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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)

(Stock code on GEM: 8305)

(Stock code on Main Board: 1559)

**TRANSFER OF LISTING
FROM THE GROWTH ENTERPRISE MARKET TO
THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Financial Adviser to the Company



Reference is made to the announcement of the Company made on 9 May 2016 in relation to the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

On 9 May 2016, a formal application was made by the Company to the Stock Exchange for the Transfer of Listing. The Company has applied for the listing of, and permission to deal in, (i) the 960,000,000 Shares in issue; and (ii) the 96,000,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Share Option Scheme, by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the approval-in-principle for the Transfer of Listing has been granted by the Stock Exchange on 5 August 2016. The last day of dealings in the Shares on GEM will be Friday, 12 August 2016. Dealings in the Shares on the Main Board will commence at 9:00 a.m. on Monday, 15 August 2016. The Shares will be traded on the Main Board under the new stock code “1559”. All pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have been fulfilled in relation to the Company and its Shares as at the date of this announcement.

TRANSFER OF THE LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

Reference is made to the announcement of the Company made on 9 May 2016 in relation to the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

On 9 May 2016, a formal application was made by the Company to the Stock Exchange for the Transfer of Listing. The Company has applied for the listing of, and permission to deal in, (i) the 960,000,000 Shares in issue; and (ii) the 96,000,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Share Option Scheme, by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the Stock Exchange granted its approval-in-principle on 5 August 2016 for the Shares to be listed on the Main Board and delisted from GEM according to Rule 9A.09(6) of the Main Board Listing Rules.

The Board confirms that all pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have been fulfilled in relation to the Company and its Shares as at the date of this announcement.

REASONS FOR THE TRANSFER OF LISTING

The Company has been listed on GEM since 27 March 2015. The Company could not meet the minimum profits requirements under the Main Board Listing Rule 8.05(1)(a) based on its financial information for the three years ended 31 March 2015 at the time of the Company's application for GEM listing. The Group is principally engaged in the provision of (i) waterworks engineering services; (ii) road works and drainage services and site formation works; (iii) landslip preventive and mitigation works to slopes and retaining walls services ("**LPM Services**"); and (iv) building works as a contractor in Hong Kong. The Directors consider that the Transfer of Listing will enhance the trading liquidity of the Shares and promote the Company's corporate profile and recognition among public investors. Therefore, the Directors are of the view that the Transfer of Listing will be beneficial to the future growth, financing flexibility and business development of the Group.

The Transfer of Listing will not involve any issue of new Shares by the Company. The Board does not contemplate any material change in the nature of the business activities of the Group following the Transfer of Listing.

DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 27 March 2015, the date on which the Shares were listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (stock code: 8305) will be Friday, 12 August 2016. Dealings in the Shares on the Main Board will commence at 9:00 a.m. on Monday, 15 August 2016. The Shares will be traded on the Main Board under the new stock code "1559" following the Transfer of Listing.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes, and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in a board lot of 10,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of the Company is Codan Trust Company (Cayman) Limited and the Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of the Company following the Transfer of Listing.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by the Company on 16 March 2015 pursuant to which the Company may grant options to individuals including employees, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company and any subsidiary to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre employees. 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). As at the date of this announcement, the Share Option Scheme fully complies with the requirements of Chapter 17 of the Main Board Listing Rules. As such, the Share Option Scheme will remain effective following the Transfer of Listing.

Pursuant to the rules of the Share Option Scheme, the Company may grant options in respect of a total of 96,000,000 Shares during the remaining term of the Share Option Scheme. As at the date of this announcement, no options have been granted by the Company under the Share Option Scheme. The listing of Shares to be issued pursuant to the Share Option Scheme will also be transferred to the Main Board pursuant to Rule 9A.10 of the Main Board Listing Rules.

As at the date of this announcement, save for the options that may be granted under the Share Option Scheme, the Company does not have any other options, warrants or similar rights or convertible equity securities in issue which will be transferred to the Main Board.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 29 July 2016 to allot new Shares and repurchase Shares will continue to be valid and remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the applicable law of the Cayman Islands to be held; and
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors.

SUMMARY OF THE GROUP'S BUSINESS

Principal business

We are principally engaged in the provision of (i) waterworks engineering services; (ii) road works and drainage services and site formation works; (iii) LPM Services; and (iv) building works as a contractor in Hong Kong. The following sets out a brief introduction of our principal business activities:

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.

Road works and drainage services and site formation works

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.

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.

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.

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.

Business model

Kwan On Construction Company Limited (“**Kwan On Construction**”), an operating subsidiary of the Group, is one of the Group C contractors (confirmed) for waterworks engineering services, Group C contractors (confirmed) for roads and drainage services, Group B contractors (confirmed) for site formation services, and Group A contractors (probationary) for buildings services. These licences are granted by WBDB, and they 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.

Projects for the public sector in Hong Kong are generally identified through reviewing the Government Gazette and the Government's website on which tender notices from different Government departments are published. 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. Once the tender documents are obtained by us, we will commence preliminary work for the preparation of tender submissions. Once a contract is awarded and the relevant article of agreement has been executed, a project management team will be formed and the team will prepare works programmes, material procurements and the construction equipment specifically required for the project. 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. 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.

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.

The following table summarises the number of tenders submitted by, and awarded to, the Group and the overall success rate for each of the three years ended 31 March 2016:

Year ended	Number of tenders submitted	Number of contracts awarded	Overall success rate
31 March 2014	34	8	23.5%
31 March 2015	32	2	6.3%
31 March 2016	56	6	10.7%

The success rate for the year ended 31 March 2015 dropped to approximately 6.3% from approximately 23.5% for the year ended 31 March 2014. Having considered (i) there are more than 20 ongoing projects (excluding the newly awarded projects) during the year ended 31 March 2015 (2014: 15); and (ii) the Group's manpower and resources availability for the year ended 31 March 2015, it was the Group's strategy to keep on responding to the tender notices by submitting tenders, in order to maintain our presence in the market and be informed of the latest market development, by submitting tenders which are less competitive for projects.

The overall success rate for the year ended 31 March 2016 improved to approximately 10.7% as the Group diversified the target tenders to other government departments, including Highways Department and Electrical and Mechanical Services Department, and statutory bodies, including West Kowloon Cultural District Authority and universities.

Further, Kwan On Construction has formed the following unincorporated joint ventures with its business partners solely for the purpose of submitting the tender and the subsequent execution of the works in respect of the respective construction projects:

Name	Date of establishment	Counterparties
Kwan On – U-Tech Joint Venture (“ Kwan On – U-Tech 1 ”)	29 July 2012	U-Tech Engineering Company Limited (“ U-Tech ”)
Kwan On – U-Tech Joint Venture (“ Kwan On – U-Tech 2 ”)	16 December 2013	U-Tech
Kwan On – China Geo Joint Venture	12 August 2014	China Geo-Engineering Corporation (“ China Geo ”)
Kwan On – China Geo Joint Venture	14 July 2015	China Geo
Kwan On – Richwell – SCG JV	8 December 2015	Richwell Machinery Engineering Limited and Shanghai Construction Group Co. Ltd.
KO-CG Joint Venture	23 December 2015	China Geo
Kwan On – U-Tech Joint Venture (“ Kwan On – U-Tech 3 ”)	25 July 2016	U-Tech

The following tables set out our projects on hand and a breakdown of backlog up to the Latest Practicable Date:

Tendered by Kwan On Construction

Contract number	Customer <i>(Note 1)</i>	Particular of contract	Commencement date	Date for substantial completion/ Date of substantial completion	Estimated Contract sum <i>(Note 2)</i>	Cumulative revenue recognised up to Latest Practicable Date	Further revenue expected to be recognised as at Latest Practicable Date	Revenue expected to be recognised <i>(Note 3)</i>	
								Date up to 31 March 2017	After 31 March 2017
					HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Works Under Progress									
15/WSD/11	Water Supplies Department (“WSD”)	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 2 – Mains on Outlying Islands	4-Oct-2012	4-Jul-2016	164.47	134.27	30.20	11.81	18.39
KL/2012/03	Civil Engineering and Development Department (“CEDD”)	Kai Tak Development – Stage 4 infrastructure at north apron area of Kai Tak Airport	19-Sep-2013	2-Sep-2017	830.17	497.04	333.13	59.28	273.85
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-Dec-2014	10-Jul-2017	106.62	72.10	34.52	1.68	32.84
CV/2015/01	CEDD	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	9-Nov-2015	8-Nov-2019	254.08	10.47	243.61	101.43	142.18
DC/2012/05	Drainage Service Department	Sewerage at Yuen Long Kau Hui and Shap Pat Heung	6-Sep-2012	28-Nov-2016	160.92	140.93	19.99	9.95	10.04
20130375	Housing Authority	Main Engineering Infrastructure in association with the Proposed Developments at Area 56 in Tung Chung	2-Sep-2014	1-Mar-2016	40.00	33.19	6.81	6.81	–
GW/2015/05/038	West Kowloon Cultural District Authority	Public Infrastructure works for Phase I Development of West Kowloon Cultural District (Package 1)	18-Dec-2015	9-Jan-2018	128.86	24.56	104.30	28.47	75.83
CDO2015034	The Chinese University of Hong Kong	Slope Stability Improvement Works – Package JJ Natural Terrain Hazard Mitigation Works for Slope above Campus Circuit East	1 January 2016	17-Sep-2016	15.23	0.71	14.52	6.64	7.88

Tendered by Kwan On Construction

Contract number	Customer (Note 1)	Particular of contract	Commencement date	Date for substantial completion/ Date of substantial completion	Estimated Contract sum (Note 2) HK\$ million	Cumulative revenue recognised up to Latest Practicable Date HK\$ million	Further revenue expected to be recognised as at Latest Practicable Date HK\$ million	Revenue expected to be recognised (Note 3)		
								Since Latest Practicable Date up to 31 March 2017 HK\$ million	After 31 March 2017 HK\$ million	
Substantially Completed										
GE/2012/11	CEDD	Landslip Prevention and Mitigation Programme, 2009, Package C, Landslip Prevention and Mitigation works in Lantau and Hei Ling Chau	19-Nov-2013	13-Feb-2016	88.28	84.60	3.68	3.68	-	
GE/2013/06	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package J, Landslip Prevention and Mitigation Works in New Territories	13-Dec-2013	23-Apr-2016	121.34	117.09	4.25	4.25	-	
GE/2013/17	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package M, Landslip Prevention and Mitigation Works in Lantau North	27-Dec-2013	19-Jan-2016	75.19	71.47	3.72	3.72	-	
TK/2008/01	CEDD	Tseung Kwan O Further Development – Site Formation and Infrastructure Works at Pak Shing Kok	27-Mar-2009	27-Oct-2013	178.50	174.00	4.50	4.50	-	
GE/2010/21	CEDD	Landslip Prevention and Mitigation Programme, 2008, Packages I and M, Landslip Prevention and Mitigation Works in Wan Chai	11-Nov-2011	4-Jul-2015	164.39	162.39	2.00	2.00	-	
GE/2011/03	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package C, Landslip Prevention and Mitigation Works in Kowloon and Hong Kong Island	27-Oct-2011	17-Jul-2013	63.54	62.00	1.54	1.54	-	
24/WSD/09	WSD	Salt Water Supply for Northwest New Territories – Construction of Tan Kwai Tsuen Salt Water Service Reservoir and Associated Works	11-Jan-2010	12-Nov-2013	108.00	106.35	1.65	1.65	-	
					2,499.59	1,691.17	808.42	247.41	561.01	

Tendered by the Group's joint venture or joint operations

Contract number	Customer (Note 1)	Particular of contract	Commencement Date	Date for substantial completion/ Date of substantial completion	Estimated Contract sum (Note 2)	Estimated total revenue to be received by our Group	Further revenue expected to be recognised as at Latest Practicable Date by the Group	Revenue expected to be recognised (Note 3)	
								Since Latest Practicable Date up to 31 March 2017	After 31 March 2017
								HK\$ million	HK\$ million
10/WSD/10	WSD	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 – Mains in Shatin and Sai Kung	22-Aug-2011	17-Feb-2016	409.63	409.63	40.08	13.03	27.05
4/WSD/11	WSD	Construction of Butterfly Valley Fresh Water Primary Service Reservoir Extension and Associated Mainlaying	24-Sep-2013	18-Jul-2017	336.43	171.58	17.33	5.51	11.82
9/WSD/13	WSD	Water Supply to Pak Shek Kok Reclamation Area, Tai Po – Stage 2 Phase 2	31-Dec-2013	5-Dec-2016	55.08	28.09	1.73	0.49	1.24
HY/2014/12	Highways Department (“HyD”)	Provision of Barrier-free Access Facilities for Highways Structures – Phase 3 Contract 6	15-Jul-2015	15-Jul-2019	215.17	109.74	89.12	22.12	67.00
HY/2013/19	HyD	Retrofitting of noise barriers on Tuen Mun Road – Town Centre Section	28-Dec-2015	27-Dec-2019	585.00	298.35	265.19	45.26	219.93
HY/2014/14	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Fu Tei Section	28 June 2016	27 June 2020	462.83	236.04	236.0	38.86	197.14
NE/2014/03	CEDD	Liantang/Heung Yuen Wai Boundary Control Point Site Formation and Infrastructure Works – Contract 7	11-Dec-2015	10-Sep-2019	462.00	5.00	2.88	1.24	1.64
CV/2015/08	CEDD	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 3	29-Jul-2016	29-Jan-2020	188.10	122.27	122.27	22.23	100.04
					2,714.24	1,380.70	774.60	148.74	625.86

Notes:

- Each governmental department represent one separate customer to our Group.
- 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 non-WBDB jobs, the estimated contract sum is based on the tender sum or aggregate of estimated value of works order issued by the customer if the amount of works orders received exceeds the original tender sum.

3. Revenue expected to be recognised is based on the percentage of completion method in accordance with the applicable accounting standards.

Set out below are the addition and completion of projects during the three years ended 31 March 2016:

	Opening balance	Number of projects added	Number of projects with final certificate issued (Note)	Closing balance
Year ended 31 March				
2014	16	8	3	21
2015	21	2	0	23
2016	23	6	4	25

Note: The Group is considered to have duly completed the obligations to execute the contract upon issuance of the final certificate.

For the three years ended 31 March 2016, the Group's largest customer accounted for approximately 52.9%, 53.5%, and 51.0% respectively of our revenues for the three years ended 31 March 2016. Our five largest customers, all of which were governmental departments whilst each governmental department represents one separate customer to our Group, together accounted for approximately 99.3%, 100%, and 86.2% respectively of our revenues for the three years ended 31 March 2016.

For the three years ended 31 March 2016, the Group's largest subcontractor accounted for approximately 9.2%, 15.2%, and 11.3% respectively of the total cost of services of the Group for the three years ended 31 March 2016. Our five largest suppliers/subcontractors together accounted for approximately 31.9%, 45.5%, and 39.0% respectively of the total cost of services of the Group for the three years ended 31 March 2016.

Material risks associated with the Group's business

Our Group relies on the contracts granted by the Government, 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 three years ended 31 March 2016, the customer base of our Group was highly concentrated. Revenue generated from Government contracts represented approximately 97.7%, 100.0% and 90.5% respectively of our Group's total revenue for each of the three years ended 31 March 2016. 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 revenue is mainly derived from projects which are not recurring in nature and any significant decrease in the number of our projects would affect our operations and financial results

All of our revenue during the three years ended 31 March 2016 was derived from undertaking (i) waterworks engineering services; (ii) road works and drainage services and site formation works; (iii) LPM Services; and (iv) building works as a contractor in Hong Kong. Our engagements with customers were on a project basis and non-recurring in nature. We did not enter into any long term agreement or master service agreement with our customers as at the date of this announcement. After completion of the projects, our customers are not obliged to engage us again in subsequent projects, and we have to undergo the tendering process for every new project. There is no assurance that our existing customers will award new projects to us, nor can we guarantee that we would be able to maintain our business relationships with existing customers. In the event that we are unable to attract new customers or secure new projects from our existing customers, there may be a significant decrease in our revenue, and our operations and financial results would hence be adversely affected.

Our Group's business is labour-intensive. If we or our subcontractors experience any shortage of labour, industrial actions, strikes or material increase in labour costs, our operations and financial results would be adversely affected

Our construction works are labour-intensive in nature. During the three years ended 31 March 2016, our Group and our subcontractors did not experience any material shortage of labour, industrial actions, strikes or material increase in labour costs. However, there is no assurance that we will not experience these problems in the future when the peak load of construction activities is ongoing. In the event that there is a significant increase in the costs and demand of labour and we have to retain our labour by increasing their wages, our staff cost and/or subcontracting cost will increase and thus lower our profitability. On the other hand, if we or our subcontractors fail to retain our existing

labour and/or recruit sufficient labour in a timely manner to cope with our existing or future projects, we may not be able to complete our projects on schedule and within budget, our Group's operations and profitability may be adversely affected.

Delay in the commencement of public projects, which may be caused by factors such as political disagreements, delay in approval of funding proposals, and the occurrence of large scale demonstration or occupation activities may adversely affect our operations and results of operation

Delay in the commencement of public projects may be caused by factors such as political disagreements in relation to such projects, delay in approval of the funding proposals for public works due to political filibustering by law-makers and objections, protests or legal actions by affected residents or entities. Any large-scale protests or occupation activity may also delay the construction works to be carried out in the affected areas. Our engagement in public projects depend on the timing of the funding approval by the committees of the Legislative Council of Hong Kong, where filibustering by the members thereof has often led to delays in the passing of public works funding proposals in recent years. Any change of the political environment in Hong Kong may affect the economy and construction industry in the region, which may adversely affect our operations and results of operations. The delay in the commencement of public projects may affect the utilisation of our equipment and our results of operation if we are not able to engage our equipment for other projects at the same or similar level. Further, the uncertainty on the commencement the relevant projects also make it more difficult for us to make accurate planning for the demand, deployment, utilisation of our equipment, which may adversely affect our operations and financial performance.

If we are unable to successfully manage our working capital or acquire adequate funding to finance our expansion, our operations could be adversely affected

There is no assurance that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. Accordingly, there could be a period during which we experience net cash outflow for a particular project, and we had negative operating cashflow for the year ended 31 March 2015. We currently fund our working capital requirements through a combination of proceeds received from our customers and bank borrowings. Our gearing ratio, as calculated based on the total debt (including borrowings and finance lease payables) divided by total equity, amounted to approximately 234.7%, 95.5% and 70.2% as of 31 March 2014, 2015, and 2016, respectively. As we further expand our business, our requirements for working capital and capital expenditures will increase. We cannot assure that we will be able to generate sufficient cash inflow from our operations or obtain adequate debt or equity financing at reasonable costs, or at all, to meet such requirements. If we fail to successfully manage our working capital or acquire adequate funding to finance our expansion, our ability to pay our suppliers and employees and otherwise fund our operations and expansion could be impaired, and our business, financial condition and results of operations may be materially and adversely affected.

LEGAL COMPLIANCE

The following table sets out the Group's ongoing prosecutions:

Defendant(s)	Date of incident	Particulars of incident	Offence (Note 2)	Status
Kwan On Construction and Univic Fireproofing & Construction Limited (“UFCL”) (Note 1)	9 May 2015	A loadshifting machine was operated by a person without a valid certificate	Sections 3 and 8(1), Factories and Industrial Undertakings (Loadshifting Machinery) Regulation made under the Factories and Industrial Undertakings Ordinance (“FIUO”) Sections 6A(1), 6A(2)(a), 6A(2)(c), 6A(3) and 13(1) of FIUO Regulations 7A, 12 and 19 Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations, FIUO	Trial commencing on 7 September 2016
Kwan On Construction	30 October 2015	A non-examined flat webbing sling used by a subcontractor for raising and lowering	Regulations 18(1)(a), 18(1)(g), 18A(a) and 19 Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations, FIUO Sections 6A(1), 6A(2)(a), 6A(3) and 13(1) of FIUO	Pre-trial hearing date on 18 August 2016
Kwan On Construction	5 November 2015	A non-examined flat webbing sling used by a subcontractor for raising and lowering	Regulations 18A(a) and 19 Factories and Industrial Undertakings (Lifting Applications and Lifting Gear) Regulations, FIUO	Trial hearing on 4 November 2016
Kwan On Construction	30 December 2015	A subcontractor of the Group failed to maintain system of work for lifting tabular working platform	Section 6A(1), 6A(2)(a), 6A(2)(c), 6A(3) and 13(1) of FIUO	Hearing date on 29 August 2016
Kwan On Construction	26 January 2016 and 20 February 2016	A lifting appliance had not been tested and examined	Regulations 5(1), 5(2), 7A, 11(1), 18C(5) and 19, Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations, FIUO	Hearing on 22 August 2016

Note 1: Such prosecution was disclosed in our annual report 2016 in note 34(m) to the consolidated financial statements.

Note 2: Under the FIUO, the following sets out the maximum penalty against our Group for each offence:

- (1) According to section 8(1), Factories and Industrial Undertakings (Loadshifting Machinery) Regulation made under the FIUO, Cap. 59, a responsible person who without reasonable excuse contravenes section 3, Factories and Industrial Undertakings (Loadshifting Machinery) Regulation made under the FIUO, Cap. 59 commits an offence and is liable to a fine of HK\$50,000;
- (2) According to section 6A(3) and 13(1) of the FIUO, Cap. 59, a proprietor of an industrial undertaking who contravenes section 6A(1), 6A(2)(a)-(e), of the FIUO, Cap. 59 commits an offence and is liable to a fine of HK\$500,000;
- (3) According to regulation 19 Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations made under the FIUO, Cap. 59, any owner who contravenes 5(1), 5(2), 7A, 12, 18(1)(a)-(i), 18A(a)-(b) shall be guilty of an offence and shall be liable to a fine of HK\$200,000; and
- (4) According to regulation 19 Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations made under FIUO, Cap. 59, any owner who contravenes regulation 11(1), 18C(5) shall be guilty of an offence and shall be liable to a fine of HK\$50,000.

Save as the aforementioned prosecutions, the Group has complied with all material laws and regulations for its business during the three years ended 31 March 2016 and up to the Latest Practicable Date.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

The biographical information of each current Director as at the date of this announcement is as follows:

EXECUTIVE DIRECTORS

Mr. Wong Yee Tung Tony (黃宜通) (“Mr. Wong”), aged 69, was appointed as the managing Director on 6 December 2012. Mr. Wong is responsible for overseeing the strategic and business development of the Group. Mr. 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. Wong has more than 20 years of experience in handling various civil engineering projects.

As at the date of this announcement, Mr. Wong is interested in 720,000,000 Shares held through Twilight Treasure Limited (“**Twilight Treasure**”) and Fortune Decade Investments Limited (“**Fortune Decade**”) (representing 75% of the issued share capital of the Company). The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally Investments Limited (“**Success Ally**”) and as to 12.5% by Decade Success Investments Limited (“**Decade Success**”). Mr. Wong is the sole director and the sole shareholder of Success Ally and Fortune Decade, and is a Controlling Shareholder of the Company.

As at the date of this announcement, Ms. Chiu Gar Man, being the spouse of Mr. Wong, is deemed to be interested in the 720,000,000 Shares held by Mr. Wong pursuant to the SFO. Ms. Chiu Gar Man is a Controlling Shareholder of the Company.

Save as disclosed above, Mr. Wong has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Mr. Wong has entered into a service agreement with the Company for an initial term of three years commencing on 16 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$1,440,000. Such salary will be reviewed annually by the Board and the remuneration committee; and he is entitled to a discretionary bonus as the remuneration committee of the Company may recommend to the Board and which the Board may approve.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

Mr. Kwong Wing Kie (鄺永基) (“**Mr. Kwong**”), aged 62, 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 and has been responsible for managing civil engineering contracts. Mr. Kwong has more than 20 years’ of experience in the construction industry.

As at the date of this announcement, Mr. Kwong is interested in 332,028,000 Shares held through Twilight Treasure (representing 34.59% of the issued share capital of the Company). 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. Mr. Kwong is the sole director and the sole shareholder of Decade Success.

Save as disclosed above, Mr. Kwong has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Mr. Kwong has entered into a service agreement with the Company for an initial term of three years commencing on 16 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$1,140,000. Such salary will be reviewed annually by the Board and the remuneration committee; and he is entitled to a discretionary bonus as the remuneration committee of the Company may recommend to the Board and which the Board may approve.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

Mr. Chung Chi Ngong (鍾志昂) (“Mr. Chung”), aged 46, was appointed as an executive Director on 6 December 2012. Mr. Chung is responsible for project management and safety assurance of the 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 the Group, Mr. Chung had not worked in other companies. Mr. Chung joined the Group as an engineer in 1990. Mr. Chung was subsequently appointed as safety manager for numerous projects.

Save as disclosed above, Mr. Chung has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Mr. Chung has entered into a service agreement with the Company for an initial term of three years commencing on 16 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$840,000. Such salary will be reviewed annually by the Board and the remuneration committee; and he is entitled to a discretionary bonus as the remuneration committee of the Company may recommend to the Board and which the Board may approve.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Ho Ho Ming (何昊洺) (former name: Ho Wing Hang (何榮亨)) (“Prof. Ho”), aged 44, was appointed as an independent non-executive Director on 16 March 2015. Prof. Ho is currently an adjunct professor of the Department of Real Estate and Construction at The University of Hong Kong. In addition, Prof. Ho is a professor of practice of the Department of Finance and Insurance of Lingnan University, an adjunct professor of the School of Accounting and Finance of the Hong Kong Polytechnic University, an 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.

Prof. Ho has over 18 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.

Prof. 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.

Prof. Ho is currently an independent non-executive director of KSL Holdings Limited (stock code: 8170) since November 2014, Wan Kei Group Holdings Limited (Stock code: 1718) since November 2014, and LEAP Holdings Group Limited (stock code: 1499) since August 2015, the issued shares of which are listed on the Main Board or GEM of the Stock Exchange.

Save as disclosed above, Prof. Ho has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Prof. Ho has entered into a letter of appointment with the Company for an initial term of three years commencing on 27 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$150,000.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

Professor Lam Sing Kwong, Simon (林誠光) (“Prof. Lam”), aged 57, 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. Prof. 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, Prof. Lam worked as a regional support manager of a bank. He has extensive experience in corporate management, strategic development of organisations and corporate finance.

Prof. Lam is currently an independent non-executive director of Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) since May 2009, Beijing Enterprises Clean Energy Group Limited (Stock code: 1250), Sinomax Group Limited (stock code: 1418) since March 2014, and King Force Security Holdings Limited (stock code: 8315) since July 2014, the issued shares of which are listed on the Main Board or GEM of the Stock Exchange. Prof. Lam was an independent non-executive director of Chun Sing Engineering Holdings Limited (stock code: 2277) from December 2014 to April 2016, and Glory Flame Holdings Limited (stock code: 8059) from August 2014 to March 2016, the issued shares of which are listed on the Main Board or GEM of the Stock Exchange.

Save as disclosed above, Prof. Lam has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Prof. Lam has entered into a letter of appointment with the Company for an initial term of three years commencing on 27 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$150,000.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

Mr. Chan Chung Kik, Lewis (陳仲戟) (“Mr. Chan”), aged 43, was appointed as an independent non-executive Director on 16 March 2015. Mr. Chan is currently the chief financial officer of Denox Environmental & Technology Holdings Limited (stock code: 1452). 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.

Mr. Chan is currently an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited (stock code: 719) since May 2014, the shares of which are listed on the Main Board of the Stock Exchange.

Save as disclosed above, Mr. Chan has not held any other position within the Group and has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years. He has no relationships with any Directors, senior management or substantial shareholders of the Company.

Mr. Chan has entered into a service agreement with the Company for an initial term of three years commencing on 27 March 2015 and, subject to retirement by rotation or re-election in accordance with the Articles of Association, will continue thereafter until terminated in accordance with the terms of the agreement and the initial annual salary for him is HK\$150,000.

Save as disclosed above, there is no other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

COMPETING INTERESTS

As at the date of this announcement, none of controlling shareholders of the Company or the Directors or their respective close associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group pursuant to Rule 9A.09(10) of the Main Board Listing Rules.

SUMMARY OF THE GROUP'S FINANCIAL PERFORMANCE

The following table sets forth the selected financial information of the Group for the three years ended 31 March 2016 and the three months ended 30 June 2016:

	Year ended 31 March			Three months ended 30 June	
	2014 HK\$'000 (audited)	2015 HK\$'000 (audited)	2016 HK\$'000 (audited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	393,283	693,150	719,770	154,151	199,963
Cost of services	(341,666)	(640,336)	(662,485)	(139,977)	(185,588)
Gross profit	51,617	52,814	57,285	14,174	14,375
Other income	948	2,735	3,372	320	261
Other gain and loss	155	224	(493)	(303)	(2)
Administrative expenses	(20,509)	(29,815)	(23,917)	(5,329)	(5,867)
Operating profit	32,211	25,958	36,247	8,862	8,767
Finance costs	(2,793)	(2,514)	(4,462)	(825)	(673)
Profit before taxation	29,418	23,444	31,785	8,037	8,094
Income tax expenses	(5,790)	(2,364)	(4,006)	(863)	(1,301)
Profit for the year/period	23,628	21,080	27,779	7,174	6,793
Profit (loss) for the year/period attributable to:					
Owners of the Company	20,043	17,410	27,003	5,897	6,322
Non-controlling interests	3,585	3,670	776	1,277	471
	23,628	21,080	27,779	7,174	6,793

Revenue

The following table sets out the breakdown of the Group's revenue for the three years ended 31 March 2016 and the three months ended 30 June 2016:

	Year ended 31 March			Three months ended 30 June	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)
Waterworks	208,084	265,811	215,830	44,248	35,634
Road works and drainage and site formation works	107,917	252,886	335,523	57,049	116,487
LPM Services	63,335	171,503	164,704	52,854	47,842
Building works	13,950	2,950	3,713	–	–
	<u>393,283</u>	<u>693,150</u>	<u>719,770</u>	<u>154,151</u>	<u>199,963</u>

The Group's revenue for the year ended 31 March 2015 amounted to approximately HK\$693.2 million (2014: approximately HK\$393.3 million), represented a surge of approximately 76.3% as compared to the year ended 31 March 2014. Such increase was mainly attributable to the increase in revenue in the road works and drainage category during the year ended 31 March 2015, which was mainly due to additional revenue contributed by the project KL/2012/03 which contributed approximately HK\$192.3 million to revenue for the year ended 31 March 2015 (2014: approximately HK\$33.9 million). Also, The Group had commenced three projects in LPM category in December 2013, namely GE/2012/11, GE/2013/06 and GE/2013/17 and one further project GE/2013/16, in December 2014, which altogether contributed to revenue of approximately HK\$138.7 million for the year ended 31 March 2015 (2014: approximately HK\$9.7 million). Such increase was partly offset by the decrease in the Group's revenue from building works for the year ended 31 March 2015, which was mainly due to the substantial completion of two projects in February 2014 and September 2014 respectively.

For the year ended 31 March 2016, the Group's revenue amounted to approximately HK\$719.8 million (2015: approximately HK\$693.2 million), represented an increase of approximately 3.8% as compared to the year ended 31 March 2015. Such increase was mainly attributable to the increase in revenue in undertaking road works and drainage and site formation works, which was mainly due to the commencement of 7 projects in road works and drainage and site formation works category in the year ended 31 March 2016, which altogether contributed to revenue of approximately HK\$96.1 million for the year ended 31 March 2016.

For the three months ended 30 June 2016 (“Q1 2016”), the Group’s revenue amounted to approximately HK\$200.0 million, represented an increase of approximately 29.7% as compared to the three months ended 30 June 2015 (“Q1 2015”) of approximately HK\$154.2 million. The increase was mainly due to (i) additional contributions from four new projects in the road works and drainage and site formation works category, namely CV/2015/01, GW/2015/05/038, HY/2014/12 and HY/2013/19, and one new project in the LPM Services category, namely CDO2015034, which altogether contributed approximately HK\$27.5 million (Q1 2015: Nil) to revenue in aggregate during the Q1 2016, net of the decrease in revenue as a result of three projects completed, including 24/WSD/09, GE/2010/21 and 6/WSD/11. These three completed projects had no revenue contribution during Q1 2016 (Q1 2015: approximately HK\$14.7 million); and (ii) enhancement in progress for project KL/2012/03 as a result of the Group’s reallocation of resources to project KL/2012/03 subsequent to the completion of the aforementioned projects 24/WSD/09, GE/2010/21 and 6/WSD/11, which in turn increased the revenue generated from KL/2012/03 to approximately HK\$78.9 million for Q1 2016 (Q1 2015: approximately HK\$46.7 million).

The following table sets out the breakdown of the Group’s gross profits and gross profit margins by categories of works performed for the three years ended 31 March 2016 and the three months ended 30 June 2016:

	2014		Year ended 31 March				Three months ended 30 June			
			2015		2016		2015		2016	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	(unaudited)		(unaudited)	
	HK\$’000		HK\$’000		HK\$’000		HK\$’000		HK\$’000	
Waterworks	30,588	14.70%	8,351	3.80%	5,752	2.70%	1,499	0.03%	5,391	15.13%
Road works and drainage and site formation works	23,741	22.00%	27,518	10.90%	40,857	12.20%	6,188	10.85%	(5,131)	-4.40%
LPM Services	(3,167)	-5.00%	17,997	10.50%	14,112	8.60%	6,696	12.67%	17,916	37.45%
Building works	2,079	14.90%	(1,121)	-38.00%	32	0.90%	(5)	N.M.	-	-

N.M.: Not meaningful

The gross profit margin for waterworks engineering service dropped to approximately 3.8% for the year ended 31 March 2015 (2014: approximately 14.7%). The drop in gross profit margin was mainly due to increase in costs incurred, in particular, for 24/WSD/09 and 6/WSD/11. The Group recorded a gross loss for 24/WSD/09 of approximately HK\$5.1 million, which was principally due to the additional costs incurred for rectification and outstanding works, as the contract was in maintenance period, for which we were responsible to rectify works defects, during the year ended

31 March 2015. Interim payment certificate will be issued by the customers subject to satisfaction of the works performed and thus the revenue had not been recognised on the ground that interim payment certificate had not yet been received from customers. For contract 6/WSD/11, additional costs, in particular, subcontracting fees, of approximately HK\$6.3 million were paid as a result of the additional work performed by the subcontractor in relation to excavation of rock and the revenue had not been recognised as interim payment certificate had not yet been received from customers. The gross profit margin for waterworks engineering service decreased slightly to approximately 2.7% for the year ended 31 March 2016 (2015: approximately 3.8%). Such decrease was mainly due to (i) the completion of the maintenance period of contract 11/WSD/08 in the year ended 31 March 2016, which did contribute to the Group a comparatively high gross profit margin for the year ended 31 March 2015; and (ii) continuing expenses incurred for contract 6/WSD/11 for rectification of defects whilst certification would not be received until completion of those outstanding works and satisfaction by customer for defect rectification.

Gross profit margin for road works and drainage and site formation works service decreased to approximately 10.9% for the year ended 31 March 2015 (2014: approximately 22.0%). The higher gross profit margin for the year ended 31 March 2014 was attributable to a reversal of expected loss of approximately HK\$8.8 million for project TK/2008/01. Gross profit margin for road works and drainage and site formation works service increased to approximately 12.2% for the year ended 31 March 2016 (2015: approximately 10.9%). Such increase was mainly due to the increase in revenue recognition from project DC/2009/25 for the year ended 31 March 2016, the costs of which were fully incurred and recognised during the year ended 31 March 2015.

Gross profit margin for LPM Services was approximately -5.0% for the year ended 31 March 2014, which was mainly due to payments of subcontracting charges of approximately HK\$1.0 million for certain variation orders completed while contract revenue for the work done had not been recognised during the year ended 31 March 2014. Gross profit margin for LPM Services improved to approximately 10.5% for the year ended 31 March 2015 (2014: approximately -5.0%). The improvement was mainly due to increase in gross profit generated from the four new contracts, namely GE/2012/11, GE/2013/06, GE/2013/17 and GE/2013/16 awarded since late 2013. Gross profit margin for LPM Service decreased to approximately 8.6% for the year ended 31 March 2016 (2015: approximately 10.5%). Such decrease was mainly due to the delay in payment certification by our employer of contract GE/2010/21 as extra time was needed in the settlement and agreement of value of variation orders with customer.

Gross profit margin for building works for the year ended 31 March 2015 decreased significantly to approximately -38.0% (2014: approximately 14.9%). The negative gross profit margin recorded for the year ended 31 March 2015 was mainly due to (i) additional subcontracting fee paid for variation orders for maintenance works of approximately HK\$0.8 million after completion of main works for a private sector project and (ii) extra costs of approximately HK\$0.4 million incurred for additional staff assigned to a demolition projects, namely SD B807, to handle additional works arisen from the variation orders while meeting the expected completion date. Since these were incurred for building works projects which represented contract costs defined under HKAS 11 “Construction Contract” while revenue had not been recognised on the ground that recoverability was uncertain, the relevant costs had been charged to cost of service for the year ended 31 March 2015. Gross profit margin for building works increased significantly to approximately 0.9% for the year ended 31 March 2016 (2015: approximately -38.0%). Such increase was mainly due to the costs for certain works were incurred and expensed in the prior year while such works had not been certified and thus income was not recognised on the ground of uncertain recoverability and the amount could not be measured reliably. Such certification has been obtained and income is recognised in the year ended 31 March 2016.

Gross profit margin for waterworks engineering service increased to approximately 15.13% for Q1 2016 (Q1 2015: approximately 0.03%). The increase was mainly due to certification of cumulated variation orders for project 10/WSD/10 that relevant costs had been recognised and paid in prior years.

Gross profit margin for road works and drainage and site formation works for Q1 2016 recorded -4.40% (Q1 2015: 10.85%). The negative gross margin recorded in Q1 2016 was mainly due to revision of budget costs upwards for the project KL/2012/03 for the slow progress resulted from inclement weather and prolonged discussion with the customer for revisions in construction method. The budget margin for KL/2012/03 remained positive after the revision. However, the revenue recognised previously based on the original budget had been adjusted in accordance with the revised budget and such effect had been recognised in the current period of Q1 2016 and resulted the negative margin for Q1 2016.

Gross profit margin for LPM Services for Q1 2016 was approximately 37.45% (Q1 2015: 12.67%). The increase was mainly due to increase revenue recognition for payments received in prior years exceeding stage of completion and thus not recognised as revenue. Those payments received in prior years and deferred to be recognised were recognised as revenue in the period upon substantial completion.

During the three years ended 31 March 2016 and the three months ended 30 June 2016, the Group did not experience material increase in labour costs.

Profit

The Group's profit attributable to the owners of the Company amounted to approximately HK\$20.0 million, HK\$17.4 million, and HK\$27.0 million for each of the three years ended 31 March 2014, 2015, and 2016 respectively, representing a decrease of approximately 13.1% in the year ended 31 March 2015 as compared to the year ended 31 March 2014, and an increase of approximately 55.1% in the year ended 31 March 2016 as compared to the year ended 31 March 2015. The decrease in the year ended 31 March 2015 as compared to the year ended 31 March 2014 was mainly attributable to the increase in listing expenses incurred for the year ended 31 March 2015 of approximately HK\$9.0 million (2014: approximately HK\$2.9 million). The increase in the year ended 31 March 2016 as compared to the year ended 31 March 2015 was mainly attributable to the decrease in listing expenses incurred for the year ended 31 March 2016 to approximately HK\$1.4 million (2015: approximately 9.0 million).

For Q1 2016, the Group's profit attributable to the owners of the Company amounted to approximately HK\$6.3 million (Q1 2015: approximately HK\$5.9 million). The increase was mainly attributable to contributions from new contracts and decrease in losses arisen from disposal of motor vehicles.

Net profit margin

The net profit margin of the Group were approximately 6.01%, 3.04%, and 3.86%, for each of the three years ended 31 March 2014, 2015, and 2016 respectively.

The decrease in the Group's net profit margin in the year ended 31 March 2015 as compared to the year ended 31 March 2014 was mainly due to the listing expenses recognised in the year ended 31 March 2015. The net profit margin increased in the year ended 31 March 2016 as compared to the year ended 31 March 2015 due to the decrease in listing expenses incurred for the year ended 31 March 2016 to approximately HK\$1.4 million (2015: approximately 9.0 million), which was partly offset by the increase in income tax expenses to approximately HK\$4.0 million for the year ended 31 March 2016 (2015: approximately HK\$2.4 million) mainly due to the utilisation of tax loss brought forward to the Group for the year ended 31 March 2015 had been fully consumed prior to the end of the year ended 31 March 2016.

For Q1 2016, the net profit margin of the Group amounted to approximately 3.40% (Q1 2015: approximately 4.65%). The decrease was mainly attributable to increase in income tax expense as available tax losses brought forward decreased.

CERTAIN OTHER FINANCIAL INFORMATION OF THE GROUP

Net Current Assets

The following table sets out details of the Group's current assets and current liabilities as at each of the balance sheet dates indicated below:

	As at 31 March			As at
	2014	2015	2016	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)
Current assets				
Inventories	12,078	17,233	11,670	10,792
Amounts due from customers for contract work	–	399	1,567	–
Trade and other receivables	84,326	130,896	141,200	175,084
Tax recoverable	1,474	3,268	3,934	2,831
Amounts due from other partners of joint operation	43	241	484	407
Amounts due from shareholders	88	9,492	–	–
Pledged bank deposits	24,691	53,689	66,729	66,740
Bank balances and cash	67,041	78,781	107,150	75,782
	<u>189,741</u>	<u>293,999</u>	<u>332,734</u>	<u>331,636</u>
Current liabilities				
Amounts due to customers for contract work	66,733	23,354	30,226	34,253
Trade and other payables	64,530	138,742	139,797	143,792
Amount due to a director	1,950	–	–	–
Amounts due to other partner of a joint operation	44	–	27	49
Amounts due to related parties	4,675	–	–	–
Finance lease payables	118	121	115	84
Bank borrowings	41,490	73,624	72,441	57,183
Income tax payable	6,686	38	3,966	4,638
	<u>186,226</u>	<u>235,879</u>	<u>246,572</u>	<u>239,999</u>
Net current assets	<u><u>3,515</u></u>	<u><u>58,120</u></u>	<u><u>86,162</u></u>	<u><u>91,637</u></u>

The net current assets of the Group as at 31 March 2015 increased significantly to approximately HK\$58.1 million (2014: approximately HK\$3.5 million). Such increase was mainly contributed by the increase in trade and other receivables of the Group to approximately HK\$130.9 million in the year ended 31 March 2015 (2014: approximately HK\$84.3 million) mainly because of the increase in receivable of four projects for the year ended 31 March 2015, namely i) GE/2013/06, which amounted to approximately HK\$22.6 million (2014: approximately HK\$14.8 million); ii) KL/2012/03, which amounted to approximately HK\$19.5 million (2014: approximately HK\$12.2 million); iii) 4WSD11, which amounted to approximately HK\$11.0 million (2014: approximately HK\$85,000); and iv) GE/2013/16, which amounted to approximately HK\$5.5 million (2014: nil).

As at 31 March 2016, the Group had net current assets of approximately HK\$86.2 million (2015: approximately HK\$58.1 million). The increase in net current assets was mainly due to the increase in trade and other receivables to approximately HK\$141.2 million for the year ended 31 March 2016 (2015: approximately HK\$130.9 million), which was mainly due to the increase in trade receivables, retention receivables, and prepayments, deposits and other receivables due to works completed and certified in February 2016 while relevant payments from customers were received subsequent to March 2016.

As at 30 June 2016, the net current assets of the Group increased further to approximately HK\$91.6 million (31 March 2016: HK\$86.2 million). The increase was mainly due to (i) decrease in bank borrowings to approximately HK\$57.2 million (31 March 2016: HK\$72.4 million) due to repayments during the three months ended 30 June 2016; (ii) increase in amounts due to customers for contract work to approximately HK\$34.3 million (31 March 2016: HK\$30.2 million) as at 30 June 2016 for the receipts of payments exceeded revenue recognised by stage of completion; and (iii) increase in trade and other payables to approximately HK\$34.3 million (31 March 2016: HK\$30.2 million) due to additional costs incurred for enhancement of work progress.

The following table sets out the analysis of net other receivables, after allowances for impairment, at each of the balance sheet date indicated below:

	As at 31 March			As at
	2014	2015	2016	30 June
	HK\$'000	HK\$'000	HK\$'000	2016
	(unaudited)			
Within 30 days	4,850	2,462	8,396	16,442
More than 30 days but within 90 days	2,726	3,740	8,725	12,298
More than 90 days but within 180 days	2,021	459	9,887	9,368
More than 180 days but within 365 days	56	724	6,567	3,455
More than 365 days	14	629	2,321	4,119
Total	<u>9,667</u>	<u>8,014</u>	<u>35,896</u>	<u>45,682</u>

Other receivables represent (i) debit notes issued to subcontractors for services and/or materials charged to subcontractors and wages paid on behalf for subcontractors; (ii) advancements made to subcontractors; and (iii) amount due from U-Tech, the non-controlling interest of Kwan On – U-Tech 1. The decrease in net other receivables as at 31 March 2015 to approximately HK\$8.0 million (2014: approximately HK\$9.7 million) was mainly due to the increase in the amount debit notes issued to subcontractors being offset against subcontracting charges payable during the year ended 31 March 2015. The increase in net other receivables as at 31 March 2016 to approximately HK\$35.9 million (2015: approximately HK\$8.0 million) was mainly due to the increase in payments of wages on behalf of and services and/or materials charged to subcontractors by approximately HK\$14.5 million and the increase cash advancement paid to subcontractors by approximately HK\$7.9 million during the year ended 31 March 2016. Such increase was principally due to certain works done by subcontractors in relation to variation orders, in particular for contracts KL/2012/03, GE/2013/16 and 20130375, which the value of such variation orders had not been agreed with the customers and therefore not yet certified. Despite of such disagreement, there was no dispute between the Company and the said customers in this regard. Accordingly, no subcontracting charges were paid for those works done, and the Group advanced to the subcontractors on the wages incurred and materials consumed basis. Such advanced payments will be offset against the subcontractor fees to be paid upon the work done by the respective subcontractors is certified. The further increase in net other receivables to approximately HK\$45.7 million as at 30 June 2016 (31 March 2016: approximately HK\$35.9 million) represented further wages and materials paid on behalf of subcontractors for the aforementioned projects during Q1 2016, net of the amounts of debit notes set-off against subcontracting fees charged during Q1 2016.

The tax recoverable of the Group increased to approximately HK\$3.3 million for the year ended 31 March 2015 (2014: approximately HK\$1.3 million), which was mainly due to the tax loss incurred by one of the subsidiaries of the Group, resulting in a recoverable of provisional tax paid in prior year of assessment of approximately HK\$2.5 million. The tax recoverable of the Group further increased to approximately HK\$3.9 million for the year ended 31 March 2016 due to the reduction in taxable profit made by one of our subsidiaries in the year ended 31 March 2016 which led to an increase in provisional tax of approximately HK\$1.3 million, while such increase was partly offset by provisional tax recovered of approximately HK\$0.7 million. Tax recoverable dropped to approximately HK\$2.8 million (31 March 2016: HK\$3.9 million) as at 30 June 2016 due to certain tax recoverable being offset against income tax provision made during the three months ended 30 June 2016.

The increase in pledged bank deposits to approximately HK\$53.7 million for the year ended 31 March 2015 (2014: approximately HK\$24.7 million) was mainly attributable to the increase in cash deposits as security to pledge for banking facilities granted to the Group. The increase bank balances and cash to approximately HK\$78.8 million for the year ended 31 March 2015 (2014: approximately HK\$67.0 million) was mainly attributable to increase in bank loan drawn down and proceeds from the Placing. The

bank balances and cash for the year ended 31 March 2016 amounted to approximately HK\$107.2 million (2015: approximately HK\$78.8 million). The increase was mainly resulted from cash received from the Group's site formation works projects. Pledged bank deposits as at 30 June 2016 amounted to approximately HK\$66.7 million (31 March 2016: HK\$66.7 million).

The amounts due to customers for contract work of the Group decreased to approximately HK\$23.4 million for the year ended 31 March 2015 (2014: approximately HK\$66.7 million), which was mainly due to the decrease in the amounts due to our customer of project KL/2012/03 to approximately HK\$4.5 million for the year ended 31 March 2015 (2014: approximately HK\$37.0 million) because the advanced payment of the said project was received by us in the year ended 31 March 2014, while the costs of which were incurred in the year ended 31 March 2015 as a result of the revenue recognition by stage of completion. For the year ended 31 March 2016, the amounts due to customers for contract work of the Group increased to approximately HK\$30.2 million, which was mainly due to the increase in the amounts due to our customer of project GE/2012/11 to approximately HK\$10.7 million for the year ended 31 March 2016 (2015: approximately HK\$4.0 million) due to the advanced payment by our customer of the said project during the year ended 31 March 2015, while the costs of which had not yet incurred during the year ended 31 March 2015. The amounts due to customers for contract work increased to approximately HK\$34.3 million (31 March 2016: HK\$30.2 million) as at 30 June 2016 due to certain payments received from new projects exceeded revenue recognised by stage of completion.

The trade and other payables of the Group increased to approximately HK\$138.7 million for the year ended 31 March 2015 (2014: approximately HK\$64.5 million), which was mainly due to increase in costs incurred for contracts KL/2012/03, GE/2012/11, GE/2013/06, GE/2013/17 and 4/WSD/11. For the year ended 31 March 2016, the trade and other payables increased to approximately HK\$139.8 principally due to the increase in the costs of undertaking project GW1528 as a result of the increase in the work done of the project. Trade and other payables as at 30 June 2016 increased to approximately HK\$143.8 million (31 March 2016: HK\$139.8 million) as a results of additional costs incurred for enhancement in work progress.

The bank borrowings of the Group increased to approximately HK\$73.6 million for the year ended 31 March 2015 (2014: approximately HK\$41.5 million), as there were 6 newly commenced projects in during the year ended 31 March 2015, namely GE/2012/11, 20130375, GE/2013/16, GE/2013/17, GE/2013/06, and GE/2012/11, and we needed to increase our bank borrowings to cover the cost incurred in undertaking the aforesaid projects. For the year ended 31 March 2016, the bank borrowings of the Group decreased to approximately HK\$72.4 million as a result of the net repayment of bank borrowings from proceeds from the Placing. Bank borrowings amounted to approximately HK\$57.2 million (31 March 2016: HK\$72.4 million) as at 30 June 2016. The decrease was due to repayment of revolving loans and trade loans upon maturity.

During the three years ended 31 March 2016 and the three months ended 30 June 2016, Mr. Wong had provided personal guarantees for the banking facilities used by our Group. The bank borrowings that were secured by Mr. Wong's personal guarantee amounted to approximately HK\$29.5 million, HK\$73.6 million, nil and HK\$5.0 million respectively as at each of 31 March 2014, 2015 and 2016 and 30 June 2016, representing approximately 100.0%, 100.0%, 0.0% and 8.7% respectively to the Group's total bank borrowings as at each of 31 March 2014, 2015 and 2016 and 30 June 2016. The bank borrowings that were secured by Mr. Wong's personal guarantee dropped to nil as at 31 March 2016 as the Group's bank borrowings outstanding as at 31 March 2016 were secured by our bank deposits amounting to approximately HK\$66.7 million and proceeds and insurance policy of a contract undertaken by our Group. The amount of banking facilities secured by Mr. Wong's personal guarantee of approximately HK\$5.0 million were not utilised as at 30 June 2016. As at the Latest Practicable Date, the relevant bank has agreed to release such personal guarantee executed by Mr. Wong.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that subsequent to 31 March 2016, there are no unfavourable trends or developments which may have a material adverse impact on the Group's business and financial performance.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK\$26.7 million. As at 31 March 2016, the Group has used up approximately HK\$22.9 million of the net proceeds in accordance with the proposed usage set out in the section headed "Statement of business objectives and use of proceeds – Reasons for the Placing and use of proceeds" of the prospectus of the Company dated 23 March 2015.

REGULAR PUBLICATION OF RESULTS

Upon the Transfer of Listing, the Company will cease the practice of quarterly reporting of financial results and will follow the relevant requirements of the Main Board Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year ends, respectively. The Board is of the view that the investors and Shareholders will continue to have access to relevant information on the Company following the reporting requirements under the Main Board Listing Rules.

PUBLIC FLOAT

The Directors confirm that not less than 25% of the total issued share capital of the Company is held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.kwanonconstruction.com:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the interim report of the Company for the six months ended 30 September 2015;
- (c) the Directors' report and the annual report of the Company for the financial year ended 31 March 2016;
- (d) the first quarterly report of the Company for the three months ended 30 June 2016;
- (e) the circular of the Company dated 23 June 2016 in respect of the general mandates to issue and repurchase Shares, retirement of directors, re-election of Directors, re-appointment of auditors and notice of annual general meeting; and
- (f) a copy of each of the announcements and other corporate communications made by the Company as required under the GEM Listing Rules and the Main Board Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Articles of Association”	the articles of association of our Company adopted on 16 March 2015 and as amended from time to time
“associate(s)”	has the meaning ascribed to them in the Main Board Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“close associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“Company”	Kwan On Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 6 December 2012, and the Shares of which are currently listed on GEM

“Contractor List”	the list of approved contractors for public works (認可公共工程承建商名冊) maintained by WBDB
“Controlling shareholder(s)”	has the meaning ascribed thereto under the Main Board Listings Rules and in the context of this announcement, refer to Decade Success Investments Limited, Fortune Decade Investments Limited, Success Ally Investments Limited, Twilight Treasure Limited, Mr. Wong Yee Tung, Tony, Ms. Chiu Gar Man, Mr. Wong Ming San Andy, Mr. Wong Juen Gar Newton and Mr. Kwong Wing Kie
“Director(s)”	the director(s) of the Company
“ETWB Handbook”	Contractor Management Handbook (Revision B-13) May 2014 (承建商管理手冊-修訂版B) issued by the Environment, Transport and Works Bureau of the Government of Hong Kong (環境運輸及工務局)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Date”	27 March 2015, on which dealing in Shares first commence on GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Government”	The Government of Hong Kong
“Government Gazette”	the official publication of the Government for, among other things, statutory notices for public tenders
“Group”	the Company together with its subsidiaries
“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
“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

“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards, amendments and interpretations issued by Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Housing Authority”	Hong Kong Housing Authority
“Latest Practicable Date”	29 July 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this announcement
“Main Board”	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for the avoidance of doubt, it does not include GEM for the purpose hereof
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Association”	the memorandum of association of the Company adopted on 16 March 2016
“Placing”	the placing of 240,000,000 Shares for the listing of the Shares on GEM as set out in the Prospectus
“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and the Taiwan region
“Prospectus”	the prospectus of the Company dated 23 March 2015

“WBDB”	Works Branch of the Development Bureau (發展局工務科) of the Government
“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(s)”	the ordinary shares of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 16 March 2015
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“Transfer of Listing”	the transfer of listing of the Shares from GEM to the Main Board pursuant to Chapter 9A of the Main Board Listing Rules
“%”	<i>per cent.</i>

By order of the Board
Kwan On Holdings Limited
Wong Yee Tung, Tony
Managing Director

Hong Kong, 5 August 2016

As at the date of this announcement, the executive Directors are Mr. Wong Yee Tung Tony, Mr. Kwong Wing Kie and Mr. Chung Chi Ngong; and the independent non-executive Directors are Prof. Ho Ho Ming, Prof. Lam Sing Kwong Simon and Mr. Chan Chung Kik Lewis.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and will also be published on the “Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk and on the Company’s website at www.kwanonconstruction.com.