
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.

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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

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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

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(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 plant and systems of work that are safety 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 document, 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.