million as at 31 March 2014. The decrease was mainly due to invoices from suppliers were received and formally agreed after 31 March 2014.

The increase in trade payables as at 30 September 2014 to approximately HK\$85.6 million as compared to 31 March 2014 was mainly attributable to increase in subcontracting charges incurred and materials purchased payable as a result of increase in revenue.

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The following table sets out the turnover days of trade payables (calculated as the average of beginning and ending trade payables balances for the period, divided by cost of services for the period, multiplied by the number of days in the period) for the period indicated:

	Year ended 31 March	Year ended 31 March	Six months
	2013	2014	ended
	<i>days</i>	<i>days</i>	30 September
			2014
			<i>days</i>
Trade payable turnover days	47.6	34.1	33.3

The trade payable turnover days decreased from 47.6 days in the year ended 31 March 2013 to 34.1 days in the year ended 31 March 2014. The significant decrease in trade payable turnover days for the year ended 31 March 2014 was due to decrease in trade payables from approximately HK\$35.7 million as at 31 March 2013 to HK\$28.2 million as at 31 March 2014. The decrease in trade payables as at 31 March 2014 was due to the payments to suppliers and subcontractors had not been agreed because the interim payment certificates for respective projects were not received from the customers. The amounts estimated to be payable to suppliers and subcontractors were accounted for as other payables and accruals as at 31 March 2014. The general credit terms granted by most of the suppliers are 30 to 45 days. Our Group will pay subcontractors after completing verification of payment requests by subcontractors against actual works completed certified by the customers and deduct any materials consumed by and/or sold to subcontractors. Since our Group usually submit application for payment and certification to our customers within 30 days after end of month and the customers normally takes around 21 days to certify our work done, the time required to complete the verification of payment requests by subcontractors, payment to subcontractors and the overall trade payable turnover days is over the credit term of 30 days.

The trade payable turnover days for the six months ended 30 September 2014 decreased to 33.3 days as a result of more promptly payment within the normal credit terms granted by suppliers.

Subsequent settlement up to 31 December 2014 of trade payables as at 30 September 2014 amounted to HK\$83.4 million.

Other payables and accruals mainly represented salaries payable, provision for long service payment and annual leave unpaid, accrued expenses. The increase in other payables and accruals from approximately HK\$7.7 million as at 31 March 2013 to approximately HK\$22.6 million at 31 March 2014 was mainly due to increase in accruals for materials purchased and received and services rendered by subcontractors that had not been invoiced or formally agreed with suppliers as at 31 March 2014. The increase in other payables and accruals of approximately HK\$29.7 million as at 30 September 2014 was mainly due to increase in accrual for goods received and costs incurred for project execution while invoices were received after balance sheet date.

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Current tax liabilities and tax recoverable

Current tax liabilities increased from approximately HK\$3.0 million as at 31 March 2013 to approximately HK\$6.7 million as at 31 March 2014 because of the increase in net profit in the year ended 31 March 2014. Current tax liabilities went down to approximately HK\$2.5 million as at 30 September 2014 as a result of payment of tax of approximately HK\$5.3 million during the six months ended 30 September 2014 and provision made of approximately HK\$0.9 million for the same period.

Tax recoverable represents tax overpaid for UEL and UECL due to revision of prior year's assessable profit as a result of the financial difference arose from our past contract revenue recognition policy and in accordance with HKAS 11. As at the Latest Practicable Date, our Group has been informed by the IRD that the assessments for UEL have been revised and refund of tax will be issued.

Amounts due to related parties/Directors

	As at 31 March		As at
	2013	2014	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
			<i>HK\$'000</i>
Current			
Mr. Tony Wong	9,450	1,950	1,500
Mr. Kwong	355	–	–
Related parties	<u>4,962</u>	<u>4,675</u>	<u>–</u>
	<u>14,767</u>	<u>6,625</u>	<u>1,500</u>
Non-current			
Mr. Tony Wong	<u>3,250</u>	<u>–</u>	<u>–</u>
	<u><u>18,017</u></u>	<u><u>6,625</u></u>	<u><u>1,500</u></u>

The amounts due to Directors as at 31 March 2014 decreased by approximately HK\$11.1 million to approximately HK\$2.0 million. The decrease was mainly attributable to the net repayment to directors of approximately HK\$2.1 million and an amount of HK\$9.0 million waived by a Director. The amounts due to related parties decreased by approximately HK\$0.3 million during the year ended 31 March 2014 due to net repayment of approximately HK\$0.3 million. The decrease in amounts due to related parties and Directors as at 30 September 2014 was mainly due to repayments during the six months ended 30 September 2014.

All amounts due to Directors had been fully settled in January 2015.

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(B) Liquidity and capital resources

Our Group had met its liquidity requirements principally through a combination of internal resources, borrowings, bank overdrafts, finance leases and advances from Directors and related parties during the Track Record Period. Our Group's principal uses of cash have been, and are expected to continue to be, operational costs and investing activities.

(I) Cash flows

The following table set forth the cash flows for the year indicated:

	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 financing activities	<u>6,533</u>	<u>12,068</u>	<u>11,352</u>
Net (decrease)/increase in cash and cash equivalents	(42,815)	90,033	(24,888)
Cash and cash equivalents at beginning of year/period	<u>19,823</u>	<u>(22,992)</u>	<u>67,041</u>
Cash and cash equivalents at end of year/period	<u><u>(22,992)</u></u>	<u><u>67,041</u></u>	<u><u>42,153</u></u>

Net cash (used in)/from operating activities

Our Group derives cash flow from operating activities principally from receipts for contract revenue while outflows include payments of subcontracting charges, purchase of materials, direct staff costs and other administrative expenses.

For the year ended 31 March 2013, net cash used in operating activities amounted to approximately HK\$36.8 million with operating cash flows before changes in working capital amounted to approximately HK\$15.8 million. The difference was primarily due to the combined effect of (i) an increase in trade and other receivables of approximately HK\$14.0 million, (ii) a decrease in trade and other payables of approximately HK\$26.1 million, (iii) a decrease in amounts due to customers for contract work of approximately HK\$2.9 million, (iv) an increase in inventories of approximately HK\$8.9 million, and (v) income tax paid of approximately HK\$0.9 million net of refund of approximately HK\$0.2 million.

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For the year ended 31 March 2014, net cash from operating activities amounted to approximately HK\$73.6 million with operating cash flows before changes in working capital amounted to approximately HK\$37.6 million, which was mainly attributable to our profit before tax of approximately HK\$29.4 million and a positive adjustment for depreciation of approximately HK\$4.1 million. The changes in working capital was primarily due to the combined effect of (i) a decrease in inventories of approximately HK\$8.5 million resulting from an increase in inventory utilisation under project 10/WSD/10 and provision for obsolete stocks, (ii) an increase in trade and other receivables of approximately HK\$29.0 million attributable to increases in receivables upon the commencement of works under project KL/2012/03 of approximately HK\$12.2 million during the year, increase in materials purchased and recharged to subcontractors of approximately HK\$6.3 million for project KL/2012/03 and utility deposits and insurance paid for newly commenced projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/07 of approximately HK\$3.2 million, (iii) an increase in trade and other payables of approximately HK\$6.2 million attributable to the increases in accrued cost and payables arising from materials purchased by us that had not been invoiced and formally agreed with our suppliers, (iv) an increase in amounts due to customers for contract work of approximately HK\$52.5 million because of the amounts received from our customers for four newly awarded projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 were in excess of the respective costs incurred by us as well as the recognition of profits from these projects; and (v) income tax paid of approximately HK\$2.3 million.

For the six months ended 30 September 2014, net cash used in operating activities amounted to approximately HK\$17.9 million, which represented profit before tax of approximately HK\$8.6 million, adjusted for depreciation of approximately HK\$2.2 million and income tax paid of approximately HK\$5.5 million, while the changes in working capital mainly comprised (i) an increase in trade and other receivables of approximately HK\$52.4 million mainly attributable to projects KL/2012/03 and 4/WSD/11, (ii) a decrease in inventories of approximately HK\$4.2 million due to increase in utilisation of materials, (iii) an increase in trade and other payables of approximately HK\$69.5 million due to increase in subcontracting charges incurred, and (iv) a decrease in amounts due to customers for contract work of approximately HK\$42.5 million for the projects KL/2012/03 due to increase in revenue recognised for advances in stage of completion for the contract KL/2012/03.

Net cash (used in)/from investing activities

Our Group's cash flows for investing activities is principally for purchase of property, plant and equipment, increase in pledged bank deposits and advances to a related company.

For the year ended 31 March 2013, our Group had net cash used in investing activities of approximately HK\$12.5 million, which was primarily due to (i) purchase of property, plant and equipment of approximately HK\$5.0 million; (ii) net repayment of advances to a related company of approximately HK\$4.6 million; and (iii) an increase in pledged bank deposits of approximately HK\$10.1 million.

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For the year ended 31 March 2014, our Group had net cash from investing activities of approximately HK\$4.4 million, which was primarily due to decrease in pledged deposit from grant of bank facilities of approximately HK\$7.0 million and purchase of property, plant and equipment of approximately HK\$4.4 million.

For the six months ended 30 September 2014, our Group had net cash used in investing activities of approximately HK\$18.4 million, which was primarily due to (i) payment for purchase of property, plant and equipment of approximately HK\$3.7 million, (ii) proceeds on disposal of property, plant and equipment of approximately HK\$0.2 million and (iii) increase in pledged deposits of approximately HK\$15.0 million to secure banking facilities granted.

Net cash from/(used in) financing activities

Our Group's cash flow for financing activities is principally for drawdown and repayment of borrowings and interest paid, advances/repayments from/to a controlling shareholder and a director, repayment of finance lease payables and proceeds from issue of ordinary shares.

For the year ended 31 March 2013, our Group had net cash from financing activities of approximately HK\$6.5 million, which was primarily due to (i) proceeds from borrowings of approximately HK\$52.4 million, net of repayment of borrowings of approximately HK\$44.6 million, (ii) repayment of advances from a Director of HK\$16.2 million, (iii) advances from Directors of HK\$17.7 million, (iv) net advances from a related company of approximately HK\$2.1 million, and (v) interest paid of approximately HK\$2.4 million.

For the year ended 31 March 2014, our Group had net cash from financing activities of approximately HK\$12.1 million, which was primarily due to (i) proceeds from borrowings of approximately HK\$62.3 million, net of repayment of borrowings of approximately HK\$54.6 million, (ii) proceeds from independent third party's loan of approximately HK\$12.0 million, (iii) net repayment to Directors of HK\$2.1 million and (iv) interest paid of approximately HK\$2.7 million.

For the six months ended 30 September 2014, our Group had net cash from financing activities of approximately HK\$11.4 million, which was primarily due to (i) proceeds from borrowings of approximately HK\$56.0 million, net of repayment of borrowings of approximately HK\$29.7 million, (ii) interest paid of approximately HK\$0.8 million; (iii) repayment to an independent third party of approximately HK\$9.0 million and (iv) repayment to a controlling shareholder and related parties of approximately HK\$4.7 million.

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(II) Net current assets/(liabilities)

The following table sets forth our Group's current assets and current liabilities as of the dates indicated:

	As at 31 March		As at 30 September	As at 31 January
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)			
Current assets				
Inventories	22,164	12,078	7,757	13,228
Amounts due from customers for contract works	–	–	2,551	7,104
Trade and other receivables	53,114	84,326	128,744	42,863
Tax recoverable	1,922	1,474	1,474	2,012
Amounts due from related parties	78	88	88	108
Amounts due from other partners of joint operations	–	43	193	508
Pledged bank deposits	31,712	24,691	39,671	49,682
Cash and cash equivalents	<u>2,844</u>	<u>67,041</u>	<u>42,153</u>	<u>29,181</u>
	<u>111,834</u>	<u>189,741</u>	<u>222,631</u>	<u>144,686</u>
Current liabilities				
Bank overdrafts	25,836	–	–	–
Amounts due to customer for contract work	14,254	66,733	24,228	19,818
Trade and other payables	58,244	64,530	134,215	67,344
Amounts due to Directors	9,805	1,950	1,500	–
Amounts due to related parties	4,962	4,675	–	–
Amount due to other partner of a joint operation	–	44	–	–
Borrowings	21,766	41,490	58,793	49,567
Finance lease payables	121	118	120	121
Current tax liabilities	<u>3,044</u>	<u>6,686</u>	<u>2,394</u>	<u>–</u>
	<u>138,032</u>	<u>186,226</u>	<u>221,250</u>	<u>136,850</u>
Net current (liabilities)/assets	<u><u>(26,198)</u></u>	<u><u>3,515</u></u>	<u><u>1,381</u></u>	<u><u>7,836</u></u>

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 was attributable to the recognition of expected losses arising from three contracts TK/2008/01, 26/WSD/06 and 6/WSD/06 as amounts due to customers under current liabilities. The losses

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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 in accordance with HKAS 11. Borrowings and bank overdrafts increased by approximately HK\$7.9 million and approximately HK\$12.8 million respectively for the year ended 31 March 2013. The increase corresponded to our increase in bank borrowings as a means to finance our construction projects. The total bank overdrafts and borrowings outstanding as at 31 March 2013 amounted to approximately HK\$47.6 million, of which, approximately HK\$10.7 million was not repayable within one year notwithstanding that such loans contained a repayment on demand clause. Although our Group has no reason to believe that the banks will demand immediate repayment and it is expected that such bank loans will be repaid on schedule, such loans were classified as current liabilities which resulted in a net current liabilities position for our Group as at 31 March 2013.

The loss arising from project TK/2008/01 was due to two variation orders in relation to a change in the scope of works, which resulted in extra costs for materials, direct workers and overhead costs than our original estimates multiplied by the increase in the cost for road paving because of increase in the price of bituminous materials in 2011. The prices of various road paving works with bituminous materials increased by approximately 84% in 2011 compared to the time when we submitted the tender for project TK/2008/01. Since project TK/2008/01 was completed in September 2012 and was only undergoing maintenance period as at the Latest Practicable Date, we are of the view that most of the costs for the project have been incurred and recognised in the financial statements. Our Group is currently in negotiation with the client for claims and settlement of final account to recover part of the loss for project TK/2008/01. The change in layout and purpose of use of land which led to significant change to works to be performed was an exceptional and rare incident. In the event when a contract in future is to be varied significantly, our Group will settle and finalise the valuation for the variations periodically with client before performing such variation works to monitor the profit and loss of such variations. In addition, our Group will enter into purchase agreement with material suppliers for major materials to lock the price of materials at early stage.

The loss arising from contract 26/WSD/06 was attributable to a reduction in contract sum by the customer. The deletion was requested by client due to the slower progress than originally scheduled. As the location of the project was at the urban area, the progress of works was affected by the interfacing issues with concerned parties nearby, including schools, adjacent private and public developments, etc. Our site management has put significant efforts to maintain close coordination of the concerned parties to minimise disturbance through rescheduling of works. The aforesaid site constraints caused delay in the work programme, which resulted in increased labour and overhead costs. The project was substantially completed in July 2011 with some outstanding rectification and final handover works. We consider the constraints and resistance in the execution of works for the project 26/WSD/06 is exceptional. We have another project of similar scope, namely contract 11/WSD/08, for replacement and rehabilitation of water mains in mid-level areas. The project 11/WSD/08 is expected to be completed in August 2014.

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The loss arising from project 6/WSD/06 was attributable to the fluctuation in the price of steel per ton from approximately HK\$3,200 per ton in 2007 to approximately HK\$8,400 per ton in 2008 and to approximately HK\$4,000 in 2009. Material costs constituted approximately 34.6% of the total costs of the project which was significantly higher than the other projects of similar nature. Project 6/WSD/06 has been completed and final account has been issued in September 2012. In order to mitigate the risk of price fluctuation in future, our Group has entered into purchase agreement with supplier to fix the material price.

Given that (i) project 6/WSD/06 was completed on 25 November 2009; (ii) project TK/2008/01 was completed during the Track Record Period and was undergoing the maintenance period as at the Latest Practicable Date; (iii) project 26/WSD/06 was completed and final certificate of completion was issued by the customer on 3 October 2013 after the project had undergone the maintenance period, our Directors expect that most of the costs for the above three projects had been incurred and recognised by our Group in the financial statements during the Track Record Period and there would not be any further material loss to be recognised in the financial statements subsequent to the Track Record Period; (iv) the growth in our revenue for the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 thereby resulting in a significant improvement in our current assets, including the increase in our cash and cash equivalents of approximately HK\$64.2 million, which was mainly attributable to more cash receipts from customers, in particular, cash receipts of approximately HK\$58.1 million from the customer for project KL/2012/03 and the increase in our trade and other receivables from approximately HK\$53.1 million as at 31 March 2013 to approximately HK\$84.3 million as at 31 March 2014. The enhancement of our current assets position was partly offset by the increase in our current liabilities during the year ended 31 March 2014, including the increase in amounts due to customers for contract work from approximately HK\$14.3 million as at 31 March 2013 to approximately HK\$66.7 million as at 31 March 2014, the underlying causes for which are set out in the paragraph headed “Amounts due to customers for contract work” under the section headed “Financial information” and the increase in trade and other payables from approximately HK\$58.2 million as at 31 March 2013 to approximately HK\$64.5 million as at 31 March 2014, which was generally in line with our revenue growth for the year ended 31 March 2014. Indeed, the net liabilities and net current liabilities position of our Group had been rectified as at 31 March 2014.

In addition, we are currently in the process of negotiation with the customer for claims and settlement of final account to recover part of the loss for project TK/2008/01. We had submitted payment application to the customer for such contract for a total amount of over HK\$70 million, inclusive of a claim of approximately HK\$10 million, in November 2013 and approximately HK\$5.6 million had been paid to our Group up to the Latest Practicable Date.

We were upgraded to Group C (confirmed) under the “Roads and Drainage” category and Group B (confirmed) under the “Site Formation” category on 26 February 2013 and 19 June 2013 respectively, which will further enhance our ability to tender for and secure works projects with larger contract values under these two categories. Since 1 April 2013 up to the Latest Practicable Date, we have submitted 63 tenders in relation to waterworks, landslip preventive and mitigative, and drainage works and building works to the relevant Government departments and private sector. Kwan On – China Geo was awarded a contract

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of waterworks works by WSD relating to the construction of Butterfly Valley Fresh Water Primary Service Reservoir extension and associated mainlaying (contract number: 4/WSD/11) on 12 September 2013 with an estimated contract sum of approximately HK\$286 million and a contract period of approximately 1,217 days. Kwan On – U-Tech 2 was awarded the contract “Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2” (contract number: 9/WSD/13) by WSD on 18 December 2013 with an estimated contract sum of approximately HK\$60.5 million and a contract period of approximately 1,020 days. In addition, Kwan On was awarded (i) a contract relating to the demolition of Block B of ex-Kennedy Town police married quarters, Kennedy Town, Hong Kong (contract number: SD B807) by ArchSD on 16 September 2013 with an estimated contract sum of approximately HK\$11 million and a contract period of approximately 330 days. This contract was completed in August 2014; (ii) a contract relating to Kai Tak Development – Stage 4 infrastructure at former north apron area (contract number: KL/2012/03) by CEDD on 17 September 2013 with an estimated contract sum of approximately HK\$811.4 million commencing on 19 September 2013 with a contract period of approximately 1,445 days; and (iii) a contract relating to LPM services (contract number: GE/2012/11) by CEDD on 5 November 2013 with total estimated contract sum of approximately HK\$85.3 million and a contract period of approximately 699 days. UEL was awarded a contract in private sector relating to building repairs and maintenance contract on 25 June 2013 with an estimated contract sum of approximately HK\$5.7 million and a contract period of 150 days. This contract was completed in December 2013; (iv) a contract relating to the Landslip Prevention and Mitigation Programme, 2008, Package J and Landslip Prevention and Mitigation Works in New Territories (contract number: GE/2013/06) by CEDD on 29 November 2013 with an estimated contract sum of approximately HK\$107.6 million and a contract period of approximately 546 days; and (v) a contract relating to the Landslip Prevention and Mitigation Programme, 2008, Package M and Landslip Prevention and Mitigation Works in Lantau North (contract number: GE/2013/17) by CEDD on 6 December 2013 with an estimated contract sum of approximately HK\$74.4 million and a contract period of approximately 730 days. Our Directors believe that the above eight contracts will bring in additional steady income stream to our Group and further improve the results of operation and financial position of our Group for the three years ending 31 March 2016.

We will seek new financing from banks upon the award of new contract(s) to strengthen the working capital for daily operation and to meet the working capital for contracts. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

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Set out below is a summary of the net profits or losses recorded by each member of our Group for each financial year and the retained earnings or accumulated loss recorded by each of them as at the end of each financial year since the entire equity interests in Kwan On were acquired by us in 1993 and started to act as a main contractor in the provision of waterworks, road works and drainage services and site formation services in Hong Kong:

	Net profits recorded for the financial year	Net loss recorded for the financial year	Retained earnings as at the end of the financial year	Accumulated loss as at the end of the financial year
Kwan On	1996 and financial years since 1998	1993 to 1995 and 1997	Financial years since 1996	1993 to 1995
UEL	1993, 1994, 1997 to 2005, 2008 to 2010 and 2013	1995, 1996, 2006, 2007, 2011 and 2012	2005 and 2010	1993 to 2004, 2006 to 2009, 2011 to 2013
UECL	1993, 1994, 1997 to 2002, 2004, 2008 to 2010 and 2013	1995, 1996, 2003, 2005 to 2007, 2011 and 2012	1993 to 2004 and 2010	2005 to 2009, 2011 to 2013
UEWL	2007 and 2010, and 2013 and 2014	2004 to 2006, 2008, 2009, 2011 and 2012	N/A	Since its establishment in 2003
UBCL <i>(Note 1)</i>	1997 to 1999, 2002 to 2004 and 2009 to 2013	1994, 2000 to 2001 and 2005 to 2008	1999, 2000, 2002 to 2004	1994 to 1998, 2001, 2005 to 2013
UCRL <i>(Note 2)</i>	1996 and 2009 to 2012	1993 to 1995, 1997 to 1999, 2002 to 2008 and 2013	1996 to 2001	1993 to 1995 and financial years since 2002
UFCL	1993, 1994, 1997, 1998, 2003, 2004, 2009 to 2011 and 2013	1995, 1996, 1999 to 2002, 2005 to 2008 and 2012	N/A	Since 1993

Notes:

1. UBCL had no income or net profit/loss for the years ended 31 December 1995 and 1996 since it had no activity during the period.
2. UCRL was dormant from 1 January to 30 June 2002. UCRL had prepared audited financial statements for the period from 1 January 2000 to 31 December 2002. Accordingly, there was no profit/loss in the years ended 31 December 2000 and 2001.

Kwan On had net assets in all its financial years since 1993. Except for Kwan On, members of our Group had recorded net loss, accumulated loss or net deficit for some of its financial years or as at the end of some financial years since 1993, which was primarily due to the fact that they were principally engaged in provision of subcontracting works to Kwan On or ancillary services to other members of our Group and they would record net loss or accumulated loss if the related service fees charged by them to Kwan On or other members of our Group were not sufficient to cover the actual cost incurred by them and inter-company management fees paid to UEL for administrative support services and sharing of office. UEL, UECL and UEWL mainly act as subcontractors of Kwan On in the execution

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of contract works in return for an agreed percentage of contract sum of each works contract as subcontracting fee. The turnover of each of UEL, UECL and UEWL is mainly generated from such subcontracting fee. As such, they resulted net loss and had net deficit in the event that the actual cost for undertaking the related works exceeds the agreed percentage of contract sum received from Kwan On. UEL had net deficit as at 31 December 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2011 and 2012. UECL had net deficit as at 31 December 1992, 2006, 2007, 2008, 2011 and 2012. UEWL was engaged in the trading of leasehold property since its establishment up to 30 April 2014. UEWL has net deficit since its establishment in 2003, which was primarily due to (i) the sale of a property during the period from its establishment to 31 March 2004 at loss because of decline in the property price; (ii) no income has been recorded for the years ended 31 March 2005 and 2006 since it had no activity and not undertaken any works during such period; and (iii) the commencement of the contract 6/WSD/06 in the year ended 31 March 2007. However, such contract resulted in a loss mainly due to the fluctuation in the price of steel. The principal activity of UBCL is the provision of general labour to other members of our Group and its turnover was mainly the labour services fee received from other members of our Group. UBCL had net deficit as at 31 December 1994, 1995, 1996, 1997, 1998, 2001 and year end of each respective financial year since 2005 which was primarily due to accumulated losses resulted from the inter-company management fees paid by it to UEL. The principal activity of UCRL is also the provision of general labour to other members of our Group and its turnover was mainly the labour services fee received from other members of our Group. UCRL had net deficit as at 31 December 1993, 1994, 1995 and year end of each financial year since 2002 which was primarily due to accumulated losses resulted from the inter-company management fees paid by it to UEL. UFCL has net deficit since 1993 except for the year ended 31 December 1995. UFCL was engaged in trading of fire protection materials and not involved in any civil engineering activities until the year ended 31 December 2009. Since then, UFCL began to provide diesel and transportation services for other members of our Group. The net deficit of UFCL as at the end of financial years since 2010 when it had engaged in civil engineering activities was primarily due to accumulated losses brought forward from prior years and the inter-company management fees paid by it to UEL.

As at 31 March 2014, we had net current assets and net assets amounted to approximately HK\$3.5 million and approximately HK\$17.8 million respectively. The increase in net current assets and net assets by approximately HK\$29.7 million and HK\$30.2 million respectively was mainly attributable to (i) the total comprehensive income generated for the year ended 31 March 2014 of approximately HK\$23.6 million which was mainly due to the increase in works contracts awarded during the year; (ii) waiver of amounts due to a Director of approximately HK\$9.0 million; and (iii) the growth in our revenue for the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 thereby resulting in a significant improvement in our current assets, including the increase in our cash and cash equivalents of approximately HK\$64.2 million, which was mainly attributable to more cash receipts from customers, in particular, cash receipts of approximately HK\$58.1 million from the customer for project KL/2012/03 and the increase in our trade and other receivables from approximately HK\$53.1 million as at 31 March 2013 to approximately HK\$84.3 million as at 31 March 2014. The enhancement of our current assets position was partly offset by the increase in our current liabilities during the year ended 31 March 2014, including the increase in amounts due to customers for contract work from approximately HK\$14.3 million as at 31 March 2013 to approximately HK\$66.7 million as at 31 March

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2014, the underlying causes for which are set out in the paragraph headed “Amounts due to customers for contract work” under the section headed “Financial information” and the increase in trade and other payables from approximately HK\$58.2 million as at 31 March 2013 to approximately HK\$64.5 million as at 31 March 2014, which was generally in line with our revenue growth for the year ended 31 March 2014.

As at 30 September 2014, we had net current assets and net assets amounted to approximately HK\$1.4 million and HK\$25.3 million respectively. The decrease in net current assets of approximately HK\$2.1 million was mainly due to the cash payment for insurance and the prepaid insurance for projects were classified as non-current assets. The increase in net assets of approximately HK\$7.4 million was mainly due to total comprehensive income generated during the six months ended 30 September 2014.

Based on the unaudited management accounts of our Group as at 31 January 2015, the net current assets amounted to approximately HK\$6.0 million. The increase as compared with 30 September 2014 was mainly due to net profit contributed for the four months ended 31 January 2015.

The licences granted by WBDB for carrying out Government contract works of various categories were held by Kwan On. Kwan On may undertake the contract by itself or enter into subcontracting agreement with one of the other three member of our Group, namely UEL, UECL and UEWL to execute the contract as subcontractors. As the minimum employed capital and working capital of Kwan On had fulfilled the financial criteria for retention on the Contractor List and the Specialist List, the Group’s net current liabilities and net liabilities recorded as at 31 March 2013 did not affect Kwan On’s status as an approved contractor for public works. The net current liabilities and net liabilities position of our Group had been rectified as at 31 March 2014.

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INDEBTEDNESS

The following table sets out our Group's indebtedness as at the respective financial position dates below:

	As at 31 March		As at 30 September	As at 31 January
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)			
Current				
Borrowings	21,766	41,490	58,793	49,567
Bank overdrafts	25,836	–	–	–
Finance lease payables	121	118	120	121
Amounts due to Directors	9,805	1,950	1,500	–
Amounts due to related parties	4,962	4,675	–	–
	<u>62,490</u>	<u>48,233</u>	<u>60,413</u>	<u>49,688</u>
Non-current				
Amount due to a director	3,250	–	–	–
Finance lease payables	357	236	176	135
	<u>3,607</u>	<u>236</u>	<u>176</u>	<u>135</u>
	<u><u>66,097</u></u>	<u><u>48,469</u></u>	<u><u>60,589</u></u>	<u><u>49,823</u></u>

As at 31 January 2015 for the purpose of this indebtedness statement, our Group's indebtedness consisted of borrowings of approximately HK\$49.6 million and finance lease payables of approximately HK\$0.3 million. There are no material covenants relating to our Group's outstanding debts. As at 31 March 2013 and 2014 and 30 September 2014, our Group had total borrowings (comprising bank overdrafts, borrowings, finance lease payables and amounts due to Directors and related parties) of approximately HK\$66.1 million, HK\$48.5 and HK\$60.6 million respectively. The decrease in total indebtedness as at 31 March 2014 as compared with 31 March 2013 was primarily due to settlement of bank overdrafts and repayment to Directors by cash received from customers. The increase in total indebtedness as at 30 September 2014 as compared with 31 March 2014 was mainly due to increase in short-term loans drawn down which were utilized for payments to subcontractors and purchase of materials.

As at 31 January 2015, our Group had a total available banking and other facilities of approximately HK\$133.4 million, of which approximately HK\$66.6 million was utilised and approximately HK\$66.8 million was unrestricted and unutilised. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record. Our Group will continue to seek bank financing for new projects upon award of new contracts. We will apply for new financing with banks upon award of new contract(s) in

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order to strengthen the working capital for daily operation and to meet the working capital for new contracts. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

Our Directors confirmed we had not materially defaulted or delayed in payments of trade and non-trade payables and borrowings, and/or breaches of finance covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors intend to apply part of the net proceeds from the Placing of approximately HK\$18.2 million (equivalent to approximately 68.1% of the net proceeds) for repayment of part of the outstanding borrowings. Our Group's plans and use of proceeds are set out in the section headed "Statement of Business Objectives and Use of Proceeds" in this prospectus.

Our Directors have given personal guarantees in securing our banking facilities. These personal guarantees will be released on or before the Listing.

(A) Borrowings

Borrowings of our Group contain a repayment on demand clause. Accordingly, all borrowings are classified as current liabilities in the combined statements of financial position. The following table sets out borrowings based on scheduled repayment dates:

	As at 31 March		As at 30 September	As at 31 January
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)			
Within one year or on demand	11,092	35,296	53,908	45,504
In the second year	3,897	2,548	2,502	2,536
In the third to fifth years, inclusive	5,540	3,646	2,383	1,527
Beyond five years	1,237	–	–	–
	<u>21,766</u>	<u>41,490</u>	<u>58,793</u>	<u>49,567</u>

Our Group had borrowings of approximately HK\$21.8 million, HK\$41.5 million, HK\$58.8 million and HK\$49.6 million as at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015, which were used for financing of our Group's construction projects and overall expansion of our business.

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All of our Group's bank and other borrowings are denominated in Hong Kong dollar and United States dollar and the effective interest rates were as follows:

	As at 31 March 2013 %	2014 %	As at 30 September 2014 %
Effective interest rates:			
Variable-rate bank loans	2.92 to 7.92	3.75 to 6.50	4.00 to 6.75
Variable-rate other loan	<u>–</u>	<u>5.25</u>	<u>5.25</u>

(B) Bank overdrafts

The balance for bank overdrafts decreased from approximately HK\$25.8 million as at 31 March 2013 to nil as at 31 March 2014. The decrease was because of additional cash inflows from receipts from customers. Our Group has no bank overdrafts as at 30 September 2014 and 31 January 2015.

Our Group's bank overdrafts bore interest rates ranging from Hong Kong dollar prime rate to Hong Kong dollar prime rate plus 1.5% or Hong Kong Dollar best lending rate plus 3% per annum as at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015.

(C) Finance lease payables

Finance lease payables represent the obligations to pay the office equipment and motor vehicles under leases. As at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015, the carrying amount of finance lease payables amounted to approximately HK\$478,000, HK\$354,000, HK\$296,000 and HK\$256,000 respectively.

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The following table sets out the maturities of our Group's finance lease payables as of the dates indicated:

	As at 31 March		As at 30 September	As at 31 January
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)
Minimum lease payment payable:				
Not later than one year	134	127	127	127
Later than one year and not later than five years	<u>373</u>	<u>243</u>	<u>180</u>	<u>138</u>
	507	370	307	265
Future finance charges on finance leases	<u>(29)</u>	<u>(16)</u>	<u>(11)</u>	<u>(9)</u>
Present value of finance lease liabilities	<u><u>478</u></u>	<u><u>354</u></u>	<u><u>296</u></u>	<u><u>256</u></u>

(D) Pledge of assets

As at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, the bank loans together with bank overdrafts and other banking facilities are secured by:

- (a) a leasehold land and building held by a related company beneficially owned by Mr. Tony Wong and Mr. Andy Wong;
- (b) accrued benefits of a life insurance contract for Mr. Tony Wong which was surrendered on 19 March 2014 and the loan secured by this contract was settled on 25 March 2014;
- (c) bank deposits amounting to approximately HK\$31.7 million, HK\$24.7 million, HK\$39.7 million and HK\$49.7 million as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively;
- (d) proceeds on certain civil engineering contracts undertaken by our Group;
- (e) personal guarantees executed by Mr. Tony Wong and Mr. Kwong and corporate guarantees given by certain entities within the Group;
- (f) guarantees in favour of our Group for an amount of HK\$4,000,000 with risk sharing factor of 80% as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively, under The Special Loan Guarantee Scheme operated by the Hong Kong Government;

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- (g) guarantees to the extent of approximately HK\$8.6 million, HK\$6.8 million, HK\$5.8 million and HK\$5.2 million as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively under the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Limited;
- (h) proceeds on certain insurance policy of a civil engineering contract undertaken by the Group;
- (i) a personal guarantee executed by a director of a subsidiary; and
- (j) corporate guarantee executed by a related company beneficially owned by Mr. Andy Wong.

The above (a) will be released upon Listing and to be replaced by a cash deposit of HK\$10 million. As at the Latest Practicable Date, the corresponding banks have agreed in principle that the above personal and corporate guarantee will be released and replaced by corporate guarantees to be issued by the Company, and bank loans which guaranteed under Special Loan Guarantee Scheme operated by the Government and the Hong Kong Mortgage Corporation Limited will be fully repaid upon Listing.

Save as aforesaid, there are no material covenants relating to the banking facilities during the Track Record Period and up to the Latest Practicable Date.

Save as aforesaid and apart from intra-group liabilities, we did not have any other outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantee or other material contingent liabilities as at 31 December 2014.

Our Directors confirm that, there were no material changes in our indebtedness, contingent liabilities and net current asset position of our Group since 31 January 2015.

(E) Working Capital

We had a total available banking and other facilities of approximately HK\$133.4 million and unrestricted and unutilised balance of approximately HK\$66.8 million as at 31 January 2015. As at 31 January 2015, we had cash and cash equivalents of approximately HK\$29.2 million. We intend to continue to finance our working capital with cash generated from our operations and bank borrowings in the future. As set out in the section headed “Financial Information – Indebtedness”, our Group’s total indebtedness, which consists of bank overdrafts and borrowings, have increased over the Track Record Period which was primarily due to our Group’s financing needs for projects awarded.

We will continue to closely monitor the level of our working capital and make necessary adjustments to our project plans on a timely basis. Our Group has prepared budget forecast for each individual project. In addition, we have adopted the recommendation of the Internal Control Adviser in relation to the preparation of financial and forecast, further details of which are set out under the section headed “Business – Internal Control” in this

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prospectus. Actual figures are then compared to the budget and forecast and variances are identified. Our Group has prepared an annual budget and cashflow forecast which details the expected major cash inflow and outflow for the coming twelve months and was reviewed and approved by the Board.

In assessing our working capital needs and the sufficiency of available working capital, we have taken into account these projects we had been awarded in the latest financial year ended 31 March 2014 and up to the Latest Practicable Date and the working capital requirement of such projects. Since 1 April 2013 and up to the Latest Practicable Date, Kwan On was awarded 6 public contracts (contract number: KL/2012/03, SD B807, GE/2012/11, GE/2013/06, GE/2013/17 and GE/2013/16) with an aggregate estimated contract sum based on our budget forecast of approximately HK\$1,320.37 million. Besides, Kwan On – China Geo and Kwan On – U-Tech 2 had been awarded 2 contracts (contract number: 4/WSD/11 and 9/WSD/13) with estimated contract sum of approximately HK\$285.8 million and HK\$60.5 million respectively. For contract 4/WSD/11, Kwan On – China Geo subcontracts most of the works to subcontractors who are responsible for the necessary labour, plant, materials and capital to complete the project and therefore our Directors consider the working capital commitment by our Group under such contract is minimal. Please refer to the paragraph 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. For contract SD B807, our Group subcontracts the works to a subcontractor who will commit working capital for the project. For contract KL/2012/03, the pricing strategy of the Group is to have a high markup for a particular item which will be completed at the early stage. Since commencement and up to 31 March 2014, the amount certified was approximately HK\$71 million, while costs incurred amounted to approximately HK\$31 million. Our Group expects that the surplus will be sufficient to finance the working capital required in subsequent periods. For contract 9/WSD/13, Kwan On – U-Tech 2 subcontracts most of the works to a subcontractor who will be responsible for the necessary labour, plant, materials and capital to complete the project and therefore our Directors consider the working capital commitment by our Group is minimal. The working capital for daily operation of contracts in progress is mainly financed by cash received from customers and internal resources of our Group. Our Group will also apply for project financing from banks to strengthen the working capital of our Group.

Based on the above and after taking into account the financial resources available to us, including our available credit facilities, internally generated funds and capitalisation of amounts due to related parties and Directors, our Directors consider that we will have sufficient working capital to complete the contracts in progress by 2016 and other contracts to be awarded within the schedule. The Sponsor concurs with the above Directors’ view.

(F) Commitments and contingent liabilities

(1) Commitments

Capital commitments of our Group as at 30 September 2014 are set out in Note 30 to the Accountant’s Report set out in Appendix I to this prospectus.

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As at 31 March 2013 and 2014 and 30 September 2014, our Group was committed to make the following future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	As at 31 March		As at 30
	2013	2014	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	3,086	2,035	2,775
Later than one year and not later than five years	<u>2,678</u>	<u>612</u>	<u>2,488</u>
	<u>5,764</u>	<u>2,647</u>	<u>5,263</u>

Operating lease payments represent rental payable by our Group for certain of its office premises. Leases and rentals are negotiated for terms ranging from 1 to 3 years. None of the leases includes contingent rentals.

(II) Contingent liabilities

As at 30 September 2014, our Group was involved in certain litigation cases, details of which are set out in Note 32 to the Accountant's Report.

(G) Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from normal trade payables and accrued charges, our Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease liabilities or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the close of business on 30 September 2014.

Save as aforesaid or as otherwise disclosed herein, the Directors have confirmed that there has not been any material change in shareholders, capital commitment and contingent liabilities of our Group since 30 September 2014 up to the date of this prospectus.

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KEY FINANCIAL RATIOS

	Year ended 31 March		Six months ended 30
	2013	2014	September 2014
Current ratio ¹	0.8	1.0	1.0
Net profit margin ²	1.8%	6.0%	2.2%
Return on equity ³	-46.2%	132.5%	29.4%
Return on assets ⁴	4.4%	11.5%	3.0%
Gearing ratio ⁵	-387.8%	234.7%	233.9%
Interest coverage ⁶	4.5	11.5	10.5

Notes:

1. The calculation of current ratio is based on the current assets divided by current liabilities.
2. Net profit margin is calculated based on the profit and total comprehensive income for the respective year divided by the turnover multiplied by 100%.
3. Return on equity is calculated based on the profit and total comprehensive income for the respective year divided by total equity multiplied by 100%.
4. Return on assets is calculated by the total comprehensive income for the year divided by the total assets as at the respective year end and multiplied by 100%.
5. Gearing ratio is calculated based on the interest-bearing liabilities divided by total equity multiplied by 100%.
6. Interest coverage is calculated by the profit before interest and tax divided by the interest for the respective year.

Current ratio

The current ratio maintained at a relatively stable level at 0.8, 1.0 and 1.0 as at 31 March 2013 and 2014 and the six months ended 30 September 2014.

Net profit margin

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.

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Return on equity

The Group's return on equity was approximately -46.2%, 132.5% and 29.4% for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. Negative return on equity was recorded for the years ended 31 March 2013 because our Group had accumulated losses brought forward and thus resulting net deficits as at 31 March 2013. The accumulated losses arose from the recognition of expected loss on contracts, TK/2008/01, 26/WSD/06 and 6/WSD/06, amounted to approximately HK\$7.9 million, HK\$14.6 million and HK\$18.8 million respectively. These three contracts were completed in October 2013, November 2011 and November 2009 respectively. The improvement in return on equity for the year ended 31 March 2014 to approximately 132.5% was attributable to the improvement to net profit to approximately HK\$23.6 million for the year ended 31 March 2014 and the continuing improvement of our Group's net assets position as a result of net profit recorded for the year ended 31 March 2014. The decrease in return on equity for the six months ended 30 September 2014 was mainly due to decrease in net profit for the six months ended 30 September 2014.

Return on assets

Return on assets for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 were approximately 4.4%, 11.5% and 3.0% respectively. The increase in return on assets to approximately 11.5% for the year ended 31 March 2014 was due to the increase in net profit to approximately HK\$23.6 million for the year ended 31 March 2014. The decrease in return on assets for the six months ended 30 September 2014 was mainly due to decrease in net profit for the six months ended 30 September 2014.

Gearing ratio

The gearing ratios recorded were -387.8%, 234.7% and 233.9% as at 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. Negative gearing ratios were recorded as at 31 March 2013 because of the net liabilities position as at the respective reporting dates. The increase in gearing ratio to 234.7% as at 31 March 2014 was attributable to (i) the decrease in borrowings and overdraft to approximately HK\$41.5 million as at 31 March 2014 from approximately HK\$47.6 million as at 31 March 2013; and (ii) the further improvement in net assets from a net liabilities position of approximately HK\$12.4 million as at 31 March 2013 to a net assets position of approximately HK\$17.8 million as at 31 March 2014. The gearing ratio as at 30 September 2014 remained relatively stable as at 31 March 2014.

Interest coverage

Our Group's interest coverage was 4.5, 11.5 and 10.5 for the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. The increase in interest coverage to 11.5 for the year ended 31 March 2014 was attributable to the increase in total comprehensive income to approximately HK\$23.6 million for the year ended 31 March 2014. The slight decrease in interest coverage for the six months ended 30 September 2014 was mainly due to the higher operating profit for the year ended 31 March 2014 as a result of reduction in expected loss arising from project TK/2008/01.

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DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules had our Shares been listed on GEM on that date.

PROPERTY INTERESTS

During the Track Record Period and up to the Latest Practicable Date, our Group had not owned any properties and leased six properties in Hong Kong. For details of our leased properties, please refer to the paragraph headed “Property Interests” under the section “Business” in this prospectus.

OFF BALANCE SHEET TRANSACTIONS

As at 30 September 2014, except for the contingent liabilities set forth above, our Group has not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. Our Group does not have retained or contingent interests in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. Our Group has not entered into any derivative contracts that are indexed to its Shares and classified as shareholder’s equity, or that are not reflected in its combined financial statements. Our Group does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging or research and development services with it.

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing as at the close of business on 30 September 2014.

RELATED PARTIES TRANSACTIONS

With respect to the related party transactions set forth in Note 26 of the Accountant’s Report set out in Appendix I to this prospectus, our Directors confirm that each transaction set forth therein were conducted on arm’s length basis. Our Directors consider that these related party transactions would not distort our results during the Track Record Period, and would not make our historical results not reflective of our future performance.

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DIVIDENDS AND DISTRIBUTABLE RESERVES

(A) Dividend policy

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. Declaration and payment of any dividends would require the recommendation of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including results of operations, financial condition, the payment by our Group's subsidiaries of cash dividends to the Company and other factors the Board may deem relevant.

(B) Distributable reserves

As at 30 September 2014, our Company had no reserve available for distribution to our Shareholders.

SUFFICIENCY OF WORKING CAPITAL

Our Directors believe that after taking into account the financial resources available to us, including our available credit facilities, internally generated funds and capitalisation of amounts due to related parties and Directors, we will have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

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UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted combined net tangible assets of our Group, prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Placing and the Capitalisation Issue on the combined net tangible assets of our Group attributable to the owners of our Company as if the Placing and the Capitalisation Issue had taken place on 30 September 2014. This unaudited pro forma statement of adjusted combined net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the combined financial position of our Group attributable to the owners of our Company had the Placing and the Capitalisation Issue been completed on 30 September 2014 or at any future dates.

	Audited combined net tangible assets attributable to the owners of our Company as at 30 September 2014	Estimated net proceeds from the Placing	Unaudited pro forma adjusted combined net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK cents</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Based on the Placing Price of HK\$0.3 per Share	<u>17,604</u>	<u>33,933</u>	<u>51,537</u>	<u>5.4</u>

Notes:

- (1) The audited combined net tangible assets attributable to the owners of our Company as at 30 September 2014 is extracted from the Accountant's Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on indicative Placing Price of HK\$0.3 per Share, after deduction of the underwriting fees and related expenses of HK\$2.0 million payable and borne by our Company in connection with the Placing taking into account the effect of listing expenses of approximately HK\$7.3 million that have been charged to profit or loss prior to 30 September 2014, listing expenses of approximately HK\$2.4 million borne by the Vendors for the sale of Sale Shares and approximately HK\$6.9 million that the Vendors have agreed to reimburse in its capacity as shareholders, when received by the Company upon Listing, will be accounted for as a capital contribution to our Company.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company is calculated based on 960,000,000 Shares in issue immediately following the completion of the Placing and the Capitalisation. It does not take into account any Shares which may be allotted and issued or repurchased by the 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.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of our Group after entered into subsequent to 30 September 2014.

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QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT FINANCIAL RISKS

Our Group's principal financial assets are trade and other receivables, amounts due from related parties and cash and bank balances that derive directly from our operations. Principal financial liabilities of our Group include trade and other payables, borrowings and amounts due to directors and related parties. The main purpose of these financial liabilities is to finance our Group's operations. Our Group has not issued and does not hold any financial instruments for trading purposes at the end of each of the Track Record Period. The main risks arising from our Group's financial instruments are credit risk, liquidity risk and interest rate risk. Our Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for our shareholders.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Our Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from amounts due from directors and related parties, and deposits with banks and life insurance investment.

The credit risk of our Group's trade and retention receivables is concentrated, since 89%, 88% and 94% of which was derived from two major customers as at 31 March 2013 and 2014 and 30 September 2014, respectively.

Our Group's customers are mainly government departments/organisation and reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimised as our Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by our Group during the Track Record Period and are considered to have been effective in limiting our Group's exposure to credit risk to a desirable level. None of our Group's financial assets are secured by collateral or other credit enhancements.

Our Group's major bank balances and interest in an insurance contract are deposited with banks and underwritten by an insurer with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks and the insurer.

(b) Liquidity risk

In the management of liquidity risk, our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by our Group during the Track record Period and are considered to have been effective in managing liquidity risk.

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The following table details our Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which our Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the Track Record Period.

	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
31 March 2013					
Trade and other payables	32,834	24,511	–	899	58,244
Finance lease payables	–	34	100	373	507
Borrowings	21,766	–	–	–	21,766
Bank overdrafts	25,836	–	–	–	25,836
Amounts due to Directors	9,805	–	–	3,250	13,055
Amounts due to related parties	4,962	–	–	–	4,962
	<u>95,203</u>	<u>24,545</u>	<u>100</u>	<u>4,522</u>	<u>124,370</u>
As at 31 March 2014					
Trade and other payables	54,378	5,810	1,328	3,014	64,530
Finance lease payables	–	32	95	243	370
Borrowings	41,490	–	–	–	41,490
Amounts due to directors	1,950	–	–	–	1,950
Amounts due to related parties	4,675	–	–	–	4,675
Amount due to other partner of a joint operation	44	–	–	–	44
	<u>102,537</u>	<u>5,842</u>	<u>1,423</u>	<u>3,257</u>	<u>113,059</u>

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	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
As at 30 September 2014					
Trade and other payables	60,528	66,903	–	6,784	134,215
Finance lease payables	–	32	95	180	307
Borrowings	58,793	–	–	–	58,793
Amounts due to directors	1,500	–	–	–	1,500
	<u>120,821</u>	<u>66,935</u>	<u>95</u>	<u>6,964</u>	<u>194,815</u>

Bank and other loans with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis. As at 31 March 2013 and 2014 and 30 September 2014, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK\$21.8 million, HK\$41.5 million and HK\$58.8 million, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 to 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
Borrowings					
At 31 March 2013	<u>7,879</u>	<u>687</u>	<u>3,093</u>	<u>11,431</u>	<u>23,090</u>
At 31 March 2014	<u>17,373</u>	<u>2,552</u>	<u>16,170</u>	<u>6,505</u>	<u>42,600</u>
At 30 September 2014	<u>28,708</u>	<u>19,751</u>	<u>6,011</u>	<u>5,083</u>	<u>59,553</u>

(c) Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, borrowings and bank overdrafts. Interest charged on our Group’s borrowings are at variable rates. Our Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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Our Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the fair value interest rate risk on these deposits is insignificant as they are relatively short-term. Our management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, borrowings and bank overdrafts. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of each of the Track Record Period were outstanding for the whole year/period. 25 basis points and 50 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of bank balances, bank borrowings and bank overdrafts, respectively. The calculation of 25 basis points decrease in interest rates of bank balances excluded the bank balances in Hong Kong of, HK\$31.5 million, HK\$87.7 million and HK\$77.8 million at 31 March 2013 and 2014 and 30 September 2014, respectively, which carried an interest rate below 0.25%.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of the Track Record Period do not reflect the exposures during the Track Record Period.

If interest rates on bank balances had been 25 basis points higher/lower and all other variables were held constant, the potential effect on our Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	Year ended 31 March		Six months ended 30
	2013	2014	September 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/(decrease) in profit for the year/period			
– as a result of increase in interest rate	6	8	4
– as a result of decrease in interest rate	<u>(6)</u>	<u>(8)</u>	<u>(4)</u>

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If interest rates on borrowings and bank overdrafts had been 50 basis points higher/lower and all other variables were held constant, the potential effect on our Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	Year ended 31 March 2013	2014	Six months ended 30 September 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Decrease)/increase in profit for the year/period			
– as a result of increase in interest rate	(200)	(175)	(123)
– as a result of decrease in interest rate	<u>200</u>	<u>175</u>	<u>123</u>

(d) Capital risk management

Our Group's objectives when managing capital are to safeguard our Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

Our Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, our Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the Track Record Period.

FINANCIAL INFORMATION

Our Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as the total of amounts due to customers for contract work, trade and other payables, finance lease payables, borrowings, amount due to other partner of a joint operation, amounts due to Directors and related parties and bank overdrafts, and less cash and cash equivalents. Capital includes equity attributable to owners of our Company.

	As at 31 March 2013	As at 31 March 2014	As at 30 September 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	138,595	179,776	219,032
Less: Cash and cash equivalents	<u>(2,844)</u>	<u>(67,041)</u>	<u>(42,153)</u>
Net debt	135,751	112,735	176,879
Equity attributable to the owners of our Company	<u>(15,625)</u>	<u>13,418</u>	<u>17,604</u>
Net debt and equity	<u><u>120,126</u></u>	<u><u>126,153</u></u>	<u><u>194,483</u></u>
Gearing ratio	<u><u>113%</u></u>	<u><u>89%</u></u>	<u><u>91%</u></u>

Our Group had both net current liabilities and net liabilities as at 31 March 2013. In light of both the recovery of net current liabilities and net liabilities to net current assets and net assets as at 31 March 2014 and 30 September 2014, our Directors consider our Group can continue in business as a going concern.

(e) Foreign exchange risk

Our Company does not have any exposure to foreign exchange risk.

NO MATERIAL ADVERSE CHANGE

Listing-related expenses is estimated to be approximately HK\$18.6 million, of which approximately HK\$7.9 million is expected to be recognised as expenses in the year ending 31 March 2015. Accordingly, the financial performance of our Group for the year ending 31 March 2015 will be affected.

Save as the above, our Directors confirm that since 30 September 2014 (being the date on which the latest financial information of our Group was 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.

UNDERWRITING

UNDERWRITER

CNI Securities Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Pursuant to the Underwriting Agreement, our Company is offering the New Shares for the subscription and the Vendors are offering the Sale Shares for sale at the Placing Price for placing and sale to professional, institutional or private investors. Subject to, among other matters, the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the Shares to be allotted and issued under the Capitalisation Issue, and to the satisfaction of certain other conditions set out in the Underwriting Agreement, the Underwriter has agreed to subscribe and/or purchase and/or procure subscribers and/or purchasers for the Placing Shares, subject to the terms and conditions of the Underwriting Agreement.

Grounds for termination

The obligations of the Underwriter under the Underwriting Agreement to subscribe and/or procure subscribers for the subscription, the Placing Shares, are subject to termination by the Underwriter if any of the following events occur at any case prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (A) if it has come to the notice of the Underwriter:
 - (i) any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of such representations, warranties and undertakings or any other provision of the Underwriting Agreement by any party to the Underwriting Agreement (other than the Underwriter) which, in any such cases, is material in the context of the Placing; or
 - (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the context of the Placing; or
 - (iii) any statement contained in this prospectus considered to be material by the Underwriter in its absolute opinion which is discovered to be or becomes untrue, incorrect or misleading in any material respect; or

UNDERWRITING

- (iv) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, the Vendors, our executive Directors and our Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement; or
 - (v) any breach by any party to the Underwriting Agreement other than the Underwriter of any provision of the Underwriting Agreement which is material; or
 - (vi) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of our Group as a whole the effect of which is so material and adverse as to make it impracticable or inadvisable to proceed with the Placing; or
 - (vii) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified or withheld; or
 - (viii) any person (other than the Underwriter) has withdrawn or sought to withdraw its consent to being named in this prospectus or to the issue of this prospectus; or
- (B) if there develops, occurs, exists or comes into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction; or
 - (ii) any change (whether or not permanent) in local, national or international stock market conditions; or
 - (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or other major stock exchanges in the United States, the United Kingdom or the PRC due to exceptional financial circumstances or otherwise; or
 - (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI or elsewhere; or
 - (v) any change or development or event involving a prospective change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or

UNDERWRITING

- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting Hong Kong, the Cayman Islands, the BVI or elsewhere; or
- (vii) a general moratorium on commercial banking business activities in Hong Kong, the PRC, the Cayman Islands or elsewhere declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group, the Vendors, our executive Directors and/or our Controlling Shareholders; or
- (x) any change or development involving a prospective change, or materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting Hong Kong, the Cayman Islands, the BVI or the PRC; or
- (xii) any imposition of economic or other sanctions, in whatever form, directly or indirectly, by or to Hong Kong or the PRC; or
- (xiii) a petition is presented for the winding up or liquidation of any member of our Group, or any member of our Group making any compromise or arrangement with our Company’s or such members’ creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

UNDERWRITING

- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which such member of our Group is liable prior to its stated maturity, or any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xv) a breach of any of the representations, warranties and undertakings contained in the Underwriting Agreement or of any of the other obligations imposed upon or undertakings given by our Company under the Underwriting Agreement;

which, individually or in the aggregate, in the reasonable opinion of the Underwriter:

- (a) is or will or is likely to be materially adverse to the business, financial condition or prospects of our Company and/or our Group taken as a whole; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Placing; or
- (c) makes or will make or is likely to make it inappropriate, inadvisable or inexpedient to proceed with the Placing.

Non-disposal undertakings

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to our Company, the Underwriter, the Sponsor and the Stock Exchange that save as provided in Rule 13.18 of the GEM Listing Rules, he/she/it shall not and shall procure that the relevant registered holder(s) of Shares shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”) dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (the “**Relevant Securities**”); or
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would, either individually or taken together with the others of them, cease to be a Controlling Shareholder.

UNDERWRITING

The restrictions in (a) shall not apply to any Shares which our Controlling Shareholders or any of his/her/its close associates may acquire or become interested in following the Listing Date.

Notwithstanding the above, nothing shall prevent the disposal of any interest of our Controlling Shareholders in the Relevant Securities (i) pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan, (ii) pursuant to a power of sale under the pledge or charge (granted pursuant to sub-paragraph (i)), (iii) on the death of our Controlling Shareholder or (iv) in any other exceptional circumstances to which the Stock Exchange has given its prior approval.

Each of our Controlling Shareholders has also undertaken to our Company, the Underwriter, the Sponsor and the Stock Exchange to comply with the following requirements:

- (i) in the event of any such sale, transfer or disposal of the Relevant Securities or any such interest referred to above, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares;
- (ii) in the event that our Controlling Shareholders pledges or charges any direct or indirect interest in the Relevant Securities in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the expiry of the Second Six-Month Period, he/she/it must immediately inform our Company, the Sponsor and the Underwriter in writing of such pledge or charge, the number of the Relevant Securities so being pledged or charged and other details as required under Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (iii) having pledged or charged any interest in the Relevant Securities, if and when he/she/it becomes aware that any pledgee or chargee thereof has disposed of or intends to dispose of such interest in the Relevant Securities, he/she/it must immediately inform our Company, the Sponsor and the Underwriter in writing of such disposal or such intention of disposal and of the number of the Relevant Securities affected.

Our Company will inform the Stock Exchange as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Our Company has irrevocably and unconditionally undertaken to and covenanted with the Sponsor and the Underwriter, and our executive Directors have irrevocably and unconditionally and jointly and severally undertaken to and covenanted with the Sponsor and the Underwriter to procure that, save with the prior written consent of the Sponsor and the Underwriter, (such consent not to be unreasonably withheld or delayed) or save for Shares

UNDERWRITING

issued pursuant to the Placing and the Capitalisation Issue and the exercise of any options that may be granted under the Share Option Scheme, and in compliance with the GEM Listing Rules and the applicable laws, neither our Company nor any of our subsidiaries from time to time shall (a) allot or issue or agree to allot or issue any shares or any other securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise acquire, any shares or securities of our Company or any of our subsidiaries from time to time during the First Six-Month Period; or (b) issue any share or securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for shares or securities in our Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares or securities during the Second Six-Month Period so as to result in any of our Controlling Shareholders ceasing to be a controlling shareholder (which has the meaning ascribed to it under the GEM Listing Rules) of our Company or our Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of our Group; or (c) during the First Six-Month Period purchase any Shares or any other securities of our Company; or (d) offer to or agree to do any of the foregoing or announce any intention to do so.

Commission and expenses

The Underwriter will receive a commission of 2.5% on the aggregate Placing Price of all the Placing Shares now being offered, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. The Sponsor will, in addition, receive a documentation fee. The underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Placing are estimated to approximately HK\$18.6 million, which will be borne by our Company and the Vendors in the proportion of 50% and 50% respectively. The Vendors shall be solely responsible for their proportion of any fixed transfer duty, seller's ad valorem stamp duty (if any) in respect of the sale and transfer of the Sale Shares, the Stock Exchange trading fee and SFC transaction levy in respect of the Sale Shares, where applicable.

Underwriter's interests in our Company

Save for its interests and obligation under the Underwriting Agreement and save as disclosed in this prospectus, none of the Underwriter or any of its close associates is interested beneficially or non-beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

Compliance Adviser's agreement

Under a compliance adviser's agreement dated 31 July 2014 and made between Messis Capital and our Company (the "**Compliance Adviser's Agreement**"), our Company appoints Messis Capital and Messis Capital agrees to act as the compliance adviser to our Company

UNDERWRITING

for the purpose of the GEM Listing Rules for a fee from the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier.

Sponsor's interest in our Company

Save for the advisory and documentation fees to be paid to Messis Capital as the Sponsor to the Placing, its obligations under the Underwriting Agreement and the Compliance Adviser's Agreement, its acting as compliance adviser and interests in securities that may be subscribed for pursuant to the Placing, neither Messis Capital nor any of its close associates has or may, as a result of the Placing, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Messis Capital who is involved in providing advice to our Company has or may, as a result of the Placing, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

No director or employee of Messis Capital has a directorship in our Company or any other company in our Group.

The Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING PRICE

The Placing Price of HK\$0.30 per Share plus a 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,030.23 for each board lot of 10,000 Shares. The level of indications of interests in the Placing and the basis of allocations of the Placing Shares will be announced on the Stock Exchange's website at www.hkexnews.hk and our website at www.kwanonconstruction.com on or before 9:00 a.m. on Thursday, 26 March 2015.

THE PLACING

The Placing of 240,000,000 Placing Shares comprising 120,000,000 New Shares and 120,000,000 Sale Shares are conditionally offered by our Company and the Vendors, respectively, by way of private placements to professional, institutional or other investors. The Placing Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue. The Placing is fully underwritten by the Underwriter. The minimum subscription or purchase size for each subscriber or purchaser of the Placing Shares is 10,000 Placing Shares and thereafter in integral multiples of board lot size of 10,000 Shares. Investors subscribing for or purchasing the Placing Shares are required to pay the Placing Price plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,030.23 for each board lot of 10,000 Shares.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional, institutional and individual shareholder base for the benefit of our Company and our Shareholders as a whole. No allocations of the Placing Shares will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

The Placing is subject to the conditions as stated in the paragraph headed "Conditions of the Placing" below.

CONDITIONS OF THE PLACING

The Placing is conditional upon:

(a) **Listing**

The Listing Division granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme or the general mandate to issue Shares referred to in Appendix IV to this prospectus; and

STRUCTURE AND CONDITIONS OF THE PLACING

(b) Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Underwriter) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed “Underwriting” in this prospectus.

If the conditions referred to above are not fulfilled on or before the 30th day from the date of this prospectus, the Placing will lapse and the subscription or purchase money will be returned to the placees or the Underwriter, without interest.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 27 March 2015. Shares will be traded in board lots of 10,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong.



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23 March 2015

The Directors
Kwan On Holdings Limited
Messis Capital Limited

Dear Sirs

We set out below our report on the financial information of Kwan On Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which comprises the combined statements of financial position of the Group as at 31 March 2013 and 2014 and 30 September 2014 and the Company's statements of financial position as at 31 March 2013 and 2014 and 30 September 2014, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes (the "Financial Information"), together with the comparative financial information of the Group including the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the six months ended 30 September 2013 (the "Comparative Financial Information"), prepared on the basis of presentation set out in Note 1 of Section II below, for inclusion in the prospectus of the Company dated 23 March 2015 (the "Prospectus") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM of the Stock Exchange").

The Company was incorporated in the Cayman Islands on 6 December 2012 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation completed on 16 March 2015 (the "Reorganisation") as detailed in Note 1 of Section II below, the Company became the holding company of the subsidiaries now comprising the Group. The Company has not carried out any business since the date of its incorporation, except for the aforementioned reorganisation. The Group is principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong.

Other than Kwan On Construction Company Limited, Univic Earthworks Limited, Kwan On – U-Tech 1 and Win Vision Holdings Limited, all companies comprising the Group during the Relevant Periods have adopted 31 December as their financial year end date for statutory reporting purposes. As at the date of this report, the Company had direct or indirect interests in the subsidiaries as set out below, all of which are private entities. The details of the statutory auditors of these subsidiaries are also set out below.

Name of entity	Place and date of incorporation and form of business structure	Percentage of equity attributable to the Company		Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business	Note
		Direct	Indirect			
Win Vision Holdings Limited ("Win Vision")	British Virgin Islands (the "BVI"), 10 August 2012, limited liability company	100%	–	US\$10,000 divided into 10,000 shares of US\$1 each	Investment holding, Hong Kong	
Kwan On Construction Company Limited ("Kwan On")	Hong Kong, 28 May 1991, limited liability company	–	100%	HK\$24,850,000 divided into 24,850,000 shares of HK\$1 each	Civil engineering construction, Hong Kong	(a)
Univic Engineering Limited ("UEL")	Hong Kong, 23 April 1980, limited liability company	–	100%	HK\$6,300,200 divided into 63,002 shares of HK\$100 each	Provision of contracting work on civil plumbing, fire protection, insulation, concrete repairs and related activities, Hong Kong	(b)
Univic Engineering & Construction Limited (Formerly Univic International Limited)	Hong Kong, 9 September, 1975, limited liability company	–	100%	HK\$1,403,500 divided into 1,403,500 shares of HK\$1 each	Provision of civil, plumbing and fire protection engineering contract services, Hong Kong	(b)
Univic Earthworks Limited	Hong Kong, 30 May 2003, limited liability company	–	100%	HK\$90,000 divided into 90,000 shares of HK\$1 each	Provision of civil and plumbing engineering contract services, Hong Kong	(a)
Univic Building Contractors Limited	Hong Kong, 13 July 1993, limited liability company	–	100%	HK\$10,000 divided into 10,000 shares of HK\$1 each	Provision of construction site workmen services, Hong Kong	(b)
Univic Construction Resources Limited	Hong Kong, 25 June 1992, limited liability company	–	100%	HK\$999 divided into 999 shares of HK\$1 each	Provision of construction site workmen services, Hong Kong	(b)
Univic Fireproofing & Construction Limited (Formerly Univic Fire Protection Materials Limited)	Hong Kong, 23 April 1980, limited liability company	–	100%	HK\$2 divided into 2 shares of HK\$1 each	Trading of diesel and provision of construction site workmen services, Hong Kong	(b)
Kwan On – U-Tech 1	Hong Kong, 29 July 2011, unincorporated entity	–	70%	Not applicable	Civil engineering construction, Hong Kong	(a)&(c)

- (a) The statutory financial statements for the years ended 31 March 2013 and 2014 were audited by David Siu & Company.
- (b) The statutory financial statements for the years ended 31 December 2012 and 2013 were audited by David Siu & Company.
- (c) The entity is an unincorporated joint venture formed between Kwan On and an independent third party and is accounted for as a subsidiary by virtue of the Group's control over it.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried out any business, other than the Reorganisation as referred to above and there is no statutory requirement for it to prepare audited financial statements. No audited financial statements have been prepared for Win Vision since its date of incorporation as there is no statutory requirement for it to prepare audited financial statements.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements"), in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustment made thereon and in accordance with the basis of presentation set out in Note 1 of Section II below.

The directors of the Company are responsible for the contents of the Prospectus including the preparation and true and fair presentation of the Financial Information in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA and have examined the Financial Information of the Group and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have also reviewed the Comparative Financial Information, which has been prepared in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below,

in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The directors are responsible for the preparation and presentation of the Comparative Financial Information in accordance with basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. Our responsibility is to express a conclusion on the Comparative Financial Information based on our review. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the Comparative Financial Information. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

Opinion in respect of the Financial Information

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis set out in Note 1 of Section II below and in accordance with the accounting policies in Note 2 of Section II below, gives a true and fair view of the state of affairs of the Company as at 31 March 2013 and 2014 and 30 September 2014 and the combined state of affairs of the Group as at 31 March 2013 and 2014 and 30 September 2014 and of the combined results and combined cash flows of the Group for each of the Relevant Periods then ended.

Review conclusion in respect of the Comparative Financial Information

Based on our review, nothing has come to our attention that causes us to believe that the Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

1. Combined Statements of Comprehensive Income

	Notes	Year ended 31 March		Six months ended 30 September	
		2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Unaudited)	2014 HK\$'000
Revenue	5	311,880	393,283	153,485	332,363
Cost of services		<u>(281,953)</u>	<u>(341,666)</u>	<u>(132,218)</u>	<u>(313,087)</u>
Gross profit		29,927	51,617	21,267	19,276
Other income	5	1,384	948	245	1,636
Other gains and losses	5	514	155	33	164
Administrative expenses		<u>(19,660)</u>	<u>(20,509)</u>	<u>(11,143)</u>	<u>(11,554)</u>
Operating profit	6	12,165	32,211	10,402	9,522
Finance costs	8	<u>(2,675)</u>	<u>(2,793)</u>	<u>(1,358)</u>	<u>(906)</u>
Profit before income tax expense		9,490	29,418	9,044	8,616
Income tax expense	10	<u>(3,762)</u>	<u>(5,790)</u>	<u>(2,766)</u>	<u>(1,181)</u>
Profit and total comprehensive income for the year/period		<u>5,728</u>	<u>23,628</u>	<u>6,278</u>	<u>7,435</u>
Attributable to:					
Owners of the Company		1,483	20,043	4,338	4,186
Non-controlling interests		<u>4,245</u>	<u>3,585</u>	<u>1,940</u>	<u>3,249</u>
		<u>5,728</u>	<u>23,628</u>	<u>6,278</u>	<u>7,435</u>

2. Combined Statements of Financial Position

		As at 31 March		As at 30
	Notes	2013	2014	September
		HK\$'000	HK\$'000	2014
				HK\$'000
Non-current assets				
Property, plant and equipment	13	9,863	9,698	11,116
Life insurance investment	29	1,176	–	–
Prepayments	16	7,453	5,368	13,453
		<u>18,492</u>	<u>15,066</u>	<u>24,569</u>
Current assets				
Inventories	14	22,164	12,078	7,757
Amounts due from customers for contract work	15	–	–	2,551
Trade and other receivables	16	53,114	84,326	128,744
Tax recoverable		1,922	1,474	1,474
Amounts due from related parties	17	78	88	88
Amounts due from other partners of joint operations	33	–	43	193
Pledged bank deposits	18	31,712	24,691	39,671
Cash and cash equivalents	18	2,844	67,041	42,153
		<u>111,834</u>	<u>189,741</u>	<u>222,631</u>
Total assets		<u>130,326</u>	<u>204,807</u>	<u>247,200</u>
Current liabilities				
Bank overdrafts	18	25,836	–	–
Amounts due to customers for contract work	15	14,254	66,733	24,228
Trade and other payables	19	58,244	64,530	134,215
Amounts due to directors	17	9,805	1,950	1,500
Amounts due to related parties	17	4,962	4,675	–
Amount due to other partner of a joint operation	33	–	44	–
Borrowings	20	21,766	41,490	58,793
Finance lease payables	21	121	118	120
Current tax liabilities		3,044	6,686	2,394
		<u>138,032</u>	<u>186,226</u>	<u>221,250</u>
Net current (liabilities)/assets		<u>(26,198)</u>	<u>3,515</u>	<u>1,381</u>

		As at 31 March		As at 30
	Notes	2013	2014	September
		HK\$'000	HK\$'000	2014
				HK\$'000
Total assets less current liabilities		<u>(7,706)</u>	<u>18,581</u>	<u>25,950</u>
Non-current liabilities				
Amount due to a director	17	3,250	–	–
Finance lease payables	21	357	236	176
Deferred tax liabilities	22	<u>1,084</u>	<u>514</u>	<u>508</u>
		<u>4,691</u>	<u>750</u>	<u>684</u>
Total liabilities		<u>142,723</u>	<u>186,976</u>	<u>221,934</u>
NET (LIABILITIES)/ASSETS		<u>(12,397)</u>	<u>17,831</u>	<u>25,266</u>
Capital and Reserves				
Share capital	23	32,733	32,733	32,733
Reserves	24	<u>(48,358)</u>	<u>(19,315)</u>	<u>(15,129)</u>
Equity attributable to owners of the Company		(15,625)	13,418	17,604
Non-controlling interests		<u>3,228</u>	<u>4,413</u>	<u>7,662</u>
(DEFICIENCY IN ASSETS)/TOTAL EQUITY		<u>(12,397)</u>	<u>17,831</u>	<u>25,266</u>

3. Statements of Financial Position of the Company

		As at 31 March		As at 30
	<i>Notes</i>	2013	2014	September
		<i>HK\$'000</i>	<i>HK\$'000</i>	2014
				<i>HK\$'000</i>
Current Liabilities				
Amounts due to subsidiaries	17	<u>2,353</u>	<u>2,385</u>	<u>7,164</u>
Total liabilities		<u>2,353</u>	<u>2,385</u>	<u>7,164</u>
Net liabilities		<u>(2,353)</u>	<u>(2,385)</u>	<u>(7,164)</u>
Capital and reserves				
Share capital	23	–	–	–
Accumulated losses	24	<u>(2,353)</u>	<u>(2,385)</u>	<u>(7,164)</u>
DEFICIENCY IN ASSETS		<u>(2,353)</u>	<u>(2,385)</u>	<u>(7,164)</u>

4. Combined Statements of Changes in Equity

	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
As at 1 April 2012	32,655	–	(54,932)	(22,277)	1,323	(20,954)
Profit and total comprehensive income for the year	–	–	1,483	1,483	4,245	5,728
Issue of new shares on incorporation of a new group company	78	–	–	78	–	78
Repayment of dividends from shareholders of certain companies now comprising the Group (Note 11)	–	5,091	–	5,091	–	5,091
Distribution paid to non-controlling interests	–	–	–	–	(2,340)	(2,340)
As at 31 March 2013	32,733	5,091	(53,449)	(15,625)	3,228	(12,397)
Profit and total comprehensive income for the year	–	–	20,043	20,043	3,585	23,628
Distribution paid to non-controlling interests	–	–	–	–	(2,400)	(2,400)
Waiver of amounts due to a director who is also a controlling shareholder (Note 17)	–	–	9,000	9,000	–	9,000
As at 31 March 2014	32,733	5,091	(24,406)	13,418	4,413	17,831
Profit and total comprehensive income for the period	–	–	4,186	4,186	3,249	7,435
As at 30 September 2014	32,733	5,091	(20,220)	17,604	7,662	25,266
(Unaudited)						
As at 1 April 2013	32,733	5,091	(53,449)	(15,625)	3,228	(12,397)
Profit and total comprehensive income for the period	–	–	4,338	4,338	1,940	6,278
Waiver of amounts due to a director who is also a controlling shareholder (Note 17)	–	–	9,000	9,000	–	9,000
As at 30 September 2013	32,733	5,091	(40,111)	(2,287)	5,168	2,881

5. Combined Statements of Cash Flows

Notes	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
			(Unaudited)	
Cash flows from operating activities				
Profit before income tax expense	9,490	29,418	9,044	8,616
Adjustments for:				
Depreciation of property, plant and equipment	3,778	4,108	2,092	2,167
Finance costs	2,675	2,793	1,358	906
Interest income	(96)	(86)	(47)	(17)
Gain on disposal of property, plant and equipment	(514)	(155)	(33)	(164)
Imputed interest on non-current retention receivable	(655)	(250)	(113)	(141)
Charges on an insurance contract	108	107	14	–
Write-down of inventories	–	1,561	–	124
Provision for impairment on retention receivables	–	20	20	–
Provision for impairment on other receivables	989	106	87	–
	15,775	37,622	12,422	11,491
(Increase)/decrease in inventories	(8,863)	8,525	1,807	4,197
Increase in trade and other receivables	(14,034)	(29,003)	(9,965)	(52,362)
(Decrease)/increase in trade and other payables	(26,093)	6,233	(8,846)	69,547
Advances to other partners of joint operations	–	(43)	–	(150)
Advance from/(repayment to) other partner of a joint operation	–	44	–	(44)
Increase in amounts due from customers for contract work	–	–	–	(2,551)
(Decrease)/increase in amounts due to customers for contract work	(2,913)	52,479	(1,305)	(42,505)
Cash (used in)/generated from operations	(36,128)	75,857	(5,887)	(12,377)
Income tax paid	(907)	(2,270)	(426)	(5,479)
Income tax refunded	213	–	–	–
Net cash (used in)/from operating activities	(36,822)	73,587	(6,313)	(17,856)
Cash flows from investing activities				
Purchases of property, plant and equipment	(4,991)	(4,428)	(334)	(3,664)
Proceeds from disposal of property, plant and equipment	688	640	33	243
Proceeds from surrender of life insurance investment	–	1,100	–	–
Payment to acquire an insurance contract	(1,248)	–	–	–
(Increase)/decrease in pledged bank deposits	(10,060)	7,021	9,979	(14,980)
Interest received	60	55	27	17
Advances to a controlling shareholder	(28,400)	–	–	–
Repayment of advances to a controlling shareholder	26,800	–	–	–

	Notes	Year ended 31 March		Six months ended 30 September	
		2013	2014	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Advances to related companies		-	(10)	-	-
Repayment of advances to a related company		4,625	-	-	-
Net cash (used in)/from investing activities		<u>(12,526)</u>	<u>4,378</u>	<u>9,705</u>	<u>(18,384)</u>
Cash flows from financing activities					
Proceeds from bank borrowings		52,431	62,330	33,035	55,962
Repayment of bank borrowings		(44,551)	(54,606)	(24,116)	(29,659)
Loan from an independent third party		-	12,000	-	-
Repayment of loan from an independent third party		-	-	-	(9,000)
Advances from directors		17,678	2,000	-	-
Repayment of advances from directors		(16,157)	(4,105)	(116)	(450)
Advance from/(repayment to) a controlling shareholder		-	88	156	(3,000)
Advances from related company		2,825	-	-	-
Repayment of advances from a related company		(775)	(375)	(75)	(1,675)
Repayment of finance lease payables		(159)	(124)	(62)	(58)
Interest paid		(2,419)	(2,740)	(1,316)	(768)
Distribution paid to non-controlling interests		(2,340)	(2,400)	-	-
Net cash from financing activities		<u>6,533</u>	<u>12,068</u>	<u>7,506</u>	<u>11,352</u>
Net (decrease)/increase in cash and cash equivalents		<u>(42,815)</u>	<u>90,033</u>	<u>10,898</u>	<u>(24,888)</u>
Cash and cash equivalents at beginning of year/period		<u>19,823</u>	<u>(22,992)</u>	<u>(22,992)</u>	<u>67,041</u>
Cash and cash equivalents at end of year/period		<u>(22,992)</u>	<u>67,041</u>	<u>(12,094)</u>	<u>42,153</u>
Represented by:					
Cash and bank balances and short-term deposits	18	34,556	91,732	25,962	81,824
Less: Pledged bank deposits	18	(31,712)	(24,691)	(21,733)	(39,671)
Bank overdrafts		(25,836)	-	(16,323)	-
		<u>(22,992)</u>	<u>67,041</u>	<u>(12,094)</u>	<u>42,153</u>

II. NOTES TO THE FINANCIAL INFORMATION**1. CORPORATE INFORMATION AND BASIS OF PRESENTATION****(a) General information**

The Company was incorporated in the Cayman Islands on 6 December 2012, as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands. The registered office of the Company is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is changed from 3E Yiko Industrial Building, 10 Ka Yip Street, Chai Wan, Hong Kong to 5/F., So Hong Commercial Building, 41, 43, 45 and 47 Jervois Street, Hong Kong, in November 2014. The Company is an investment holding company and its subsidiaries (together referred to as the “Group”) are principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong (the “Listing Business”).

In the opinion of the directors of the Company, the Listing Business was collectively controlled by Mr. Kwong Wing Kie (“Mr. Kwong”) and Wong’s family including Mr. Wong Yee Tung, Tony (“Mr. Tony Wong”), Mr Wong Juen Gar, Newton (“Mr. Newton Wong”), Mr. Wong Ming San, Andy (“Mr. Andy Wong”) and Ms. Chiu Gar Man (“Ms. Chiu”) (together referred to as the “Controlling Shareholders”), who entered into a confirmatory deed on 30 July 2013 confirming that each of them has been acting in concert throughout the Relevant Periods. Ms. Chiu is the spouse of Mr. Tony Wong and Mr. Newton Wong and Mr. Andy Wong are the sons of Mr. Tony Wong.

(b) Reorganisation

Pursuant to the Reorganisation as detailed in the section headed “History and Development” to the Prospectus, in preparation for the listing of shares of the Company on the GEM of the Stock Exchange and for the purpose of rationalising the Group’s structure, the Company became the holding company of the subsidiaries now comprising the Group on 16 March 2015.

(c) Basis of presentation

The Reorganisation involved the combination of a number of entities engaged in the Listing Business that were collectively controlled by the Controlling Shareholders. The Group is therefore regarded as a continuing entity resulting from the Reorganisation, as there has been a continuation of the risks and benefits to the Controlling Shareholders that existed prior to the combination. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting, as if the group structure under the Reorganisation had been in existence throughout the Relevant Periods or since the respective dates of incorporation/establishment of the entities now comprising the Group, whichever is the shorter period.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 have been prepared using the financial information of the companies engaged in the Listing Business under the common control of the Controlling Shareholders and now comprising the Group as if the current group structure had been in existence throughout each of the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014, or since their respective dates of incorporation or establishment of the combining companies, or since the date when the combining companies first came under the control of the Controlling Shareholders. The combined statements of financial position of the Group as at 31 March 2013 and 2014 and 30 September 2014 have been prepared to present the assets and liabilities of the companies now comprising the Group at these dates, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were combined using the carrying value from the perspective of the Controlling Shareholders. All significant intra-group transactions and balances have been eliminated on combination.

The Financial Information is presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information set out in this report has been prepared in accordance with the below accounting policies, which conform with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules").

The Financial Information has been prepared under the historical cost basis.

Application of new and revised HKFRSs

For the purpose of preparing the Financial Information, the Group has adopted all of new and revised HKFRSs consistently throughout the Relevant Periods except for the following new or revised HKFRSs that have been issued, potentially relevant to the Group's operations, but are not yet effective:

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle ¹
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle ²
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle ³
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
HKFRS 15	Revenue from contracts with Customers ⁴
HKFRS 9 (2014)	Financial Instruments ⁵
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to HKAS 1	Presentation of Financial Statements ³

¹ Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or offer 1 January 2018

The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs on the financial statements of the Group in the initial application but is not yet in a position to state whether they will have a material impact on the results and the financial position of the Group.

In addition, the new Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the Group's combined financial statements for the year ending 31 March 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about these new and revised HKFRSs is as follows:

Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. They include amendments to HKAS 16 Property, Plant and Equipment to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

HKFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt HKFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it prospectively from the date of initial application.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 (2014) adds to the existing HKFRS 9. HKFRS 9 (2014) introduces new impairment requirement for all financial assets that are not measured at fair value through profit or loss and amendments to the previously finalised classification and measurement requirements.

A new “expected loss” impairment model in HKFRS 9 (2014) replaces the “incurred loss” model in HKAS 39 Financial Instruments: Recognition and Measurement. For financial assets at amortised cost or fair value through other comprehensive income, an entity will now always recognise (at a minimum) 12 months of expected losses in profit or loss. For trade receivables, there is a practical expedient to calculate expected credit losses using a provision matrix based on historical loss patterns or customer bases.

HKFRS 9 (2014) also introduces additional application guidance to clarify the requirements for contractual cash flows of a financial asset to give rise to payments that are Solely Payments of Principal and Interest (SPPI), one of the two criteria that need to be met for an asset to be measured at amortised cost, which may result in additional financial assets being measured at amortised cost.

A third measurement category has also been added for debt instruments – fair value through other comprehensive income which applies to debt instruments that meet the SPPI contractual cash flow characteristic test.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

Amendments to HKFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply all of the principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties.

Amendments to HKAS 1 – Presentation of Financial Statements

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

Significant accounting policies**2.1 Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each of the Relevant Periods. The principal annual rates are as follows:

Machinery	15%-25%
Furniture and equipment	20%-25%
Motor vehicles	25%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the terms of the relevant leases.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the profit or loss on disposal.

2.3 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

2.4 Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

(i) Financial assets

The Group's financial assets are mainly classified as loans and receivables (including life insurance investment). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary assets. Loans and receivables are initially recognised at fair value plus directly attributable transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each of the Relevant Periods, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (as incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include:

- significant financial difficulty of the debtor or the group of debtors;
- a breach of contract, such as a default or delinquency in interest or principal payments;
or
- it becoming probable that the debtor or the group of debtors will enter bankruptcy or other financial reorganisation.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined to be uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Financial liabilities include trade and other payables, amounts due to directors and related parties, and borrowings. They are initially recognised at fair value, net of directly attributable transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities. Equity instruments issued by a group entity are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(vii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the combined statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.5 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

2.6 Employee benefits**(i) Defined contribution retirement plan**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are recognised as an expense in profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Short-term employee benefits

Short-term employee benefits are recognised when they accrue to employees. In particular, a provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2.7 Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise site labour costs (including site supervision); costs of subcontracting; costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of each of the Relevant Periods.

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

2.8 Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

2.9 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Revenue from construction contracts is recognised based on the percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract cost incurred for work performed to date bear to the estimated total contract costs (Note 2.7).

Interest income is recognised using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

2.10 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each of the Relevant Periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be

utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of each of the Relevant Periods.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

2.11 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.12 Impairment of non-financial assets

At the end of each of the Relevant Periods, the Group reviews the carrying amounts of assets (other than inventories and financial assets) to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

2.14 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or

- (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

2.15 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint venture: where the group has rights to only the net assets of the joint arrangement; or
- Joint operation: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangement structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group's joint arrangements are classified as joint operations under HKFRS 11 taking into account the relevant joint arrangement agreements that specify that the parties to the joint arrangements have rights to the assets and obligations to the liabilities relating to the joint arrangements.

The Group accounts for its interests in the joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

2.16 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Financial Information of the Group requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each of the Relevant Periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements other than estimates

(i) Consolidation of Kwan On – U-Tech 1

During the Relevant Periods, the Group formed a legal joint venture, Kwan On – U-Tech 1, with an independent third party namely U-Tech Engineering Co. Ltd. (“U-Tech”), for the purpose of execution of a contract. The Group can appoint the majority of the board of Kwan On – U-Tech 1 and thus direct its relevant activities. The Group shares 70% of the profits or losses of Kwan On – U-Tech 1. The Directors have therefore determined the Group controls, and should consolidate, Kwan On – U-Tech 1.

(ii) Joint operations

During the Relevant Periods, the Group formed two unincorporated joint ventures, Kwan On – U-Tech 2 and Kwan On – China Geo, with two independent third parties namely U-Tech and China Geo-Engineering Corporation (“China Geo”) respectively, for the purpose of execution of contracts.

The Group and U-Tech jointly control over the relevant activities of Kwan On – U-Tech 2. Under the joint venture agreement, the Group and U-Tech each has a participation share of 50% to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On – U-Tech 2. Therefore, the Directors have determined that the joint arrangement is a joint operation.

The Group and China Geo jointly control over the relevant activities of Kwan On – China Geo. Under the joint venture agreement, the Group and China Geo have participation share of 51% and 49% respectively to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On – China Geo. Therefore, the Directors have determined that the joint arrangement is a joint operation.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Financial Information were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Construction contract revenue recognition

Recognised amounts of construction contract revenue and related receivables reflect management's best estimate of each contract's outcome and stage of completion, which are determined on the basis of a number of estimates. This includes the assessment of the profitability of on-going construction contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty. The actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each of the Relevant Periods, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairment of non-financial assets

The Group assesses at the end of each of the Relevant Periods whether non-financial assets suffered any impairment in accordance with accounting policy stated in Note 2.12. The non-financial assets are reviewed for the impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The determination of recoverable amount requires an estimation of future cash flows and the selection of appropriate discount rates. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

(iii) Impairment of trade and other receivables

The Group estimates impairment losses of trade and other receivables resulting from the inability of the customers and other debtors to make the required payments in accordance with accounting policy stated in Note 2.4(ii). The Group bases the estimates on the ageing of the receivable balances, debtors' creditworthiness and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

(iv) Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable profit against which the deferred tax assets can be utilised, which involves a number of assumptions and estimates relating to the operating environment of the Group and requires a significant level of judgement exercised by management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the profit in future periods.

4. SEGMENT INFORMATION**Operating segments**

During the Relevant Periods, the Group was principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

During the Relevant Periods, the Group's revenue was derived from Hong Kong, based on the location of the customers, and all of its non-current assets were located in Hong Kong, based on the location of assets. Therefore, no geographical information is presented.

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the Relevant Periods is as follows:

	Year ended 31		Six months	
	March		ended 30 September	
	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Government of the Hong Kong Special Administrative Region (The "Hong Kong Government"):				
– Water Services Department	158,892	208,084	87,007	119,767
– Civil Engineering and Development Department	123,158	105,110	36,098	184,380
– Drainage Services Department	–*	62,761	25,119	–*
	<u>282,050</u>	<u>375,955</u>	<u>148,224</u>	<u>304,147</u>

* Less than 10% of the Group's revenue

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

The Group's revenue represents amount received and receivable from contract work performed and recognised in accordance with accounting policy set out in Note 2.9 above during the Relevant Periods, which is also the Group's turnover, being revenue generated from its principal activities.

An analysis of the Group's other income and other gains and losses recognised during the Relevant Periods are as follows:

	Year ended 31 March		Six months ended	
	March		30 September	
	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other income				
Bank interest income	60	55	27	17
Interest income from life insurance investment	36	31	20	–
Income from sale of scrape materials	281	–	–	98
Imputed interest on non-current retention receivables	655	250	113	141
Refund from insurance claims	248	218	–	91
Ex-gratia payment from the government for retirement of motor vehicles	–	–	–	508
Sundry income	104	394	85	781
	<u>1,384</u>	<u>948</u>	<u>245</u>	<u>1,636</u>
Other gains and losses				
Gain on disposal of property, plant and equipment	514	155	33	164

6. OPERATING PROFIT

The Group's operating profit is arrived at after charging:

	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
			(Unaudited)	
Auditors' remuneration	264	193	98	113
Depreciation of property, plant and equipment	3,778	4,108	2,092	2,167
Operating lease rentals in respect of:				
– Land and buildings	1,659	2,244	1,169	1,335
– Plant and equipment	478	1,112	462	406
Provision for impairment on other receivables	989	106	87	–
Write-down of inventories	–	1,561	–	124
Provision for impairment on retention receivables	–	20	20	–
Employee benefit expenses (Note 7)	63,074	67,594	32,021	40,804

7. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' REMUNERATION

	The Group			
	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
			(Unaudited)	
Wages, salaries and other benefits	60,609	64,927	30,784	39,271
Post-employment benefits – defined contribution retirement plan contributions	2,465	2,667	1,237	1,533
	63,074	67,594	32,021	40,804

8. FINANCE COSTS

	The Group			
	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
			(Unaudited)	
Interest on finance leases	20	13	7	1
Interest on bank overdrafts	1,154	1,173	672	6
Interest on bank loans wholly repayable within five years	1,245	1,554	637	840
Imputed interest expense on non-current retention payables	256	53	42	59
	2,675	2,793	1,358	906

9. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

The Group

(i) Directors' remuneration

Directors' remuneration for each of the Relevant Periods, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance is as follows:

	Fees <i>HK\$'000</i>	Salaries and benefits <i>HK\$'000</i>	Post-employ- ment benefits – defined contribution retirement plan contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 September 2014				
Executive directors:				
Mr. Tony Wong	–	720	–	720
Mr. Kwong	–	570	9	579
Mr. Chung Chi Ngong	–	420	21	441
	<u>–</u>	<u>1,710</u>	<u>30</u>	<u>1,740</u>
Year ended 31 March 2014				
Executive directors:				
Mr. Tony Wong	–	1,559	–	1,559
Mr. Kwong	–	985	15	1,000
Mr. Chung Chi Ngong	–	898	45	943
	<u>–</u>	<u>3,442</u>	<u>60</u>	<u>3,502</u>
Year ended 31 March 2013				
Executive directors:				
Mr. Tony Wong	–	1,385	34	1,419
Mr. Kwong	–	705	15	720
Mr. Chung Chi Ngong	–	747	41	788
	<u>–</u>	<u>2,837</u>	<u>90</u>	<u>2,927</u>
(Unaudited)				
Six months ended 30 September 2013				
Executive directors:				
Mr. Tony Wong	–	719	–	719
Mr. Kwong	–	430	8	438
Mr. Chung Chi Ngong	–	399	20	419
	<u>–</u>	<u>1,548</u>	<u>28</u>	<u>1,576</u>

In addition to the amounts disclosed above, during the year ended 31 March 2013, the Group also paid premium amounting to HK\$1,248,000 in respect of a life insurance contract for Mr. Tony Wong, the beneficiary of which was Ms. Chiu. The premium was settled by way of a five-year bank loan drawn by the Group in May 2012. With effect from 17 December 2012, the beneficiary of such life insurance contract changed to be Univic Fireproofing & Construction Limited ("UFCL"), a subsidiary of the Company, and accordingly the Group recognised life insurance investment on the same date. Please refer to Note 29 for details.

On 19 March 2014, the Group surrendered the life insurance investment with accumulated value of approximately US\$153,000 (equivalent to HK\$1,191,000) and surrender charge of US\$12,000 (equivalent to HK\$91,000) was recognised for the year ended 31 March 2014.

During the Relevant Periods, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(ii) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Group included 3 directors for each of the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014, whose emoluments are reflected in the analysis as shown above. The remuneration of the remaining highest paid individuals is as follows:

	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
Basic salaries, bonuses and other allowances	1,401	1,710	755	822
Post-employment benefits – defined contribution retirement plan contributions	48	30	15	17
	<u>1,449</u>	<u>1,740</u>	<u>770</u>	<u>839</u>

Their remuneration fell within the following bands:

	Year ended 31 March		Six months ended 30 September	
	2013 <i>No. of employees</i>	2014 <i>No. of employees</i>	2013 <i>No. of employees</i>	2014 <i>No. of employees</i>
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, none of the five highest paid individuals waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. INCOME TAX EXPENSE

The Group

The amount of income tax expense in the combined statements of comprehensive income represents:

	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Unaudited)	2014 HK\$'000
Current tax – Hong Kong profits tax – tax for the year	3,567	6,360	3,358	1,187
Deferred tax (<i>Note 22</i>)	<u>195</u>	<u>(570)</u>	<u>(592)</u>	<u>(6)</u>
Income tax expense	<u><u>3,762</u></u>	<u><u>5,790</u></u>	<u><u>2,766</u></u>	<u><u>1,181</u></u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits during the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax expense per the combined statements of comprehensive income as follows:

	Year ended 31 March		Six months ended 30 September	
	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Unaudited)	2014 HK\$'000
Profit before income tax expense	<u>9,490</u>	<u>29,418</u>	<u>9,044</u>	<u>8,616</u>
Tax calculated at the applicable statutory tax rate of 16.5%	1,566	4,854	1,492	1,422
Tax effect of income not subject to tax	(17)	(14)	(8)	(3)
Tax effect of expenses not deductible for tax purpose	388	810	479	258
Tax effect of tax losses not recognised	2,077	273	945	3,834
Utilisation of tax losses previously not recognised	(67)	(783)	(752)	(3,892)
Others	<u>(185)</u>	<u>650</u>	<u>610</u>	<u>(438)</u>
Income tax expense at the effective tax rate	<u><u>3,762</u></u>	<u><u>5,790</u></u>	<u><u>2,766</u></u>	<u><u>1,181</u></u>

The Group may be subject to a potential Section 82A penalty up to treble the amount of the tax undercharged due to the understatement of assessable profits in filing the profits tax return for the year of assessment 2011/12 by a subsidiary of the Group. The estimated maximum Section 82A penalty is approximately HK\$2,582,000 derived by treble the amount of tax undercharged of approximately HK\$861,000 based on the estimated assessment issued by the Inland Revenue Department (“IRD”). The tax payable of approximately HK\$861,000 was settled by the Group for the year ended 31 March 2014. As at 30 September 2014, the Group has not received any penalty notice from the IRD. The management, based on the tax advisor’s opinion, considered that the penalty may not be incurred and such amount could not be ascertained and therefore has not made any provision for the Section 82A penalty.

A subsidiary of the Group filed revised tax computations for the years of assessment of 2010/11 and 2011/12 to claim for the reduction of assessable profits for the aforesaid years of assessment. Should the Group fail to claim the reduction of assessable profits for the aforesaid years of assessment, the Group may be subject to additional tax liabilities of approximately HK\$681,000. As at 30 September 2014, the Group has not received any response from the IRD. The management considered that the additional tax liabilities are subject to the examination of the IRD and may not be incurred and therefore has not made any provision for such additional tax liabilities.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

On 31 March 2011, the directors of Univic Engineering Limited (“UEL”) and Univic Engineering & Construction Limited (“UECL”) declared and paid dividends of approximately HK\$5,091,000 to the shareholders of UEL and UECL (the “Shareholders”) for the year ended 31 December 2010. During the year ended 31 March 2013, the Shareholders agreed to repay the dividends by way of set-off against their respective amount receivables from UEL and UECL.

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on a combined basis as described in Note 1(c) above.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Machinery <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 April 2012	16,640	1,366	11,024	29,030
Additions	334	3,416	1,829	5,579
Disposals	(1,506)	–	(952)	(2,458)
	<u>15,468</u>	<u>4,782</u>	<u>11,901</u>	<u>32,151</u>
At 31 March 2013	15,468	4,782	11,901	32,151
Additions	353	993	3,082	4,428
Disposals	(1,003)	–	(956)	(1,959)
	<u>14,818</u>	<u>5,775</u>	<u>14,027</u>	<u>34,620</u>
At 31 March 2014	14,818	5,775	14,027	34,620
Additions	1,905	11	1,748	3,664
Disposals	(280)	–	(1,144)	(1,424)
	<u>16,443</u>	<u>5,786</u>	<u>14,631</u>	<u>36,860</u>
At 30 September 2014	-----16,443	-----5,786	-----14,631	-----36,860
Accumulated depreciation				
At 1 April 2012	12,581	1,303	6,910	20,794
Provided for the year	1,761	155	1,862	3,778
Eliminated on disposals	(1,372)	–	(912)	(2,284)
	<u>12,970</u>	<u>1,458</u>	<u>7,860</u>	<u>22,288</u>
At 31 March 2013	12,970	1,458	7,860	22,288
Provided for the year	1,261	997	1,850	4,108
Eliminated on disposals	(527)	–	(947)	(1,474)
	<u>13,704</u>	<u>2,455</u>	<u>8,763</u>	<u>24,922</u>
At 31 March 2014	13,704	2,455	8,763	24,922
Provided for the period	376	554	1,237	2,167
Eliminated on disposals	(280)	–	(1,065)	(1,345)
	<u>13,800</u>	<u>3,009</u>	<u>8,935</u>	<u>25,744</u>
At 30 September 2014	-----13,800	-----3,009	-----8,935	-----25,744
Net book value				
At 31 March 2013	<u>2,498</u>	<u>3,324</u>	<u>4,041</u>	<u>9,863</u>
At 31 March 2014	<u>1,114</u>	<u>3,320</u>	<u>5,264</u>	<u>9,698</u>
At 30 September 2014	<u>2,643</u>	<u>2,777</u>	<u>5,696</u>	<u>11,116</u>

The net carrying amount of property, plant and equipment includes the following assets held under finance leases (Note 21).

	As at 31 March		As at 30 September
	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000
Furniture and fixtures	7	–	–
Motor vehicles	478	331	257
	<u>485</u>	<u>331</u>	<u>257</u>

14. INVENTORIES

	The Group		
	As at 31 March		As at 30 September
	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000
Construction materials	11,312	5,327	3,204
Contract work in progress	10,852	6,751	4,553
	<u>22,164</u>	<u>12,078</u>	<u>7,757</u>

15. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	The Group		
	As at 31 March		As at 30 September
	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000
Contracts in progress at the end of reporting periods:			
Contract costs incurred	1,361,927	1,252,851	1,312,985
Recognised profits less recognised losses	99,471	114,865	149,328
	1,461,398	1,367,716	1,462,313
Less: progress billings	<u>(1,475,652)</u>	<u>(1,434,449)</u>	<u>(1,483,990)</u>
	<u>(14,254)</u>	<u>(66,733)</u>	<u>(21,677)</u>
Represented by:			
Amounts due from customers for contract work	–	–	2,551
Amounts due to customers for contract work	<u>(14,254)</u>	<u>(66,733)</u>	<u>(24,228)</u>
	<u>(14,254)</u>	<u>(66,733)</u>	<u>(21,677)</u>

As at 31 March 2013 and 2014 and 30 September 2014, retentions held by customers for contract work included in trade and other receivables (Note 16) amounted to HK\$10,338,000 and HK\$11,100,000 and HK\$13,372,000, respectively.

16. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Trade receivables (note (a))	31,798	49,663	81,814
Retention receivables (note (b) and Note 15)	10,338	11,100	13,372
Other receivables (note (c))	3,414	9,667	16,009
Prepayments and deposits (note (c))	15,017	19,264	31,002
	<u>60,567</u>	<u>89,694</u>	<u>142,197</u>
Less: Prepayments classified under non-current assets (note (d))	<u>(7,453)</u>	<u>(5,368)</u>	<u>(13,453)</u>
	<u>53,114</u>	<u>84,326</u>	<u>128,744</u>

- (a) Trade receivables were mainly derived from provision of construction work on civil engineering contracts, and are non-interest bearing. The Group does not hold any collateral or other credit enhancements over these balances.

The Group grants an average credit period of 21 days to its trade customers of contract works. Application for progress payments of contract works is made on a regular basis.

The Group had a concentration of credit risk as certain of the Group's trade receivables were due from the Group's largest customer and the five largest customers as detailed below.

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Largest customer	22,296	17,577	46,481
Five largest customers	31,249	49,252	81,514

The following is an analysis of trade receivables by age, presented based on the invoice dates:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Less than 1 month	18,378	39,938	58,971
1 to 3 months	13,420	9,715	22,620
More than 3 months but less than one year	–	10	223
	<u>31,798</u>	<u>49,663</u>	<u>81,814</u>

The ageing of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Neither past due nor impaired	18,378	39,938	58,971
Less than 1 month past due	12,782	9,641	19,332
1 to 3 months past due	638	74	3,345
More than 3 months past due but less than 12 months past due	—	10	166
	<u>31,798</u>	<u>49,663</u>	<u>81,814</u>

Trade receivables that were neither past due nor impaired relate to customers for whom there is no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, management is of the opinion that no provision for impairment is necessary in respect of these receivables as the Group's customers are mainly government departments of which the credit risk is minimal.

(b)

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Retention receivables	10,338	11,120	13,392
Less: provision for impairment on retention receivables	—	(20)	(20)
	<u>10,338</u>	<u>11,100</u>	<u>13,372</u>

Retention monies withheld by customers of contract works are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.

The below table reconciled the impairment loss of retention receivables for the Relevant Periods:

	HK\$'000
At 1 April 2012	—
Impairment loss recognised	—
At 31 March 2013	—
Impairment loss recognised	20
At 31 March 2014 and 30 September 2014	<u>20</u>

Included in the above provision for impairment of retention receivables is a provision for individually impaired retention receivables of HK\$20,000 as at 31 March 2014 and 30 September 2014 with a carrying amount of HK\$20,000 as at 31 March 2014 and 30 September 2014.

Other than the above impaired retention receivables, the remaining balances of retention receivables as at 31 March 2013 and 2014 and 30 September 2014 were neither past due nor impaired. These related to customers for whom there was no recent history of default.

- (c) Movement in provision for impairment of other receivables is as follows:

	<i>HK\$'000</i>
At 1 April 2012	–
Impairment loss recognised	<u>989</u>
At 31 March 2013	989
Impairment loss recognised	<u>106</u>
At 31 March 2014 and 30 September 2014	<u><u>1,095</u></u>

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK\$989,000 and HK\$1,095,000 and HK\$1,095,000 as at 31 March 2013 and 2014 and 30 September 2014 respectively with a carrying amount of HK\$989,000 and HK\$1,095,000 and HK\$1,095,000 as at 31 March 2013 and 2014 and 30 September 2014 respectively.

Other than the aforementioned impaired other receivables, the above balances of other receivables, prepayments and deposits as at 31 March 2013 and 2014 and 30 September 2014 were neither past due nor impaired. Financial assets included in these balances are non-interest bearing and relate to receivables for which there was no recent history of default.

- (d) Included in prepayments and deposits is an aggregate amount of HK\$7,453,000 and HK\$5,368,000 and HK\$13,453,000 as at 31 March 2013 and 2014 and 30 September 2014 respectively, being prepaid insurance expenses for construction contracts that are expected to be realised after twelve months from the end of each of Relevant Periods. Accordingly, the amount was classified under non-current assets at 31 March 2013 and 2014 and 30 September 2014 respectively.

17. AMOUNTS DUE FROM/(TO) DIRECTORS AND RELATED PARTIES

The Group

Particulars of the amounts due from related parties, disclosed pursuant to the Hong Kong Companies Ordinance, are as follows:

	Balance at 1 April 2012	Maximum amount outstanding during the year	Balance at 31 March 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Related companies			
Shiu Mau Development Limited	4,625	4,625	–
Twilight Treasure Limited	<u>–</u>	<u>78</u>	<u>78</u>
	<u><u>4,625</u></u>	<u><u>4,703</u></u>	<u><u>78</u></u>

	Balance at 1 April 2013	Maximum amount outstanding during the year	Balance at 31 March 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Related companies			
Twilight Treasure Limited	78	83	83
Fortune Decade Investments Limited	—	5	5
	<u>78</u>	<u>88</u>	<u>88</u>

	Balance at 1 April 2014	Maximum amount outstanding during the year	Balance at 30 September 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Related companies			
Twilight Treasure Limited	83	83	83
Fortune Decade Investments Limited	5	5	5
	<u>88</u>	<u>88</u>	<u>88</u>

An analysis of the amounts due to directors and related parties is as follows:

	As at 31 March 2013	2014	As at 30 September 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current			
Directors			
Mr. Tony Wong	9,450	1,950	1,500
Mr. Kwong	355	—	—
	<u>9,805</u>	<u>1,950</u>	<u>1,500</u>
Related parties			
<i>Controlling shareholder</i>			
Ms. Chiu	2,912	3,000	—
<i>Related company</i>			
Shiu Mau Development Limited	2,050	1,675	—
	<u>4,962</u>	<u>4,675</u>	<u>—</u>
Non-current Director			
Mr. Tony Wong	3,250	—	—
	<u>3,250</u>	<u>—</u>	<u>—</u>

Mr. Tony Wong is a director of Shiu Mau Development Limited, which is beneficially owned by Mr. Tony Wong and Mr. Andy Wong.

Twilight Treasure Limited is beneficially owned by Mr. Kwong and Mr. Tony Wong.

Fortune Decade Investments Limited is wholly and beneficially owned by Mr. Tony Wong.

The amounts due from and to the directors and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$3,250,000 as at 31 March 2013, due to a director of the Company, Mr. Tony Wong, who had undertaken not to demand repayment of the amount due to him within twelve months from 31 March 2013, and accordingly such amount was classified as non-current at 31 March 2013. Pursuant to two deeds of waiver agreements dated 30 September 2013, an aggregate amount of HK\$9,000,000 due to a director who is also a controlling shareholder, Mr. Tony Wong, was waived and credited to equity as at 30 September 2013.

The Group has not made any provision for doubtful debts in respect of the amounts due from related parties, for which there was no recent history of default.

None of the amounts due from related parties is either past due or impaired.

The Company

The amounts due to subsidiaries of the Company are unsecured, interest-free and repayable on demand.

18. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS / BANK OVERDRAFTS

The Group

Pledged bank deposits/Cash and cash equivalents

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
			HK\$'000
Cash and bank balances	2,844	67,041	42,153
Short-term deposits	31,712	24,691	39,671
Less: pledged bank deposits	<u>(31,712)</u>	<u>(24,691)</u>	<u>(39,671)</u>
Cash and cash equivalents	<u>2,844</u>	<u>67,041</u>	<u>42,153</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one to three months, and earn interest at the respective short-term deposit rates. The bank balances and short-term deposits are deposited with creditworthy banks with no recent history of default.

The Group has pledged its short-term deposits in order to fulfill collateral requirements (see Note 20 for further details).

Bank overdrafts

Bank overdrafts carried interest at a range of Hong Kong Prime Rate to Hong Kong Prime rate plus 1.5% or Hong Kong Dollar best lending rate plus 3% per annum as at 31 March 2013 and 2014 and 30 September 2014.

Details of securities for the bank overdrafts and other banking facilities are set out in Note 20.

19. TRADE AND OTHER PAYABLES

The Group

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Trade payables (<i>note (a)</i>)	35,688	28,162	85,614
Retention payables (<i>note (b)</i>)	14,824	13,807	18,862
Other payables and accruals (<i>note (c)</i>)	7,732	22,561	29,739
	<u>58,244</u>	<u>64,530</u>	<u>134,215</u>

- (a) An ageing analysis of trade payables as at the end of each of the Relevant Periods, based on the invoice dates, is as follows:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
Current or less than 1 month	24,510	21,024	66,903
1 to 3 months	9,283	5,810	17,259
More than 3 months but less than one year	1,895	1,328	1,452
	<u>35,688</u>	<u>28,162</u>	<u>85,614</u>

The Group's trade payables are non-interest bearing and generally have payment terms of 30 to 45 days.

- (b) Retention monies withheld from sub-contractors of contract works are released by the Group after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.
- (c) Other payables are non-interest bearing and have average payment terms of one to three months.

20. BORROWINGS

The Group

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
			HK\$'000
Current			
Secured interest-bearing bank loans:			
Repayable on demand or within one year	11,092	23,296	50,908
Repayable after one year from the end of reporting period but contain a repayable on demand clause (shown under current liabilities)	<u>10,674</u>	<u>6,194</u>	<u>4,885</u>
Bank loans	21,766	29,490	55,793
Unsecured interest-bearing other loan:			
Loan from an independent third party repayable within one year	<u>–</u>	<u>12,000</u>	<u>3,000</u>
Total borrowings	<u><u>21,766</u></u>	<u><u>41,490</u></u>	<u><u>58,793</u></u>
Analysed based on scheduled repayment terms set out in the loan agreements, into:			
Within one year or on demand	11,092	35,296	53,908
In the second year	3,897	2,548	2,502
In the third to fifth years, inclusive	5,540	3,646	2,383
Beyond five years	<u>1,237</u>	<u>–</u>	<u>–</u>
	<u><u>21,766</u></u>	<u><u>41,490</u></u>	<u><u>58,793</u></u>

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans is as follows:

	As at 31 March		As at 30
	2013	2014	September
	%	%	2014
			%
Effective interest rates:			
Variable-rate bank loans	2.92 to 7.92	3.75 to 6.50	4.00 to 6.75
Variable-rate other loan	<u>–</u>	<u>5.25</u>	<u>5.25</u>

Bank loans:

The bank loans together with bank overdrafts and other banking facilities are secured by:

- a leasehold land and building held by a related company beneficially owned by Mr. Tony Wong and Mr. Andy Wong, which will be released upon listing and to be replaced by a cash deposit of approximately HK\$10 million;
- accrued benefits of a life insurance contract for Mr. Tony Wong (Note 9(i)), which was surrendered on 19 March 2014 and the loan secured by this contract was settled on 25 March 2014;

- (c) bank deposits amounting to approximately HK\$31,712,000 and HK\$24,691,000 and HK\$39,671,000 as at 31 March 2013 and 2014 and 30 September 2014 respectively (Note 18);
- (d) proceeds on certain civil engineering contracts undertaken by the Group;
- (e) personal guarantees executed by Mr. Tony Wong and Mr. Kwong and corporate guarantees given by certain entities within the Group;
- (f) guarantees in favour of the Group for an amount of HK\$4,000,000 with risk sharing factor of 80% as at 31 March 2013 and 2014 and 30 September 2014, respectively, under The Special Loan Guarantee Scheme operated by the Hong Kong Government;
- (g) guarantees to the extent of approximately HK\$8,600,000 and HK\$6,800,000 and HK\$5,832,000 as at 31 March 2013 and 2014 and 30 September 2014, respectively, under The SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Limited;
- (h) proceeds on certain insurance policy of a civil engineering contract undertaken by the Group;
- (i) a personal guarantee executed by a director of a subsidiary; and
- (j) corporate guarantee executed by a related company beneficially owned by Mr. Andy Wong, a controlling shareholder of the Company.

The directors have agreed with banks in principle that the above personal guarantees and corporate guarantee will be released and replaced by corporate guarantees to be issued by the Company and guarantees under The Special Loan Guarantee Scheme operated by the Hong Kong Government will be released and repaid in full upon listing of the Company's shares on the Stock Exchange.

The unrestricted and unutilised banking facilities as at 30 September 2014 amounted to approximately HK\$40,896,000.

Other loan:

Pursuant to a loan agreement dated 27 September 2013 entered into by the Group with an independent third party, the Group obtained an unsecured loan facility up to a principal amount of HK\$12,000,000. An amount of HK\$6,000,000 was drawn down as at 30 September 2013 and a further HK\$6,000,000 was drawn down on 2 October 2013. The Group repaid HK\$9,000,000 during the period ended 30 September 2014 and the remaining balance of HK\$3,000,000 on 3 October 2014. Other loan bears interest at the Hong Kong Prime Rate plus 0.25% per annum and is repayable in full with accrued interest in twelve months from the drawn down dates of the loan.

21. LEASES

The Group*Finance leases*

The Group leases a number of its motor vehicles and furniture and fixtures for business use. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

	Minimum lease payments <i>HK\$'000</i>	Interest <i>HK\$'000</i>	Present value <i>HK\$'000</i>
As at 30 September 2014			
Not later than one year	127	7	120
Later than one year and not later than five years	<u>180</u>	<u>4</u>	<u>176</u>
	<u>307</u>	<u>11</u>	<u>296</u>
As at 31 March 2014			
Not later than one year	127	9	118
Later than one year and not later than five years	<u>243</u>	<u>7</u>	<u>236</u>
	<u>370</u>	<u>16</u>	<u>354</u>
As at 31 March 2013			
Not later than one year	134	13	121
Later than one year and not later than five years	<u>373</u>	<u>16</u>	<u>357</u>
	<u>507</u>	<u>29</u>	<u>478</u>

Operating leases – lessee

The Group leased its office premises under operating lease arrangement which were negotiated for terms ranging from one to three years.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	As at 31 March 2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	As at 30 September 2014 <i>HK\$'000</i>
Not later than one year	3,086	2,035	2,775
Later than one year and not later than five years	<u>2,678</u>	<u>612</u>	<u>2,488</u>
	<u>5,764</u>	<u>2,647</u>	<u>5,263</u>

22. DEFERRED TAX**The Group**

Details of the deferred tax liabilities recognised and movements during the Relevant Periods are as follows:

	Accelerated depreciation allowances <i>HK\$'000</i>
At 1 April 2012	889
Charged to profit or loss for the year (<i>Note 10</i>)	<u>195</u>
At 31 March 2013	1,084
Credited to profit or loss for the year (<i>Note 10</i>)	<u>(570)</u>
At 31 March 2014	<u>514</u>
Credited to profit or loss for the period (<i>Note 10</i>)	<u>(6)</u>
At 30 September 2014	<u>508</u>

Certain subsidiaries of the Group had estimated tax losses arising in Hong Kong amounting to approximately HK\$117,206,000, HK\$114,119,000 and HK\$113,770,000 as at 31 March 2013 and 2014 and 30 September 2014, respectively, that are available indefinitely for offsetting against their future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Tax losses can be carried forward indefinitely.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. SHARE CAPITAL

The Company was incorporated in the Cayman Islands on 6 December 2012 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. On the same date, one ordinary share of HK\$0.01 was issued to initial subscriber at nil paid, and was transferred to Twilight Treasure Limited at nil consideration. Further details on the Company's share capital are set out in the sub-paragraph headed "Changes in share capital of our Company" in Appendix IV to the Prospectus.

For the purpose of this report, the share capital of the Group as at 31 March 2013 and 2014 and 30 September 2014 represented the combined share capital of the entities now comprising the Group at the end of each of the Relevant Periods.

24. RESERVES

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the combined statements of changes in equity of this report.

Movements in the Company's accumulated losses during the Relevant Periods are as follows:

	<i>HK\$'000</i>
At 6 December 2012 (date of incorporation)	–
Loss for the period	<u>(2,353)</u>
At 31 March 2013	(2,353)
Loss for the year	<u>(32)</u>
At 31 March 2014	(2,385)
Loss for the period	<u>(4,779)</u>
At 30 September 2014	<u><u>(7,164)</u></u>

25. MAJOR NON-CASH TRANSACTIONS**The Group**

During the year ended 31 March 2013, the Group entered into finance lease arrangements in respect of purchase of property, plant and equipment with a capital value at the inception of the leases of approximately HK\$588,000.

During the year ended 31 March 2013, the shareholders of UEL and UECL agreed to repay the dividends previously received by them by way of set-off against their respective amount receivables from UEL and UECL as detailed in Note 11.

On 30 September 2013, pursuant to two deeds of waiver agreements, an aggregate amount of HK\$9,000,000 due to a director who is also a controlling shareholder, Mr. Tony Wong, was waived and credited to equity as at 30 September 2013 as detailed in Note 17.

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group entered into the following related party transactions, which also constitute connected transactions as defined in Chapter 20 of the Listing Rules, during the Relevant Periods:

(i)

Name of related parties	Nature of transactions	Year ended 31 March		Six months ended 30 September	
		2013	2014	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Benease Limited (a)	Rental expense (e)	180	60	60	–
Bennex International Limited (b)	Rental expense (e)	36	–	–	–
Ms. Chiu	Rental expense (e)	840	456	348	128
Shiu Mau Development Limited (c)	Rental expense (e)	900	900	450	450
U-Tech Engineering Co. Ltd. (d)	Subcontracting fee (e)	1,074	1,451	806	1,973

Notes:

- (a) Mr. Tony Wong and Mr. Kwong are the directors and beneficial owners of the company.
- (b) Mr. Kwong is a director and a beneficial owner of the company.
- (c) The company is beneficially owned by Mr. Tony Wong and Mr. Andy Wong, of which Mr. Tony Wong is a director.
- (d) U-Tech Engineering Co. Ltd. is a minority venturer of a subsidiary, Kwan On – U-Tech 1, of the Group.
- (e) The transactions were conducted on terms and conditions mutually agreed between the relevant parties. The Directors are of the opinion that these related party transactions were conducted in the ordinary course of business of the Group.
- (ii) Included in other receivables of the Group are amount due from a minority venturer of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,776,000 and HK\$1,362,000 and HK\$1,493,000 as at 31 March 2013 and 2014 and 30 September 2014, respectively (Note 16). The balances are unsecured, interest-free and repayable on demand.

Key management personnel compensation

The key management personnel of the Group are the directors of the Company. Details of the remuneration paid to them during the Relevant Periods are set out in Note 9 to the Financial Information.

27. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade and other receivables, amounts due from related parties and cash and bank balances that derive directly from its operations. Principal financial liabilities of the Group include trade and other payables, borrowings and amounts due to directors and related parties. The main purpose of these financial liabilities is to finance the Group's operations.

The Group has not issued and does not hold any financial instruments for trading purposes at the end of each of the Relevant Periods. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from amounts due from related parties, deposits with banks and life insurance investment.

The credit risk of Group's trade and retention receivables is concentrated, since 89% and 88% and 94% of which was derived from two major customers as at 31 March 2013 and 2014 and 30 September 2014, respectively. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 16.

The Group's customers are mainly government departments/organisation and reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the Relevant Periods and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. None of the Group's financial assets are secured by collateral or other credit enhancements.

The Group's major bank balances and life insurance investment are deposited with banks and underwritten by an insurer with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks and the insurer.

(b) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group during the Relevant Periods and are considered to have been effective in managing liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the Relevant Periods.

	On demand <i>HK\$'000</i>	Less than 3 months <i>HK\$'000</i>	3 to 12 months <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 September 2014					
Trade and other payables	60,528	66,903	–	6,784	134,215
Finance lease payables	–	32	95	180	307
Borrowings	58,793	–	–	–	58,793
Amounts due to directors	1,500	–	–	–	1,500
	<u>120,821</u>	<u>66,935</u>	<u>95</u>	<u>6,964</u>	<u>194,815</u>
As at 31 March 2014					
Trade and other payables	54,378	5,810	1,328	3,014	64,530
Finance lease payables	–	32	95	243	370
Borrowings	41,490	–	–	–	41,490
Amounts due to directors	1,950	–	–	–	1,950
Amounts due to related parties	4,675	–	–	–	4,675
Amount due to other partner of a joint operation	44	–	–	–	44
	<u>102,537</u>	<u>5,842</u>	<u>1,423</u>	<u>3,257</u>	<u>113,059</u>
As at 31 March 2013					
Trade and other payables	32,834	24,511	–	899	58,244
Finance lease payables	–	34	100	373	507
Borrowings	21,766	–	–	–	21,766
Bank overdrafts	25,836	–	–	–	25,836
Amounts due to directors	9,805	–	–	3,250	13,055
Amounts due to related parties	4,962	–	–	–	4,962
	<u>95,203</u>	<u>24,545</u>	<u>100</u>	<u>4,522</u>	<u>124,370</u>

Bank and other loans with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis. As at 31 March 2013 and 2014 and 30 September 2014, the aggregate undiscounted principal amounts of these loans amounted to approximately HK\$21,766,000 and HK\$41,490,000 and HK\$58,793,000, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 to 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
Borrowings					
At 30 September 2014	<u>28,708</u>	<u>19,751</u>	<u>6,011</u>	<u>5,083</u>	<u>59,553</u>
At 31 March 2014	<u>17,373</u>	<u>2,552</u>	<u>16,170</u>	<u>6,505</u>	<u>42,600</u>
At 31 March 2013	<u>7,879</u>	<u>687</u>	<u>3,093</u>	<u>11,431</u>	<u>23,090</u>

(c) **Interest rate risk**

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, borrowings and bank overdrafts (see Notes 18 and 20 for details of these balances). Interest charged on the Group’s borrowings are at variable rates. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the fair value interest rate risk on these deposits is insignificant as they are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, borrowings and bank overdrafts. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of each of the Relevant Periods were outstanding for the whole year/period. 25 basis points and 50 basis points increase or decrease represent management’s assessment of the reasonably possible change in interest rates of bank balances, borrowings and bank overdrafts, respectively. The calculation of 25 basis points decrease in interest rates of bank balances excluded the bank balances in Hong Kong of HK\$31,508,000, HK\$87,732,000 and HK\$77,824,000 at 31 March 2013 and 2014 and 30 September 2014, respectively, which carried an interest rate below 0.25%.

In management’s opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of the Relevant Periods do not reflect the exposures during the Relevant Periods.

If interest rates on bank balances had been 25 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
			HK\$'000
Increase/(decrease) in profit for the year/period			
– as a result of increase in interest rate	6	8	4
– as a result of decrease in interest rate	<u>(6)</u>	<u>(8)</u>	<u>(4)</u>

If interest rates on bank borrowings and bank overdrafts had been 50 basis points higher/ lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
			HK\$'000
(Decrease)/increase in profit for the year/period			
– as a result of increase in interest rate	(200)	(175)	(123)
– as a result of decrease in interest rate	<u>200</u>	<u>175</u>	<u>123</u>

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as the total of amounts due to customers for contract work, trade and other payables, finance lease payables, borrowings, amount due to other partner of a joint operation, amounts due to directors and related parties and bank overdrafts, and less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	HK\$'000
Total debt	138,595	179,776	219,032
Less: Cash and cash equivalents	<u>(2,844)</u>	<u>(67,041)</u>	<u>(42,153)</u>
Net debt	135,751	112,735	176,879
Equity attributable to the owners of the Company	<u>(15,625)</u>	<u>13,418</u>	<u>17,604</u>
Net debt and equity	<u>120,126</u>	<u>126,153</u>	<u>194,483</u>
Gearing ratio	<u>113%</u>	<u>89%</u>	<u>91%</u>

28. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	The Group			The Company		
	As at 31 March		As at 30	As at 31 March		As at 30
	2013	2014	September	2013	2014	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and receivables						
Trade and other receivables	47,289	72,572	113,906	–	–	–
Life insurance investment	1,176	–	–	–	–	–
Amounts due from related parties	78	88	88	–	–	–
Amounts due from other partners of joint operations	–	43	193	–	–	–
Pledged bank deposits	31,712	24,691	39,671	–	–	–
Cash and cash equivalents	<u>2,844</u>	<u>67,041</u>	<u>42,153</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>83,099</u>	<u>164,435</u>	<u>196,011</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial liabilities at amortised cost						
Trade and other payables	58,244	64,530	134,215	–	–	–
Finance lease payables	478	354	296	–	–	–
Borrowings	21,766	41,490	58,793	–	–	–
Amounts due to directors	13,055	1,950	1,500	–	–	–
Amounts due to related parties	4,962	4,675	–	–	–	–
Amount due to other partner of a joint operation	–	44	–	–	–	–
Bank overdrafts	25,836	–	–	–	–	–
Amounts due to subsidiaries	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,353</u>	<u>2,385</u>	<u>7,164</u>
	<u>124,341</u>	<u>113,043</u>	<u>194,804</u>	<u>2,353</u>	<u>2,385</u>	<u>7,164</u>

29. LIFE INSURANCE INVESTMENT

As disclosed in Note 9(i) above, during the year ended 31 March 2013, the beneficiary of a life insurance policy to insure against the death of a director who is also a controlling shareholder of the Group, Mr. Tony Wong, with an aggregate insured sum of approximately US\$200,000 (equivalent to approximately HK\$1,560,000) was changed to be UFCL, a subsidiary of the Company. The monthly insurance costs and administration charges determined by the insurance company will be deducted from the account value. The insurer will declare interest (including the guaranteed interest) to the Group on a monthly basis, based on the amount of accumulated value, at a rate to be determined at their own discretion.

As at 31 March 2013, the Group's life insurance investment amounted to HK\$1,176,000. The Group surrendered the insurance contract on 19 March 2014 and there was no such investment as at 31 March 2014 and 30 September 2014.

30. COMMITMENTS

Details of the Group's operating lease commitments are set out in Note 21 above. The Group has certain capital commitment at the end of each of the Relevant Periods and is disclosed as follows:

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014
			HK\$'000
Commitments for the acquisition of property, plant and equipment:			
– contracted for but not provided	–	–	500

31. NON-CONTROLLING INTERESTS

Kwan On – U-Tech 1, a 70%-owned subsidiary of the Company, has material non-controlling interests (“NCI”).

Summarised financial information in relation to the NCI of Kwan On – U-Tech 1, before eliminations, is presented below:

	Year ended 31 March		Six months ended	
	2013	2014	30 September	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Revenue	74,595	71,628	39,451	40,413
Profit for the year/period	14,151	11,948	6,465	10,828
Total comprehensive income	14,151	11,948	6,465	10,828
Profit allocated to NCI	4,245	3,585	1,940	3,249
Distribution paid to NCI	2,340	2,400	–	–
Cash flows (used in)/from operating activities	(975)	11,632	321	(433)
Cash flows used in investing activities	(1,436)	–	–	–
Cash flows used in financing activities	(6,402)	(2,400)	–	–
Net cash (outflows)/inflows	(8,813)	9,232	321	(433)

	As at 31 March		As at 30
	2013	2014	September
	HK\$'000	HK\$'000	2014 HK\$'000
Current assets	27,696	28,637	37,944
Non-current assets	5,497	3,038	2,097
Current liabilities	(22,201)	(16,798)	(14,364)
Non-current liabilities	(232)	(167)	(139)
Net assets	<u>10,760</u>	<u>14,710</u>	<u>25,538</u>
Accumulated non-controlling interests	<u>3,228</u>	<u>4,413</u>	<u>7,662</u>

32. LITIGATIONS

At the end of each of the Relevant Periods, there were a number of labour claims arising from the normal course of business being lodged against the Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors, the possibility of any outflow of resources in settling these claims was remote and/or sufficient insurance policies are maintained to cover the loss, if any, arising from these claims and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

- (a) In about April 2013, an employee of a subcontractor of Kwan On sued against Kwan On and one other defendant to the High Court in respect of a claim for personal injury sustained by him in an accident happened on 14 December 2011 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceedings. By a consent order of the High Court of Hong Kong dated 16 December 2014, Kwan On and the other respondent were ordered to pay the plaintiff a sum of HK\$1,215,000 (inclusive of interest) in full and final settlement of his claim against Kwan On and the other respondent in respect of the above action, of which payments of HK\$915,000 were already made to the plaintiff by insurer. Kwan On was informed by a letter dated 15 January 2015 from its solicitor that its insurer was in the course of arranging the final payment of HK\$300,000 for its solicitor to discharge the insurer only outstanding balance of such settlement sum.
- (b) In about October 2012, an employee of Director of Lands sued against Kwan On, Secretary of Justice (sued on behalf of Director of Lands) and one other defendant in respect of a claim for personal injury sustained by him in his course of employment arising out of the alleged negligence and/or breach of statutory duty and/or breach of common duty of care under the Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) in an accident happened on 11 November 2009 at a construction site alleged to be occupied and managed by Kwan On. No specific amount of claim was stated in the writ of proceeding. By a letter dated 14 November 2014 from the plaintiff's solicitor to Kwan On, Kwan On was informed that the plaintiff proposed a sanctioned offer of HK\$185,000. On 11 February 2015, an agreement was reached by all parties whereby the plaintiff agreed to accept the sum of HK\$120,000 (inclusive of interest but on top of the compensation under the Employees' Compensation Ordinance already received by the plaintiff) in full and final settlement of his claims in these proceedings and all his claims arising out of and in connection with the alleged accident happened on 11 November 2009, of which HK\$80,000 would be borne and has been paid by Kwan On, subject to taxation of costs.
- (c) In about November 2013, an employee of a subcontractor of UEL sued against UEL and the other defendant in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 28 June 2012 arising out of and in the course of his employment. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 19 November 2013, the loss of earning capacity permanently caused by the injury is 25%. No specific amount of claim was stated in the writ of proceeding. By a letter dated 13 November 2014 from the plaintiff's solicitors to UEL's solicitors, the plaintiff has agreed, without prejudice to any issue that may arise

in the plaintiff's common law claim, to accept a sum of approximately HK\$341,000 in settlement of the claim and the plaintiff's legal adviser has confirmed the receipt from UEL a cheque in the sum of HK\$341,000 on 7 January 2015.

- (d) In about February 2014, an employee of a subcontractor of Kwan On sued against such subcontractor and Kwan On in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 26 April 2011 at a construction site alleged to be occupied and managed by the said subcontractor. No specific amount of claim was stated in the writ of proceedings. No settlement has been reached and no judgement has been entered against Kwan On in respect of the above action. The payment received by the applicant of this case under the previous settled claim against Kwan On and its subcontractor commenced by him under the Employees' Compensation Ordinance was approximately HK\$396,000, it is estimated that the net compensation under the said action to be approximately HK\$1,253,000.
- (e) In about April 2014, an employee of a subcontractor of UEL sued against such subcontractor and UEL in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 28 June 2012 at a construction site alleged to be occupied and managed by the said subcontractor. Approximately HK\$2.7 million plus interest is claimed under this action. No settlement has been reached and no judgement has been entered against Kwan On in respect of the above action. The Plaintiff of the said action is the applicant of the District Court Action in note 32 (c).
- (f) In about May 2014, an employee of UCRL sued against UCRL and Kwan On in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 13 July 2012 arising out of and in the course of his employment. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 12 March 2014, the loss of earning capacity permanently caused by the injury is 3.5%. Accordingly, it is estimated that the compensation payable under the said action to be approximately HK\$59,000. Directors confirm that the Group has taken out the necessary employees' compensation policy to cover its liability against the said proceeding.
- (g) In about December 2014, a District Court Action was commenced by an employee of UCRL against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 9 December 2012 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceeding. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 27 October 2014, the loss of earning capacity permanently caused by the injury is 2%. Accordingly, it is estimated that the compensation payable under the said action will amount to approximately HK\$37,000.

The Group is also a defendant in a legal claim of approximately HK\$9,516,000 initiated by a subcontractor of one of the Group's subcontractors, which is another defendant, for breach of certain oral agreement made by the Group. The action has been put in abeyance since September 2009. Details of the action are set out in the sub-paragraph (i) of "Legal Proceedings" under the section headed "Business" to the Prospectus. The Company's directors, based on the advice from the Group's legal counsel, believe that the Group has a valid defence against the claim and, accordingly, have not provided for any claim arising from the litigation.

The indemnifiers, represent the Controlling Shareholders, have undertaken to jointly and severally indemnify and at all times keep the Group indemnified against all the costs and liabilities incurred by the 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 date on which the trading of the shares first commence on GEM (the "Listing Date") (which, for the avoidance of doubts, including any claims which filed after the Listing Date) that exceed the relevant amounts of provisions made in the financial statements of the Group for the Relevant Period and are not otherwise indemnified by any other parties under any contractual obligations.

33. JOINT OPERATIONS

Details of investment in joint operations as at 31 March 2014 and 30 September 2014 are as follows:

Name	Place and date of operation	Principal activities	Participating shares
Kwan On – U-Tech 2	Unincorporated joint operation operating in Hong Kong, 16 December 2013	Civil engineering construction	50%
Kwan On – China Geo	Unincorporated joint operation operating in Hong Kong, 12 August 2013	Civil engineering construction	51%

Note:

Pursuant to the terms of the joint venture agreement, the profit or loss sharing for each year of the joint operation shall be distributed to the joint operators in proportion to their respective participating interests.

Amounts due from/(to) other partners of joint operations are unsecured, non interest bearing, have no fixed terms of repayment and are denominated in Hong Kong dollars.

III. DIRECTORS' REMUNERATION

Save as disclosed in Note 9(i) of Section II above, no other remuneration has been paid or is payable in respect of the Relevant Periods to the directors of the Company.

Under the arrangement currently in force, the aggregate amount of remuneration of the directors of the Company, except for any performance bonus, for the year ending 31 March 2015 is estimated to be approximately HK\$3,486,000.

IV. SUBSEQUENT EVENTS

Subsequent to 30 September 2014 and up to the date of this report, the following significant events have taken place:

- (a) On 16 March 2015, the entities now comprising the Group underwent a group reorganisation to rationalise the Group's structure in preparation of the listing of shares of the Company on the GEM of the Stock Exchange.
- (b) On 16 March 2015, written resolutions were passed to effect the transactions as set out in the sub-paragraph headed "Written resolutions of our Shareholders" in Appendix IV to the Prospectus, certain of which are disclosed as follows:
 - (i) The authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of additional 1,962,000,000 shares.
 - (ii) 999,999 shares of HK\$0.01 each of the Company were issued as consideration for the acquisition of the entire issued share capital of Win Vision.

- (iii) The Company's Share Option Scheme was adopted. Details of the Share Option Scheme are set out in section headed "Share Option Scheme" of Appendix IV to the Prospectus.

Save as disclosed above, there are no other significant events which have taken place subsequent to 30 September 2014.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 September 2014.

Yours faithfully

BDO Limited

Certified Public Accountants

Li Yin Fan

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Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant's Report from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

The unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules is set forth below to provide the prospective investors with further information on how the Placing and the Capitalisation Issue might have affected the net tangible assets of the Group attributable to the owners of the Company after the completion of the Placing.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted combined net tangible assets of the Group, prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Placing and the Capitalisation Issue on the combined net tangible assets of the Group attributable to the owners of the Company as if the Placing and the Capitalisation Issue had taken place on 30 September 2014. This unaudited pro forma statement of adjusted combined net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the combined financial position of the Group attributable to the owners of the Company had the Placing and the Capitalisation Issue been completed on 30 September 2014 or at any future dates.

	Audited combined net tangible assets attributable to the owners of the Company as at 30 September 2014 HK\$'000 (Note 1)	Estimated net proceeds from the Placing HK\$'000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets attributable to the owners of the Company HK\$'000	Unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company HK cents (Note 3)
Based on the Placing Price of HK\$0.3 per Share	17,604	33,933	51,537	5.4

Notes:

- (1) The audited combined net tangible assets attributable to the owners of the Company as at 30 September 2014 is extracted from the Accountant's Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on indicative Placing Price of HK\$0.3 per New Share, after deduction of the underwriting fees and related expenses of HK\$2.0 million payable and borne by the Company in connection with the Placing, taking into account the effect of listing expenses of approximately HK\$7.3 million that have been charged to profit or loss prior to 30

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

September 2014, listing expenses of approximately HK\$2.4 million borne by the Vendors for the sale of Sale Shares and approximately HK\$6.9 million that the Vendors have agreed to reimburse in its capacity as shareholders, when received by the Company upon Listing, will be accounted for as a capital contribution to the Company.

- (3) The unaudited pro forma adjusted combined net tangible assets per Share attributable to the owners of the Company is calculated based on 960,000,000 Shares in issue immediately following the 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 which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the 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.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2014.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.



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INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF KWAN ON HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kwan On Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma adjusted combined net tangible assets as at 30 September 2014, and the related notes as set out in Part A of Appendix II on pages II-1 to II-2 of the prospectus issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Notes 2 to 4 in Part A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of placing of shares and capitalisation issue of the Company on the Group's financial position as at 30 September 2014 as if the transaction had taken place at 30 September 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 30 September 2014, on which an accountant's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 7.31(1) of the GEM Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of the placing of shares and capitalisation issue of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

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The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully

BDO Limited

Certified Public Accountants

Li Yin Fan

Practising Certificate Number P03113
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 December 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 16 March 2015. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

- (v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in

attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons

who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers,

authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued

shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the

holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be

entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable

qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding

the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 3 January 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with United Kingdom in 2010 but otherwise are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the

company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within

twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be

unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 December 2012. Our Company has established a principal place of business in Hong Kong at 5/F., So Hong Commercial Building, 41, 43, 45 & 47 Jervois Street, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the predecessor Companies Ordinance on 22 January 2013 as applied prior to 3 March 2014. Mr. Tony Wong and Mr. Ng Sai Cheong have been appointed as the agents of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at 5/F., So Hong Commercial Building, 41, 43, 45 & 47 Jervois Street, Hong Kong and Flat 7, 8/F, Block 2, Heng Fa Chuen, Chai Wan, Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises a memorandum of association and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company, its authorised share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Following its incorporation, one subscriber's Share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, and was transferred to Twilight Treasure at nil consideration on 6 December 2012.

Pursuant to the written resolutions of our sole Shareholder passed on 16 March 2015, the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional 1,962,000,000 Shares.

On 16 March 2015, in consideration of the transfer of the entire share capital of Win Vision from Fortune Decade and Twilight Treasure to our Company, our Company has (i) allotted and issued 533,300 and 466,699 Shares, all credited as fully paid to Fortune Decade and Twilight Treasure respectively; and (ii) credited as fully paid at par the one nil-paid Share held by Twilight Treasure.

Immediately following the Placing and the Capitalisation Issue, the authorised share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares and the issued share capital of our Company will be HK\$9,600,000 divided into 960,000,000 Shares fully paid or credited as fully paid. Save as disclosed in this prospectus, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at a general meeting of the Company, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of our sole Shareholder

On 16 March 2015, resolutions in writing were passed by our sole Shareholder pursuant to which, among other matters:

- (a) our Company approved and adopted the Articles, the terms of which are summarised in Appendix III to this prospectus;
- (b) our Company approved an increase of the authorised share capital of our Company from HK\$380,000 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by creation of an additional 1,962,000,000 Shares;
- (c) our Company approved the acquisition of the entire issued share capital of Win Vision from Twilight Treasure and Fortune Decade (i) by allotment and issue of 466,699 and 533,300 new Shares, all credited as fully paid to Twilight Treasure and Fortune Decade as consideration shares respectively and (ii) by crediting one nil paid Share which was transferred to Twilight Treasure by Codan Trust Company (Cayman) Limited on 6 December 2012 as fully paid at par;
- (d) conditional on (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:
 - (i) the Placing was approved and our Directors were authorised to allot and issue the Placing Shares pursuant to the Placing;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Summary of the terms of the Share Option Scheme” in the subsection headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised, among others, to grant options to subscribe, for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Placing, our Directors were authorised to capitalise an amount of HK\$8,390,000 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 839,000,000 Shares for allotment and issue to our Shareholders whose name appear on the

register of members of our Company at close of business of 16 March 2015, and our Directors were authorised to give effect to such capitalisation and distribution;

- (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of (a) rights issue; or (b) the exercise of any of the subscription rights attaching to any options granted under the Share Option Scheme; or (c) any scrip dividend schemes or similar arrangements in accordance with the Articles, or under the Placing or the Capitalisation Issue, Shares with an aggregate nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue; and (bb) the nominal amount of the share capital of our Company repurchased by our Company pursuant to the authority granted to our Directors as referred in paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (vi) the general unconditional mandate as mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal amount of the Shares which may be allotted, issued or dealt with by our Directors pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the Shares in the capital of our Company repurchased by our Company pursuant to the mandate to repurchase shares referred to in subparagraph (v) above; and
- (vii) the appointments of Mr. Tong Wong, Mr. Kwong and Mr. Chung as executive Directors, and Mr. Ho, Professor Lam and Mr. Chan as independent non-executive Directors were approved, confirmed and ratified.

4. Corporate reorganisation

The companies comprising our Group underwent a corporate reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the GEM which involved the following:

- (a) incorporation of Win Vision on 10 August 2012 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each, of which 10,000 shares were allotted and issued, as to 3 shares to Fortune Decade and as to 9,997 shares to Twilight Treasure on 8 October 2012;
- (b) incorporation of our Company on 6 December 2012 in the Cayman Islands and transfer of one nil-paid Share from Codan Trust Company (Cayman) Limited to Twilight Treasure at nil consideration on the same date;
- (c) acquisition of the entire issued share capital of Kwan On by Win Vision from KOCHL and Newtollent on 12 March 2015 in consideration of the allotment and issue of 2 ordinary shares of Win Vision of US\$1.00 each, all credited as fully paid up, to Twilight Treasure at the directions of the respective vendors;
- (d) acquisition of the entire issued share capital of UEL by Win Vision from Mr. Tony Wong, Mr. Kwong and Fortune Peace on 12 March 2015 in consideration of the allotment and issue of 3 ordinary shares of Win Vision of US\$1.00 each, all credited as fully paid up, to Twilight Treasure at the directions of the respective vendors;
- (e) acquisition of the entire issued share capital of UECL by Win Vision from Mr. Tony Wong, Fortune Peace and Garwealth on 12 March 2015 in consideration of the allotment and issue of 3 ordinary shares of Win Vision of US\$1.00 each, all credited as fully paid up, to Twilight Treasure at the directions of the respective vendors;
- (f) acquisition of the entire issued share capital of UEWL by Win Vision from Bridge Land and Mr. Kwong on 12 March 2015 in consideration of the allotment and issue of 2 ordinary shares of Win Vision of US\$1.00 each, all credited as fully paid up, to Twilight Treasure at the directions of the respective vendors;
- (g) acquisition of the entire issued share capital of UBCL by Win Vision from Mr. Tony Wong on 12 March 2015 in consideration of the allotment and issue of 1 ordinary share of Win Vision of US\$1.00, credited as fully paid up, to Fortune Decade at the direction of Mr. Tony Wong;

- (h) acquisition of the entire issued share capital of UCRL by Win Vision from Mr. Tony Wong and Ms. Chiu on 12 March 2015 in consideration of the allotment and issue of 2 ordinary shares of Win Vision of US\$1.00 each, all credited as fully paid up, to Twilight Treasure at the directions of the respective vendors;
- (i) acquisition of the entire issued share capital of UFCL by Win Vision from Mr. Tony Wong on 12 March 2015 in consideration of the allotment and issue of 1 ordinary share of Win Vision of US\$1.00, credited as fully paid up, to Fortune Decade at the direction of Mr. Tony Wong;
- (j) on 16 March 2015, the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional 1,962,000,000 Shares; and
- (k) acquisition of the entire issued share capital of Win Vision by our Company from Twilight Treasure and Fortune Decade on 16 March 2015 in consideration of (i) the allotment and issue of 466,699 and 533,300 Shares, all credited as fully paid up, to Twilight Treasure and Fortune Decade respectively and (ii) the crediting as fully paid at par the one nil-paid Share held by Twilight Treasure.

5. Changes in the share capital of each of the subsidiaries of our Company

Each of the subsidiaries of our Company is listed in the accountant's report set out in Appendix I to this prospectus.

Except the Shares of each of UECL, UEL, UFCL, Kwan On, UCRL, UBCL and UEWL have ceased to have any nominal value with effect from 3 March 2014, there has not been any alteration in the share capital of each of our Company's subsidiaries took place during the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(A) Provisions of the GEM Listing Rules

The GEM Listing Rules permit a company listed on GEM to repurchase its securities on GEM subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on GEM must be approved in advance by an ordinary resolution of our Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by our sole Shareholder on 16 March 2015, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising any repurchase by our Company of Shares on GEM or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company immediately following completion of the Placing, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with a company's constitutive documents and the laws of the jurisdiction in which our Company is incorporated or otherwise established. A listed company may not purchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits or share premium of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of our Company or, subject to the Companies Law, out of capital.

(B) *Reasons for repurchases*

Our Directors believe that it is in the best interest of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(C) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with its memorandum of association and Articles and the applicable laws of Hong Kong.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 960,000,000 Shares in issue immediately after the listing of the Shares, would result in up to 96,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(D) General

None of our Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Hong Kong.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of our Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No core connected person has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Group taken as a whole:—

- (a) the share purchase agreement dated 16 March 2015 entered into between our Company as purchaser and Twilight Treasure and Fortune Decade as vendors pursuant to which our Company agreed to purchase from Twilight Treasure and Fortune Decade the entire issued share capital of Win Vision and in return our Company (i) allotted and issued 533,300 and 466,699 Shares to Fortune Decade and Twilight Treasure respectively, credited as fully paid and (ii) credited as fully paid at par the one nil-paid Share held by Twilight Treasure;
- (b) the share purchase agreement dated 12 March 2015 entered into between Win Vision, as the purchaser and Mr. Tony Wong, Mr. Kwong, Fortune Peace, Garwealth, Newtollent, Bridge Land, KOCHL and Ms. Chiu, as vendors pursuant to which Win Vision agreed to purchase from Mr. Tony Wong, Mr. Kwong, Fortune Peace, Garwealth, Newtollent, Bridge Land and Ms. Chiu their respective beneficial interests in the issued share capital of Kwan On, UEL, UECL, UEWL, UBCL, UCRL and UFCL and in return Win Vision allotted and issued 2 and 12 shares of Win Vision to Fortune Decade and Twilight Treasure respectively, credited as fully paid;
- (c) the Deed of Non-competition dated 20 March 2015 executed by our Controlling Shareholders in favour of our Company, details of which are set out in the paragraph headed “Deed of Non-competition” under the subsection headed “Competition” of the section headed “Controlling Shareholders” of this prospectus;
- (d) the Underwriting Agreement, the principal terms of which are summarised in the subsection headed “Underwriting arrangements and expenses” under the section headed “Underwriting” of this prospectus; and
- (e) the Deed of Indemnity dated 20 March 2015 executed by the Indemnifiers whereby the Indemnifiers agreed to give certain indemnities in relation to tax and other matters including jointly and severally indemnities set out in the subparagraph headed “Tax and other indemnities” under the subsection headed “Other information” in this Appendix.

C. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

Trademarks

As at the Latest Practicable Date, our Group was the registered owner of the following trademarks:

Trademark	Trademark No.	Place of Registration	Name of Owner	Class (Notes)	Date of Registration
 Kwan On Construction Co. Ltd. 坤安建築有限公司	302466072	Hong Kong	Kwan On	37 ¹ , 42 ²	13 December 2012

Trademark	Trademark No.	Place of Registration	Name of Owner	Class (Notes)	Date of Registration
	302417670	Hong Kong	Kwan On	37 ³ , 42 ²	29 October 2012
	302505014	Hong Kong	UEL	9 ⁴ , 19 ⁵ , 37 ⁶	24 January 2013
	302783638	Hong Kong	Kwan On	16 ⁷	30 October 2013

Notes:

No.	Class	Specification of Goods/Services in Hong Kong
1.	37	Civil engineering services; construction, maintenance, installation and repair services; construction, renovation, maintenance and repair of waterworks, waterworks engineering; construction, maintenance and repair of service reservoir, pumping station and water main laying; construction, maintenance, restoration and demolition of roads, pavings and drainage and water installations; construction, maintenance, installation and repair of drainage systems, rainwater systems, overflow systems, wastewater collection and treatment systems; site formation, excavation, dredging, ground investigation and improvement; conducting construction of foundation works; landslide prevention, slope stabilization and erosion control, slope and building insulation, slope and embankment design; road works and drainage services; construction of interchange, carriageway, walkway, footpath, access road, covered bridge, link bridge, drainage channel and the associated lighting, drainage, landscaping, utilities diversion and electrical and mechanical works; building construction, foundation, demolition, removal of unauthorised building works, maintenance and repair of buildings and drainage; structural repairs; advisory, consultancy and information services relating to the foregoing.
2.	42	Slope and embankment construction design.
3.	37	Civil engineering services; construction, maintenance, installation and repair services; construction, renovation, maintenance and repair of waterworks, waterworks engineering; construction, maintenance and repair of service reservoir, pumping station and water main laying; construction, maintenance, restoration and demolition of roads, pavings and drainage and water installations; construction, maintenance, installation and repair of drainage systems, rainwater systems, overflow systems, wastewater collection and treatment systems; site formation, excavation, dredging, ground investigation and improvement; conducting construction of foundation works; landslide prevention, slope stabilization and erosion control, slope and building insulation, road works and drainage services; construction of interchange, carriageway, walkway, footpath, access road, covered bridge, link bridge, drainage channel and the associated lighting, drainage, landscaping, utilities diversion and electrical and mechanical works; building construction, foundation, demolition, removal of unauthorised building works, maintenance and repair of buildings and drainage; structural fire protection and installation; advisory, consultancy and information services relating to the foregoing.
4.	9	Fire and smoke curtains (fire protection devices); fire shutters (fire protection devices); apparatus for detecting, extinguishing and suppressing fire; smoke detection apparatus; fire extinguisher.
5.	19	Non-metallic transportable buildings; concrete, fire burrs, concrete building elements, fireproof cement coatings; fireproof doors, fire doors; non-metal window shutters, window frames not of metal, non-metal windows and bow windows, non-metal window casements; water pipes not of metal, gutter pipes not of metal, drain pipes not of metal or plastic, branching pipes not of metal and rigid pipes not of metal for building, penstock pipes not of metal, water-pipe valves not of metal or plastic, drain traps not of metal or plastic.

No.	Class	Specification of Goods/Services in Hong Kong
6.	37	General building works; site formation and clearance; demolition works; window inspection; erection of architectural superstructures; civil engineering construction; structural alteration and addition works; interior fitting out service; exterior renovation and repairs; insulation of buildings during construction; sealing of buildings during construction; damp proofing of buildings during construction; concrete repairs; installation of fire protection structure; advisory, consultancy and information services relating to the foregoing.
7.	16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; stationery; printed promotional materials; periodicals, books, magazines, prospectuses, manuals, newsletters, brochures and pamphlets.

Domain name

As at the Latest Practicable Date, our Group had registered the following domain name:

Registrant	Domain Name	Expiry Date
Kwan On	kwanonconstruction.com	17 September 2015

D. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND STAFF

1. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Placing, but taking no account of any Shares which may be taken up or acquired under the Placing, the persons (other than our Directors or chief executive of our Company) with interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of our Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group will be as follows:

Name	Capacity and nature of interests	Number of shares held or amount of registered capital contributed	Approximate percentage of shareholding effectively held
Twilight Treasure (Notes 1 and 2)	Beneficial owner	332,028,000(L)	34.59%
Success Ally (Notes 2 and 3)	Interest of controlled corporation	332,028,000(L)	34.59%

Name	Capacity and nature of interests	Number of shares held or amount of registered capital contributed	Approximate percentage of shareholding effectively held
Fortune Decade <i>(Notes 1 and 4)</i>	Beneficial owner	387,972,000(L)	40.41%
Ms. Chiu <i>(Note 5)</i>	Interests of spouse	720,000,000(L)	75.00%

Notes:

1. The entire issued share capital of our Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade and as to approximately 34.59% by Twilight Treasure.
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally and as to 12.5% by Decade Success.
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Fortune Decade is legally and beneficially owned by Mr. Tony Wong.
5. Ms. Chiu is deemed to be interested in the 720,000,000 Shares held by Mr. Tony Wong pursuant to the SFO by virtue of her being the spouse of Mr. Tony Wong.

The letter “L” denotes a long position in the shareholder’s interest in the share capital of the relevant member of our Group.

2. Interests of Directors and chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Placing and taking no account any shares which may fall to be allotted and issued or repurchased by our Company pursuant to the mandates as referred to in the section headed “Further information about our Company” in this Appendix, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), which will be required, pursuant to section 352 of the SFO, to be entered in

the register as referred to therein, or will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by to be notified to our Company and the Stock Exchange will be as follows:

Name	Capacity and nature of interests	Number of shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding effectively held
Mr. Tony Wong <i>(Notes 1 to 3)</i>	Interest of controlled corporation	720,000,000(L)	75.00%
Mr. Kwong <i>(Notes 2 and 4)</i>	Interests of controlled corporation	332,028,000(L)	34.59%

The letter “L” denotes a long position in the shareholder’s interest in the share capital of the relevant member of our Group.

Notes:

1. The entire issued share capital of our Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade and as to approximately 34.59% by Twilight Treasure.
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally and as to 12.5% by Decade Success.
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Decade Success is legally and beneficially owned by Mr. Kwong.

3. Particulars of Directors’ service contracts and Directors’ remuneration

Particular of service contracts

Each of the executive Directors has entered into a service contract with our Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other, which notice shall not expire until after initial fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment at the discretion of our Directors of not more than 10% of the annual salary at the time of the relevant review). An executive Director is required to abstain from voting and is not counted in the quorum in

respect of any resolution of our Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Tony Wong	HK\$1,440,000
Mr. Kwong	HK\$1,140,000
Mr. Chung	HK\$840,000

Each of the independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment are as follows:

Name	Amount
Ho Ho Ming	HK\$150,000
Lam Sing Kwong, Simon	HK\$150,000
Chan Chung Kik, Lewis	HK\$150,000

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Remuneration of our Directors

The aggregate remuneration paid by our Group to our Directors in respect of the financial year ended 31 March 2014 was approximately HK\$3,502,000.

Under the arrangement in force at the date of this prospectus, it is estimated that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors for the year ending 31 March 2015 is approximately HK\$3,486,000.

Our Company's policy concerning the remuneration of our Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to our Group.

4. Agency fees or commissions

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

5. Related party transaction

For further details in relation to the related party transactions, please refer to Note 26 to the financial statements in the Accountant's Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Placing, our Directors are not aware of any person who will, immediately following the completion of the Placing, have an interest or short position in the Shares or underlying shares of our Company which will have to be notified to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of our Company;
- (b) none of our Directors or chief executive of our Company will have an interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to our Company and the Stock Exchange;
- (c) none of our Directors or the experts named in the paragraph headed "Qualifications of experts" in the subsection headed "Other information" of this Appendix is interested in the promotion of our Company, or in any assets which have been within the two years immediately preceding the issue of this prospectus acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

- (d) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in the subsection headed “Other information” of this Appendix is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in the subsection headed “Other information” of this Appendix has any shareholding in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (f) none of our Directors has any existing or proposed service contracts with our Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (g) no remuneration or other benefits in kind have been paid by our Company to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by our Company to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

E. SHARE OPTION SCHEME

Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Company to grant options to the employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of our Company or any subsidiary (including any director of our Company or any subsidiary) who is in full-time or part-time employment with or otherwise engaged by our Company or any subsidiary at the time when an option is granted to such employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner or any person who, in the absolute discretion of the Board (the “**Eligible Participants**”), has contributed or may contribute to our Group as incentive or reward for their contribution to our Group.

(b) *Grant and acceptance of options*

Subject to the terms of the Share Option Scheme, our Directors may, in its absolute discretion, and subject to such conditions as our Directors see fit, make offer to the Eligible Participants.

An offer shall be made to an Eligible Participant in writing in such form as our Directors may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of 21 days from, and inclusive of, the date on which the offer is made provided that no such offer shall be open for acceptance after the 10th anniversary of the adoption date of the Share Option Scheme or the termination of the same.

An offer shall be deemed to have been accepted by an Eligible Participant concerned in respect of all Shares which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant, together with a non-refundable remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from, and inclusive of, the date of offer).

Any offer may be accepted by an Eligible Participant in respect of less than the total number of Shares which are offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof.

(c) *Price of Shares*

The subscription price for Shares under the Share Option Scheme shall be determined at the discretion of our Directors but in any event will not be less than the highest of (a) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the offer date of the particular option, which must be a Business Day; (b) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date of that particular option; and (c) the nominal value of a Share on the offer date of the particular option.

(d) *Maximum number of Shares*

- (i) The maximum number of Shares in respect of which options may be granted at any time under the Share Option scheme together with options which may be granted under any other share option schemes for the time being of our Group shall not exceed such number of Shares as equals 10 per cent. of the issued share capital of our Company at the date of approval of the Share Option Scheme. On the basis of a total of 960,000,000 Shares in issue as at the Listing Date, the relevant limit will be 96,000,000 Shares which represent 10% of the issued Shares at the Listing Date. Our Company may seek approval by our Shareholders

in general meeting to refresh the 10 per cent. limit provided that the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes of our Group in these circumstances must not exceed 10 per cent. of the issued share capital of our Company at the date of approval of refreshing of the limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Group (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes and exercised options) will not be counted for the purpose of calculating the limit as refreshed.

- (ii) Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the 10 per cent. limit provided that the options in excess of the limit are granted only to Eligible Participant specifically identified by our Company before such approval is sought. Our Company will send a circular to our Shareholders containing a generic description of the specified Eligible Participant who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participant with an explanation as to how the terms of the options serve such purpose, and such information as may be required under the GEM Listing Rules from time to time.
- (iii) The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other share option schemes of our Group must not exceed 30 per cent. of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Group if this will result in the limit being exceeded.
- (iv) Unless approved by our Shareholders in the manner set out below, the total number of Shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the Shares in issue. Where any further grant of options to an Eligible Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent. of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Eligible Participant and his close associates abstaining from voting (or his associates if the Eligible Participant is a connected person). Our Company must send a circular to our Shareholders and the circular must disclose the identity of the Eligible Participant, the number and terms of the options to be granted (and

options previously granted to such Eligible Participant), and such information as may be required under the GEM Listing Rules from time to time. The number and terms (including the subscription price) of options to be granted to such Eligible Participant must be fixed before Shareholders' approval and the date of meeting of the board of Directors for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient of the then authorised but unissued share capital of our Company to allot the Shares on the exercise of any option.

(e) Exercise of options

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant but subject to the early termination of the Share Option Scheme.

Subject to terms of the Share Option Scheme, an option shall be exercisable in whole or in part in the circumstances by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised. Each such notice must be accompanied by a non-refundable remittance for the full amount of the subscription price for Shares in respect of which the notice is given. Within 21 days (or 7 days in the case of exercise of an option pursuant to paragraph (l) below) after receipt of the notice and, where appropriate, receipt of the auditors' certificate, our Company shall accordingly allot the relevant number of Shares to the grantee (or his legal personal representative) credited as fully paid.

Though there is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms and conditions of the Share Option Scheme, our Directors may make such grant of options, subject to such terms and conditions in relation to the minimum period of such options to be held and/or the performance targets to be achieved as our Directors may determine in their absolute discretion.

(f) Restrictions on the time of grant of options

No option shall be granted by our Directors under the following circumstances:

- (i) after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the GEM Listing Rules; and

(ii) during the period commencing one month immediately preceding the earlier of:

(aa) the date of the Board meeting (as such date is first noticed to the Stock Exchange pursuant to Rule 17.48 of the GEM Listing Rules) for approving the Company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and

(bb) the deadline for our Company to announce its results for any year, half year or quarter-year period under Rules 18.49, 18.78 or 18.79 of the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules);

and ending on the date of the results announcement.

(g) Rights are personal to grantees

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement to do so.

(h) Rights on ceasing employment and retirement

The option period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the date on which the grantee ceases to be an Eligible Participant for any reason other than his death, ill-health or retirement in accordance with his contract or by reason of a termination of his employment on any one or more of the grounds that he has been guilty of persistent or serious misconduct or has become bankrupt or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of other Directors does not bring the grantee or any member of our Group into disrepute).

In the event of the grantee ceasing to be an Eligible Participant by resignation, retirement, expiry of employment contract or termination of employment for reason other than any of the events specified in this paragraph above or paragraph (i) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors may determine otherwise in which the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of three months following the date of such cessation or termination or, if any of the events referred to in paragraphs (l) or (m) occurs during such period, exercise the option pursuant to paragraph (l) or (m) respectively.

(i) *Rights on death*

In the event of the grantee ceasing to be an Eligible Participant by reason of his death before exercising the option in full and where the grantee is any employee of our Group none of the events which would be a ground for termination of his employment under paragraph (h) above arises, his personal representative(s) may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death, or such longer period as our Directors may determine.

(j) *Cancellation of options*

Where our Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by our Shareholders of our Company as mentioned in paragraph (d) above.

(k) *Effect of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue or other offer of securities to holders of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of our Company, but excluding options under the Share Option Scheme and options under any other similar employee share option scheme of our Company), repurchase, consolidation, sub-division or reduction of the share capital of our Company or otherwise howsoever (excluding any alternation in the capital structure of our Company as a result of an issue of Shares as consideration in respect of a transaction to which our Company is a party), then, in any such case (other than in the case of capitalisation of profits or reserves) our Company shall instruct the auditors to certify in writing:

- (A) the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:
 - (aa) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
 - (bb) the subscription price; and/or
 - (cc) the maximum number of Shares referred to in paragraph d(i); and/or
 - (dd) the method of the exercise of the option(s),

or any combination thereof, and an adjustment as so certified by the auditors shall be made, provided that:

- (1) any such adjustment must give a grantee the same proportion of the equity capital as that to which that person was previously entitled;
- (2) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;
- (3) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (4) the issue of securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (5) to the advantage in any respect of the grantee without specific prior approval of our Shareholders.

(B) in respect of any such adjustment, other than any made on a capitalisation issue, the auditors must confirm to our Directors in writing that the adjustment so made satisfies the requirements above.

(l) Rights on a general offer

If a general or partial offer is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company at any time thereafter and up to the close of such offer (or any revised offer).

(m) Rights on winding up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees (containing an extract of the provisions of this paragraph) and thereupon, each grantee or his personal representative(s) shall be

entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

(n) Rights on a compromise or arrangement

Other than a general or partial offer or a scheme of arrangement contemplated in paragraph (o) below, in the event of a compromise or arrangement between our Company and its members or creditors being proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any grantee or his personal representative(s) may by notice in writing to our Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by our Company not later than two Business Days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice.

(o) Rights on a scheme of arrangement

If a general or partial offer by way of scheme of arrangement is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company at any time thereafter and the record date for entitlements under the scheme of arrangement.

(p) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the

holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered onto the register of members of our Company as the holder thereof.

(q) Duration and administration of the Share Option Scheme

The Share Option Scheme shall be valid and effective commencing from the adoption date of the Share Option Scheme until the termination date as provided therein (which being the close of business of our Company on the date which falls ten years from the date of the adoption of the Share Option Scheme), after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (save as otherwise provided herein and in the absence of manifest error) be final and binding on all persons who may be affected thereby.

(r) Alterations to the terms of the Share Option Scheme

Subject to the GEM Listing Rules, the Share Option Scheme may be altered from time to time in any respect by a resolution of our Directors except that the following alterations shall require the prior sanction of our Shareholders in general meeting (with all grantees and their close associates abstaining from voting and the votes taken by poll):

- (i) alterations of the provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Eligible Participant without the prior approval of our Shareholders in general meeting;
- (ii) any alteration to the terms and conditions of the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme; and
- (iii) any change to the authority of our Directors or administrator of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of the GEM Listing Rules and any guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

(s) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon:

- (i) the Listing Division granting the listing of, and permission to deal in, any Shares to be issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme;
- (ii) commencement of dealings of Shares on GEM; and
- (iii) the passing of the necessary resolution to approve and adopt the Share Option Scheme by our Shareholders in general meeting or by way of written resolution and to authorise our Directors to grant options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options granted under the Share Option Scheme.

(t) Grant of options to core connected persons or any of their close associates

Each grant of options to any of our Directors, chief executive of our Company or substantial Shareholder or an independent non-executive Director, or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option (if any)). Where any grant of options to a substantial Shareholder or an independent non-executive Director, or any of his associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1 per cent. of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million.

such further grant of options must be approved by our Shareholder. Our Company must send a circular to our Shareholders. All the grantee, his close associates and all core connected persons must abstain from voting at such general meeting, except that any of them may vote against the relevant resolution at the general meeting provided that its intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. The circular must contain:

- (aa) details of the number and terms (including the subscription price) of the options to be granted to each Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the meeting of the board of Directors for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
- (bb) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options) to our independent Shareholders as to voting; and
- (cc) the information as may be required under the GEM Listing Rules from time to time.

Shareholders' approval is also required for any change in the terms of options granted to an Eligible Participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates.

(u) Lapse of option

The Option Period (as defined in the Share Option Scheme) in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (i) or (o) or sub-paragraph (iii) below, where applicable;
- (iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining shares in the offer, the expiry of the period referred to in paragraph (l);
- (iv) subject to the scheme of arrangement becoming effective, the expiry date of the period referred to in paragraph (o);
- (v) the date on which the grantee ceases to be an Eligible Participant for any reason other than his death or the termination of his employment or directorship on one or more grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or any member of our Group into disrepute);
- (vi) the date of the commencement of the winding-up of our Company referred to in paragraph (m);
- (vii) the date on which the grantee commits a breach of paragraph (g); or

(viii) the date on which the option is cancelled by the Board as set out in paragraph (j).

(v) *Termination*

Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Miscellaneous*

Any dispute arising in connection with the number of Shares of an option, any of the matters referred to in paragraph (k) above shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

(x) *Present status of the Share Option Scheme*

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme which shall represent 10% of the Share in issue upon completion of the Share Offer. As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(y) *Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of the options. Our Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

F. OTHER INFORMATION**1. Tax and other indemnities**

Each of the Indemnifiers, pursuant to the Deed of Indemnity referred to the paragraph headed “Summary of material contracts” under the subsection headed “Further information about the business” of this Appendix, given joint and several indemnities in respect of, among other things, any tax liabilities which might be payable by any member of our Group, Kwan On – China Geo and Kwan On – U-Tech 2 in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date, save:

- (a) to the extent that provision has been made for such taxation in the audited combined accounts of our Group for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 as set out in Appendix I to this prospectus;
- (b) to the extent that such taxation or liability would not have arisen but for any act or omission by any of members of our Group and Kwan On – U-Tech 2 voluntarily effected, otherwise than in the ordinary course of business after the Listing Date;
- (c) for which any members of our Group and Kwan On – U-Tech 2 is primarily liable as a result of transactions entered into in the ordinary course of business after the date on which the deed of indemnity becomes unconditional;
- (d) to the extent that such taxation arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof coming into force after the Listing Date or to the extent such taxation or liability arises or is increased by an increase in rates of Taxation or Claim after the date hereof with retrospective effect; and
- (e) to the extent of any provision or reserve made for taxation in the audited accounts of our Group up to 30 September 2014 which is finally established to be an over-provision or an excessive reserve.

Each of the Indemnifiers has jointly and severally indemnified and at all times keep each member of our Group indemnified against all the costs (including legal costs, which shall be indemnified at the time incurred), expenses, losses and/or other liabilities incurred by the members of our Group in relation to those outstanding or unsettled legal and arbitration proceedings, investigations, prosecutions and/or claims including but not limited to those as more particularly described in the paragraph headed “Litigation” below, to the extent that such costs (including legal costs, which shall be indemnified at the time incurred), expenses, losses and/or other liabilities is/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 may

be filed after the Listing Date) whether alone or in conjunction with any circumstances whenever occurring exceed the relevant amounts of provisions made by our Company in its audited accounts for the two years ended 31 March 2014 and six months ended 30 September 2014 and are not otherwise indemnified by any other parties under any contractual obligations.

Each of the Indemnifiers further jointly and severally undertakes to indemnify and to keep each member of the Group fully indemnified in respect of any loss, damages, liability, relocation cost and disruption in operation suffered by any of the Group Members as a result of or in connection with the forfeiture of the tenancy under any of lease agreements (the “**Lease Agreements**”) entered into by the relevant members of the Group due to any failure of any of the lessors (“**Lessors**”) of the affected properties (the “**Affected Properties**”) under the Lease Agreements to comply with the requisite procedures (including but not limited to registration or filing of the Lease Agreements with the relevant governmental authorities in Hong Kong) under the applicable laws and regulations in respect of the Lease Agreements and/or any of the Lessors have the right, authority or capacity to grant the tenancy of the Affected Properties under the Lease Agreements or the actual use of any of the Affected Properties does not comply with the permitted use.

Each of the Indemnifiers has also jointly and severally undertaken to indemnify and at all times keep each member of our Group indemnified against any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of section 35 and section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislations in any relevant jurisdictions outside Hong Kong arising on death of any person at any time by reason of any transfer of any property to any member of our Group on or before the Listing Date, provided that the Indemnifiers will not be liable for any penalty imposed on the members of our Group or any of them under section 42 of the Estate Duty Ordinance by reason of any of the members of our Group defaulting in any obligation arising after the Listing Date to give information to the Commissioner (as defined under the Estate duty Ordinance) under section 42(1) of the Estate Duty Ordinance.

Our Directors have been advised that save as disclosed above, no material liability for estate duty is likely to fall on any member of our Group in such jurisdiction in which our Company comprising our Group is incorporated.

2. Litigation

Save as disclosed below, as at the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group:

- (i) a Court of First Instance Action (HCCT 4/2006) was commenced by a subcontractor of a subcontractor of Kwan On in January 2006 against Kwan On, and the said subcontractor as other defendant, for a sum of approximately HK\$9.52 million or such sum as is due, allegedly as damages

for breach of certain oral agreement made by Kwan On for paying the plaintiff should the other defendant fail or refuse to do so. Kwan On denied any liability to pay the plaintiff on the ground that Kwan On had never agreed to be responsible for paying the plaintiff should the other defendant fail or refuse to do so. Kwan On agreed to participate in the payment process in respect of labourer wages for the works and would, if called up, assist the plaintiff in paying its labourers their wages and the agreement made by Kwan On with the plaintiff was recorded under minutes. Kwan On was never called upon by the plaintiff to assist such payments. The plaintiff also claims interest and costs against Kwan On. As advised by the legal advisers to Kwan On as to the said action, they are of the view that the documents which the parties have disclosed so far do not support the plaintiff's case. The plaintiff has left the action in abeyance since September 2009;

- (ii) a Court of First Instance Action (HCPI 279/2013) was commenced by an employee of a subcontractor of Kwan On in or about April 2013 against Kwan On and one other respondent in respect of a claim for personal injury sustained by him in an accident happened on 14 December 2011 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceedings. By a consent order of the High Court of Hong Kong dated 16 December 2014, Kwan On and the other respondent were ordered to pay the plaintiff a sum of HK\$1,215,000 (inclusive of interest) in full and final settlement of his claim against Kwan On and the other respondent in respect of the above action, of which payments of HK\$915,000 were already made to the plaintiff by Kwan On's insurer. Kwan On was informed by a letter dated 15 January 2015 from the legal advisers to the said action that its insurer was in the course of arranging the final payment of HK\$300,000 for its legal advisers to discharge the only outstanding balance of such settlement sum;
- (iii) a District Court Action (DCPI 2268/2012) was commenced by an employee of the Director of Lands in or about October 2012 against Kwan On, Secretary for Justice (sued on behalf of Director of Lands) and one other defendant in respect of a claim for personal injury sustained by him in his course of employment arising out of the alleged negligence and/or breach of statutory duty and/or breach of common duty of care under the Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) in an accident happened on 11 November 2009 at a construction site alleged to be occupied and managed by Kwan On. No specific amount of claim was stated in the writ of proceeding. No settlement has been reached and no judgment has been entered against Kwan On in respect of the above action. By a letter dated 9 November 2012 from the Department of Justice (on behalf of the Director of Lands) to Kwan On, Kwan On was informed that the plaintiff proposed a settlement offer of HK\$231,711.32 by a letter dated 8 October 2012 from the plaintiff's legal advisers to the Department of Justice. By a further letter dated 14 November 2014 from the plaintiff's solicitor to Kwan On's solicitors and the Department of Justice, the plaintiff made a sanctioned

offer in the sum of HK\$185,000 (inclusive of interest but on top of the compensation under the Employees' Compensation Ordinance in the sum of HK\$69,137.68 and exclusive of legal cost) in full and final settlement of the plaintiff's whole claim. On 11 February 2015, an agreement was reached by all parties whereby the plaintiff agreed to accept the sum of HK\$120,000 (inclusive of interest but on top of the compensation under the Employees' Compensation Ordinance already received by the plaintiff) in full and final settlement of his claims in these proceedings and all his claims arising out of and in connection with the alleged accident happened on 11 November 2009, of which HK\$80,000 would be borne and has been paid by Kwan On, subject to taxation of costs;

- (iv) a District Court Action (DCEC 1971/2013) was commenced by an employee of a subcontractor of UEL in November 2013 against UEL as the second respondent and Kwan On as the intended third respondent and the said subcontractor as the first respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 28 June 2012 arising out of and in the course of his employment. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 19 November 2013, the loss of earning capacity permanently caused by the injury is 25%. No specific amount of claim was stated in the writ of proceeding. By a letter dated 13 November 2014 from the plaintiff's legal advisers to UEL's legal advisers as to the said action, the plaintiff has agreed, without prejudice to any issue that may arise in the plaintiff's common law claim, to accept a sum of approximately HK\$341,000 (exclusive of legal cost) in settlement of the claim and the plaintiff's legal advisers have confirmed the receipt from UEL a cheque in the sum of HK\$341,000 on 7 January 2015;
- (v) a Court of First Instance Action (HCPI 173/2014) was commenced by an employee of a subcontractor of Kwan On in about February 2014 against such subcontractor as the first defendant and Kwan On as the second defendant in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 26 April 2011 at a construction site alleged to be occupied and managed by the said subcontractor. No specific amount of claim was stated in the writ of proceedings. No settlement has been reached and no judgment has been entered against Kwan On in respect of the above action. As assessed by the legal advisers to Kwan On as to the said action, assuming full deduction (if allowed by the court) of the payment received by the applicant of this case under the previous settled claim against Kwan On and its subcontractor commenced by him under the Employees' Compensation Ordinance of approximately HK\$396,000, it is estimated that the net compensation payable under the said action to be approximately HK\$1,253,000;

- (vi) a Court of First Instance Action (HCPI 351/2014) was commenced by an employee of a subcontractor of UEL in about April 2014 against such subcontractor as the first defendant and UEL as the second defendant in respect of a claim for personal injury sustained by him in his course of employment in an accident happened on 28 June 2012 at a construction site alleged to be occupied and managed by the said subcontractor. Approximately HK\$2.7 million plus interest is claimed under this action. No settlement has been reached and no judgment has been entered against Kwan On in respect of the above action. The plaintiff of the said action is the applicant of the District Court Action (DCEC 1971/2013) mentioned above;
- (vii) a District Court Action (DCEC 991/2014) was commenced by an employee of UCRL in about May 2014 against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 13 July 2012 arising out of and in the course of his employment. According to the Certificate of Review of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 12 March 2014, the loss of earning capacity permanently caused by the injury is 3.5%. Accordingly, it is estimated that the compensation payable under the said action to be approximately HK\$59,000. Directors confirm that the Group has taken out the necessary employees' compensation policy to cover its liability against the said proceeding; and
- (viii) in about December 2014, a District Court Action was commenced by an employee of UCRL against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 9 December 2012 arising out of and in the course of his employment. No specific amount of claim was stated in the writ of proceeding. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board dated 27 October 2014, the loss of earning capacity permanently caused by the injury is 2%. Accordingly, it is estimated that the compensation payable under the said action will amount to approximately HK\$37,000.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. The Sponsor has confirmed to the Stock Exchange that they are independent from our Company and satisfy Rule 6A.07 of the GEM Listing Rules. The Sponsor is entitled to a fee in the amount of HK\$3,500,000 as the Sponsor to our Company for the Listing (the "**Sponsor Fee**"). The Sponsor Fee relates solely to services provided by the Sponsor in the capacity of a sponsor, and not other services which it may provide, such as (without limitation) bookbuilding, pricing and underwriting.

4. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Messis Capital Limited as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date or until the compliance adviser agreement is otherwise terminated upon the terms and conditions set out therein.

5. Preliminary expenses

The estimated preliminary expenses of our Company of approximately HK\$85,800 have been paid by our Company.

6. Promoter

Our Company has no promoter.

7. Particulars of the Vendors

The particulars of the Vendors are set out as follow:

Name of the Vendors	:	Fortune Decade	Twilight Treasure
Description	:	A company incorporated in the BVI with limited liability on 23 August 2012 and an investment holding company with company number 1729945	A company incorporated in BVI with limited liability on 13 August 2012 and an investment holding company with company number 1728265
Directors of the Vendors	:	Mr. Tony Wong	Mr. Tony Wong and Mr. Kwong
Shareholders of the Vendors	:	Mr. Tony Wong, holding 100% of the issued share capital of Fortune Decade	Decade Success and Success Ally, holding 12.5% and 87.5% of the issued share capital of Twilight Treasure respectively
Registered office of the Vendors	:	P.O Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	P.O Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI

Number of Sale Shares : 60,000,000 60,000,000
to be offered by the
Vendors for sale
under the Placing

8. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Conyers Dill & Pearman (Cayman) Limited (“CDP”)	Cayman Islands attorneys-at-law
BDO Limited (“BDO”)	Certified Public Accountants
BDO Financial Services Limited	Internal control adviser to our Company
BDO Tax Limited	Tax adviser to our Company
Messis Capital	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Michael Li & Co.	Practising solicitors in Hong Kong

9. Consents of experts

Each of CDP, BDO, BDO Financial Services Limited, BDO Tax Limited, Michael Li & Co. and Messis Capital has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their letters, reports, opinions or summaries of opinions and/or references to their names (as the case may be) in the form and context in which they respectively appear.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Registration procedures

The register of members of our Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited.

Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

12. Miscellaneous

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (iii) no commission has been paid or payable (except commission to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (iv) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (v) no founder, management or deferred shares of our Company have been issued or agreed to be issued;
- (b) our Directors are not aware of any material adverse change in the financial position or trading position or prospects of our Group since 30 September 2014 (being the date to which the latest audited financial statements of our Group were made up);
- (c) all necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
- (d) we have no outstanding convertible debt securities.

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES IN HONG KONG AND
AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in Appendix IV – “Other information – Qualifications of experts”, copies of the material contracts referred to in Appendix IV – “Further information about the business – Summary of material contracts”, and a list containing particulars of the Vendors referred to in Appendix IV – “Other Information – Particulars of the Vendors”.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Michael Li & Co. at 19th Floor, Prosperity Tower, No.39 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum of association of the Company and the Articles;
- (b) the accountant’s report of our Group prepared by BDO, the text of which is set out in Appendix I – “Accountant’s Report”;
- (c) the audited financial statements of the companies now comprising our Group for each of the two years ended 31 March 2014 (or for the period since their respective dates of incorporation/establishment where it is shorter);
- (d) the letter on unaudited pro forma financial information of our Group prepared by BDO, the text of which is set out in Appendix II – “Unaudited Pro Forma Financial Information”;
- (e) the letter prepared by CDP summarising certain aspects of the Cayman Islands company law referred to in Appendix III – “Summary of the constitution of our Company and Cayman Islands company law”;
- (f) the Companies Law;
- (g) the service contracts referred to in the paragraph headed “Particulars of Directors’ service contracts and Directors’ remuneration” in Appendix IV – “Further information about our Directors, management and staff”;
- (h) the rules of the Share Option Scheme referred to in the subsection headed “Share Option Scheme” in Appendix IV – “Statutory and General Information”;
- (i) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV – “Statutory and General Information – Further information about the business”; and

- (j) the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV – “Other information – Qualifications of experts”.