
RISK FACTORS

Potential investors should consider carefully all the information set out in this document 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 document 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 document 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 document, 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.

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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\$[REDACTED] would be paid to the Underwriter and various professional parties as Listing expenses, of which approximately HK\$[REDACTED] 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

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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.

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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

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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 document. 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

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engineering industry of Hong Kong. Further information about their experiences is set out in the section headed “Directors, Senior Management and Staff” in this document. 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.

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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 document 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

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subsection headed “Insurance” under the section headed “Business” in this document 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

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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 [REDACTED]

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 [REDACTED], there was no public market for the Shares. The [REDACTED] for the [REDACTED] 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 [REDACTED]. 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 [REDACTED]. 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 [REDACTED].

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 [REDACTED].

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 [REDACTED], our Controlling Shareholders will in aggregate become interested in [REDACTED], 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 [REDACTED]. 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 DOCUMENT

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

Certain facts, forecasts and statistics in this document 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 document. Neither our Group, our Directors, the Sponsor nor any of the parties involved in the [REDACTED] 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 document.