



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: 1559

ANNUAL REPORT

2017

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CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Zhenghua (*Chairman*)
Mr. Wong Yee Tung, Tony
Mr. Wong Wa
Mr. Zhang Fangbing

Independent Non-executive Directors

Prof. Ho Ho Ming
Prof. Lam Sing Kwong, Simon
Mr. Lum Pak Sum

COMPANY SECRETARY

Mr. Ng Sai Cheong

COMPLIANCE OFFICER

Mr. Zhang Fangbing

COMPLIANCE ADVISOR

Dakin Capital Limited

AUTHORISED REPRESENTATIVES

Mr. Wong Yee Tung, Tony
Mr. Ng Sai Cheong

AUDIT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
Prof. Lam Sing Kwong, Simon
Prof. Ho Ho Ming

REMUNERATION COMMITTEE

Prof. Lam Sing Kwong, Simon (*Chairman*)
Mr. Lum Pak Sum
Mr. Wong Yee Tung, Tony

NOMINATION COMMITTEE

Prof. Ho Ho Ming (*Chairman*)
Prof. Lam Sing Kwong, Simon
Mr. Chen Zhenghua

RISK MANAGEMENT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
Prof. Ho Ho Ming
Prof. Lam Sing Kwong, Simon

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISER

TC & Co., Solicitors

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, So Hong Commercial Building
41, 43, 45 & 47 Jervois Street
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchin Drive
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
O-Bank Co., Ltd.

COMPANY'S WEBSITE

www.kwanonconstruction.com

STOCK CODE

1559

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**”), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2017 (the “**Reporting Year**”).

BUSINESS REVIEW

Our turnover and net profits recorded historical high of approximately HK\$780.4 million and HK\$33.5 million respectively, represented an increase by 8.4% and 20.7% compared with the prior year. The increase in revenue was mainly attributable to the increase in contract sum and project size of contracts in progress and the successful claim from a customer for a project completed in prior years.

During the Reporting Year, the Group has substantially completed three contracts, namely GE/2012/11, GE/2013/06 and GE/2013/17. In addition, the Group has been awarded three new contracts under the name of Kwan On Construction Company Limited, a wholly-owned subsidiary of the Company and two new contracts under joint venture. As at 31 March 2017, the Group had an aggregate revenue expected to be recognised arising from contract on hand of approximately HK\$1,409.1 million.

This year is challenging as the prolonged debates on infrastructure projects in the Legislative Council had caused delay in tendering of new works in the public sector. Looking ahead, it is expected to have further challenges and uncertainties in Hong Kong and in the construction industry.

The Group had acquired an office premises, at a consideration of HK\$30 million, for use as the Group's head office to achieve rental savings and strengthen the asset base of the Group. In addition, the Group had acquired 34.5% interest in Ever Capital Holdings Limited (“**Ever Capital**”), a licensed corporation under the Securities and Futures Ordinance. The Board considers that the investment in Ever Capital can better utilise the Group's idle cash and maximise return.

PROSPECTS

Given the continuous delays in launching new construction works by the Government and the keen competition in the construction industry, it is expected that the business environment remains challenging. In response, the Group is seeking suitable investment opportunities for diversification of business and to achieve a better return to the shareholders of the Company.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to express my gratitude to all shareholders, customers and suppliers for their valuable support. I would also like to express our sincere appreciation to all the employees of the Group for their hard work and dedication.

Chen Zhenghua

Chairman

26 June 2017

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Zhenghua (陳正華) (“Mr. Chen”), aged 54, graduated with a Master of Business Administration Degree (EMBA) from the Tsinghua University. He is a senior economist and a member of the Chinese People’s Political Consultative Conference of Jiangsu Province* (江蘇省政協常委). Mr. Chen is also the managing director of the Jiangsu Provincial Construction Group* (江蘇省建築工程集團有限公司). He has been awarded the titles of “Outstanding Entrepreneur of the Building Industry of China*” (全國建築業優秀企業家), “Outstanding Entrepreneur of Construction Companies of China*” (全國施工企業優秀企業家), and the “National May 1 Labour Medal*” (全國五一勞動獎章). In addition, Mr. Chen is an executive director of the Chinese Association for International Understanding* (中國國際交流協會), a chief supervisor of the Jiangsu Overseas Chinese Entrepreneurs Association* (江蘇僑商總會), the vice chairman of the Jiangsu Construction Industry Association* (江蘇省建築行業協會), the vice chairman of the Construction Market Manage Association of Jiangsu Province* (江蘇省建築市場管理協會), the vice chairman of the Jiangsu Sushang Development Promotion Association* (江蘇省蘇商發展促進會), and the honorary president of the Nanjing Overseas Chinese Investment Enterprise Association* (南京市僑商投資企業協會).

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.

Mr. Wong Wa (黃華), aged 56, was appointed as an Executive Director on 26 August 2016. Mr. Wong Wa is currently the chairman of the board of HK Asian International Investment Development Limited and Diamond Empire Limited. He is also a committee member of the Committee of the Chinese People’s Political Consultative Conference of Wuxi, Jiangsu, vice-chairman and deputy secretary general of Federation of HK Jiangsu Community Organisations, and vice-chairman of 江蘇旅港同鄉聯合會 (Jiangsu Residents (HK) Association). Mr. Wong Wa graduated from Donghua University (formerly known as 上海紡織工學院 (Shanghai Textile College)). He has engaged in the property development and construction industry for over ten years. He also has extensive experience in management of manufacturing industry.

Mr. Zhang Fangbing (張方兵) (“Mr. Zhang”), aged 39, graduated with a bachelor degree in civil engineering from the Hohai University* (河海大學). He is a senior engineer and a contractor* (全國註冊一級建造師).

Mr. Zhang is the assistant to the president and the general manager of overseas companies of the Jiangsu Provincial Construction Group* (江蘇省建築工程集團有限公司).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang has been awarded the titles of “China Jiangsu Overseas Outstanding Project Manager*” (江蘇省境外優秀項目經理), “review expert of the Ministry of Commerce of the People’s Republic of China Foreign Assistance Projects*” (商務部對外援助成套項目) and “internationalisation expert of Jiangsu Enterprises*” (江蘇省企業國際化專家).

Certain English translations of Chinese names or words marked with “*” are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency between the Chinese names of entitles and their English translations, the Chinese names shall prevail.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Ho Ho Ming (何昊洛) (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 a Professor of Practice of the Department of Finance and Insurance of Lingnan University. In addition, Prof. Ho is an Adjunct Professor of the Department of Real Estate and Construction of The University of Hong Kong and an Honorary Institute Associate of The Asia-Pacific Institute of Business of The Chinese University of Hong Kong.

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 1995, from the University of Cambridge with a Master’s Degree of Business Administration in 1999, and from the City University of Hong Kong with a Doctor of Business Administration in 2016.

Prof. Ho is an independent non-executive director of LEAP Holdings Group Limited (stock code: 1499) since August 2015, the issued shares of which are listed on the Main Board of the Stock Exchange.

Prof. Ho was an independent non-executive director of KSL Holdings Limited (stock code: 8170) from November 2014 to 31 December 2016 and Wan Kei Group Holdings Limited (stock code: 1718) from November 2014 to 28 February 2017.

Professor Lam Sing Kwong, Simon (林誠光) (“Prof. Lam”), aged 58, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Prof. Lam is an independent non-executive director of Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) since May 2009 and Sinomax Group Limited (stock code: 1418) since March 2014 and a non-executive director of Jacobson Pharma Corporation Limited (stock code: 2633) since April 2016.

Prof. Lam was an independent non-executive director of Beijing Enterprises Clean Energy Group Limited (stock code: 1250) from June 2013 to July 2016, Glory Flame Holdings Limited (stock code: 8059) from August 2014 to March 2016, Huarong Investment Stock Corporation Limited (stock code: 2277) from December 2014 to April 2016, and King Force Group Holdings Limited (stock code: 8315) from July 2014 to June 2016.

Mr. Lum Pak Sum (林柏森) (“Mr. Lum”), aged 56, was appointed as an Independent Non-executive Director on 26 August 2016. Mr Lum has over 20 years’ experience in the Hong Kong financial market. Mr. Lum has engaged in the securities and corporate finance business since July 1988 and September 2004 respectively.

Mr. Lum’s directorships in other listed companies in the last three years are listed as follows:

Company	Principal business nature (during the tenure)	Position	Period
Jimei International Entertainment Group Limited (formerly known as Karce International Holdings Company Limited and Sinogreen Energy International Group Limited) (Stock Code: 1159)	Trading of conductive silicon rubber keypads	Independent non-executive director	April 2009 to November 2014
Eagle Ride Investment Holdings Limited (formerly known as Radford Capital Investment Limited) (Stock Code: 0901)	Investment holding and trading of financial assets	Independent non-executive director	May 2010 to October 2013
Great China Properties Holdings Limited (formerly known as Wayfung Global Group Limited until 4 March 2013 and Beauforte Investors Corporation Limited until 8 November 2009) (Stock Code: 0021)	Property investment and development investment holding and security investment	Independent non-executive director	August 2007 to present

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Company	Principal business nature (during the tenure)	Position	Period
Asia Resources Holdings Limited (Stock Code: 0899)	Manufacture and sales of pharmaceutical products, exploration and trading operation of iron ore, and securities investment	Independent non-executive director	November 2010 to January 2015
Orient Securities International Holdings Limited (Stock Code: 8001)	Provision of brokerage service; underwriting and placing service and financing services including securities and initial public offering margin financing	Non-executive director	April 2011 to July 2015
Beautiful China Holdings Company Limited (Stock Code: 0706)	Provision of automatic teller machines services	Independent non-executive director	January 2014 to present
Pak Tak International Limited (Stock Code: 2668)	Manufacturing of and trading in knit-to-shape garments, and retailing of children's wear	Independent non-executive director	June 2014 to November 2014
Yuhua Energy Holdings Limited (formerly known as Shinhint Acoustic Link Holdings Limited) (Stock Code: 2728)	Sales of communication peripheral, portable audio, desktop and speaker drivers	Independent non-executive director	December 2014 to present
i-Control Holdings Limited (Stock Code: 8355)	One-stop solution provider in the video conferencing and multimedia audiovisual ("ITAV") industry	Independent non-executive director	May 2015 to present
Asia Green Agriculture Corporation, a company trading on the Over-the-Counter Bulletin Board in the United States (Symbol: AGAC) (privatized since November 2014)	Production of organic food	Independent director	September 2011 to January 2015

Mr. Lum obtained his Master's Degree of Business Administration from The University of Warwick in July 1994 and his Bachelor Degree of Laws from The University of Wolverhampton in October 2002. He became a fellow of the Hong Kong Society of Accountants (now known as the Hong Kong Institute of Certified Public Accountants (the "HKICPA") since June 1996 and is currently a non-practicing member of the HKICPA. Mr. Lum was admitted as an associate and a fellow of the Association of Chartered Certified Accountants (previously known as the Chartered Association of Certified Accountants) in September 1988 and September 1993 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Project Directors

Mr. Kwong Wing Kie (鄺永基) (“Mr. Kwong”), aged 63, 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.

Mr. Kwong was an Executive Director of the Company from 6 December 2012 to 1 June 2017.

Mr. Chung Chi Ngong (鍾志昂) (“Mr. Chung”), aged 47, 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. Mr. Chung joined the Group as an engineer in 1990. Mr. Chung was subsequently appointed as safety manager for numerous projects.

Mr. Chung was an Executive Director of the Company from 6 December 2012 to 19 September 2016.

Procurement Manager

Mr. Mak Kam Ho (麥錦浩) (“Mr. Mak”), aged 42, joined Univac Engineering Limited, a wholly-owned subsidiary of our Company (“UEL”) in January 1996 and is currently the procurement manager of UEL. He has approximately 17 years of experience in the procurement of building materials and plants for civil engineering projects. Mr. Mak obtained a Higher Certificate in Civil Engineering from the Vocational Training Council in July 2003 and a Bachelor of Science Degree in Civil Engineering from the Leeds Metropolitan University in June 2012.

Project Managers

Dr. Wong Chun Hung (黃俊雄) (“Dr. Wong”), aged 47, joined our Group in April 2011 as a senior project manager. He has over 15 years of experience in civil engineering and construction. Dr. Wong obtained a Bachelor of Engineering Degree and a Doctor of Philosophy Degree from The University of Hong Kong in November 1993 and December 1998, respectively. Dr. Wong was employed by the City University of Hong Kong as a temporary lecturer in the Physics and Materials Science Department from September to December 1998 and pursued his post-doctoral research at The University of Hong Kong from January to December 1999. Prior to joining the Group, from December 1999 to March 2011, Dr. Wong was employed as a contract manager by an engineering company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Shing On (余成安) (“Mr. Yu”), aged 54, joined our Group as a project manager in April 2010. Mr Yu has approximately 20 years of experience in civil engineering and construction. Mr. Yu obtained a Higher Diploma in Civil Engineering (Geotechnology) from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in November 1986 and a Bachelor of Engineering Degree from The University of Sheffield in July 1989. Mr. Yu was admitted as a member of the Hong Kong Institution of Engineers in August 1994 and a member of The Chartered Institute of Arbitrators in May 2011. From May 1991 to September 1997, Mr. Yu was employed by Mott Connell Limited initially as an assistant engineer and subsequently as a resident engineer. From February 1998 to September 1999, Mr. Yu joined China Guangdong Perfect Trump (H.K.) Construction Co. Limited as a site agent and from October 1999 to July 2000, he was employed by the Water Supplies Department as a contract engineer. From August 2000 to April 2001, Mr. Yu was employed by North Lantau Dredging Limited as a site agent and from April 2001 to March 2003 by Hyundai-CCECC Joint Venture as a senior engineer. Mr. Yu was employed by Techwell Engineering Limited as a quantity surveying manager/project manager from May 2003 to December 2006 and as a project manager/contract manager/quantity surveying manager from February 2008 to December 2009.

COMPANY SECRETARY

Mr. Ng Sai Cheong (伍世昌) (“Mr. Ng”), aged 40, joined our Group on 23 August 2012 and was appointed as the Company Secretary of our Company on 23 January 2013. He is responsible for the overall financial and company secretarial aspects of the Group. Mr. Ng has 14 years of experience in auditing and accounting. Mr. Ng worked as an audit graduate and semi-senior at an accountancy firm from June 1998 to April 2000 and as an auditor in the audit department of another local accountancy firm from April 2000 to February 2001. Mr. Ng was employed by a global accountancy firm as a staff accountant from February 2001 to September 2002 and as a senior accountant from October 2002 to September 2003. Subsequently, he was employed by a beauty products manufacturer and distributor initially as an accounting Manager and later as an assistant financial controller from October 2003 to August 2009. Prior to joining our Group in August 2012, Mr. Ng worked at an infrastructure and civil engineering company from September 2009 to April 2012 and his last held position was chief financial officer.

Mr. Ng graduated from The Hong Kong University of Science and Technology in November 1998 with a Bachelor of Business Administration Degree in Accounting and obtained a Master of Corporate Governance Degree from The Open University of Hong Kong in June 2007. Mr. Ng is an associate of the Hong Kong Institute of Certified Public Accountants and an associate of the Hong Kong Institute of Chartered Secretaries. Mr. Ng has not been a director of any publicly listed company during the three years immediately preceding the date of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is 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.

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 on the list of approved contractors for public works maintained by the works Branch of the Development Bureau of the Government of Hong Kong.

Set out below are the list of contracts on hand as at 31 March 2017:

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum HK\$ million	Cumulative revenue recognised HK\$ million	Further revenue expected to be recognised HK\$ million
Tendered by Kwan On Construction						
15/WSD/11	Water Supplies Department (“WSD”)	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 2 – Mains on Outlying Islands	5/4/2016 ⁽¹⁾	164.5	153.8	10.7
DC/2012/05	Drainage Service Department	Sewerage at Yuen Long Kau Hui and Shap Pat Heung	14/1/2017 ⁽²⁾	160.9	147.7	13.2
KL/2012/03	Civil Engineering and Development Department (“CEDD”)	Kai Tak Dvelopment – Stage 4 infrastructure at former north apron area	2/9/2017	794.1	620.5	173.6
GE/2012/11	CEDD	Landslip Prevention and Mitigation Programme, 2009, Package C, Landslip Prevention and Mitigation Works in Lantau and Hei Ling Chau	16/3/2016 ⁽²⁾	96.7	96.7	–
GE/2013/06	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package J, Landslip Prevention and Mitigation Works in New Territories	23/4/2016 ⁽²⁾	121.3	120.7	0.6
GE/2013/17	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package M, Landslip Prevention and Mitigation Works in Lantau North	19/1/2016 ⁽²⁾	78.8	78.8	–
20130375	Housing Authority	Main Engineering Infrastructure in Association with The Proposed Developments at Area 56 in Tung Chung	29/2/2016 ⁽¹⁾	45.2	45.2	–

MANAGEMENT DISCUSSION AND ANALYSIS

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum HK\$ million	Cumulative revenue recognised HK\$ million	Further revenue expected to be recognised HK\$ million
GE/2013/16	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package N, Landslip Prevention and Mitigation Works in Sham Wat, Tai O East, Upper Keung Shan, and Keung Shan Road East in West Lantau	18/6/2017	255.3	186.4	68.9
CV/2015/01	CEDD	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	8/11/2019	254.1	63.1	191.0
CDO2015034	The Chinese University of Hong Kong	Slope Stability Improvement Works – Package JJ Natural Terrain Hazard Mitigation Works for Slope above Campus Circuit East (Natural Terrain Ref. No. NT01)	17/9/2016 ⁽¹⁾	15.2	10.2	5.0
GW/2015/05/038	West Kowloon Cultural District Authority	Public Infrastructure Works for Phase 1 Development of West Kowloon Cultural District (Package 1)	9/1/2018	128.9	62.3	66.6
NE/2016/04	CEDD	Site Formation and Associated Infrastructure Works for Purpose-built Complex of Residential Care Homes for the Elderly in Area 29 of Kwo Tung North New Development Area	4/11/2017	13.4	1.6	11.8
CDO2016061	The Chinese University of Hong Kong	Excavation and Lateral Support Works and Manhole Provision Campus Circuit North near Dangerous Goods Store	1/7/2017	1.8	1.0	0.8
NE/2016/05	CEDD	Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1	30/3/2020	299.0	-	299.0
Total					<u>1,588.0</u>	<u>841.2</u>

Note (1): The extended completion date was the date previously agreed with the customer. We had applied to the customer for a further extension of time and such application was being considered by the customer as at the date of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

Tendered by the Group's joint venture or joint operations

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum HK\$ million	Estimated	Cumulative	Further
					Total revenue to be received by our Group HK\$ million	Amount of revenue recognised by our Group HK\$ million	revenue expected to be recognised by Our Group HK\$ million
10/WSD/10	WSD	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 – Mains in Shatin and Sai Kung	17/2/2016 (Note)	409.6	409.6	403.5	6.1
4/WSD/11	WSD	Construction of Butterfly Valley Fresh Water Primary Service Reservoir Extension and Associated Mainlaying	18/7/2017	336.4	171.6	170.5	1.1
9/WSD/13	WSD	Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2	5/12/2016	78.4	39.2	32.3	6.9
HY/2014/12	Highways Department ("HyD")	Provision of Barrier-free Access Facilities for Highways Structures – Phase 3 Contract 6	15/7/2019	215.2	109.8	48.1	61.7
NE/2014/03	CEDD	Liantang/Heung Yuen Wai Boundary Control Point Site Formation and Infrastructure Works – Contract 7	10/9/2019	462.0	5.0	3.3	1.7
HY/2013/19	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section	27/12/2019	585.0	298.4	103.9	194.5
HY/2014/14	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Fu Tei Section	27/6/2020	462.8	236.0	25.6	210.4
CV/2015/08	CEDD	Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3	28/1/2020	158.5	103.0	17.5	85.5
Total					1,372.6	804.7	567.9

Note: The extended completion date of 17 February 2016 was the date previously agreed with the customer. We had applied to the customer for a further extension of time and such application was being considered by the customer as the date of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of Business Objectives with Actual Business Progress

Business objectives up to 31 March 2017 as stated in our prospectus dated 23 March 2015 (the “Prospectus”)

Monitoring the tender notice published by the relevant government departments for public works and identify prospective projects

Forming the project management team and compile master programs for any projects obtained by Kwan On Construction successfully with terms of around 24 months and estimated contract sum of HK\$450 million from the government of Hong Kong (the “**Relevant Projects**”)

Implementation of works in accordance with the contract under the Relevant Projects.

Submitting tenders, in particular, for roads and drainage services and/or waterworks engineering contracts

Purchasing equipment and machinery

Recruiting the project management and technical personnel required for implementation of the Relevant Projects

Implementing the Relevant Projects in progress

Actual business progress up to 31 March 2017

The Group continued to monitor the tender notices published by the relevant government departments for public works and identify prospective projects for tendering and the Group has submitted 57 tenders during the Reporting Year.

The Group has been awarded a total of five contracts with the total awarded sum of approximately HK\$314.2 million during the Reporting Year. The Group has also been awarded two contracts jointly with joint venture partners with estimated total revenue to be received by the Group amounted to approximately HK\$339.0 million during the Reporting Year.

The Group has implemented the works in accordance with the contracts under the Relevant Projects.

The Group has submitted 41 tenders for roads and drainage services and/or waterworks engineering contracts during the Reporting Year.

The Group has purchased five motor vehicles, one crane, four generators and three air compressors during the Reporting Year.

The Group has recruited two project managers, two site agents and one quantity surveyor and two safety officers during the Reporting Year.

The Group continued the implementation of the Relevant Projects in progress during the Reporting Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives up to 31 March 2017 as stated in our Prospectus

Maintaining ongoing quality assurance and safety review on the works performed

Strengthening of safety team

Recruiting additional safety officer for quality assurance

Reviewing the safety policy to address the risk areas and potential hazards and formulate improvement steps and procedures

Implementing contracts with contract numbers KL/2012/03, GE/2012/11, GE/2013/06, GE/2013/17, 9/WSD/13, 15/WSD/11, 20130375 and GE/2013/16, each of which has the percentage of works certified below 50% as at the latest practicable date of the Prospectus and will be completed after 30 September 2015 (the “**Ongoing Contracts**”) and the Relevant Projects as programmed

Monitoring the progress of implementation by the subcontractors for the Ongoing Contracts and the Relevant Projects

Actual business progress up to 31 March 2017

The Group continued to maintain ongoing quality assurance and safety review on the works performed during the Reporting Year.

The Group continued to strengthen the safety team by recruitment of new safety officers during the Reporting Year.

The Group has recruited two new safety officers during the Reporting Year.

The Group continued to review the safety policy and conducted 17 safety audits for various projects to address the risk areas and potential hazards and formulate improvements steps and procedures during the Reporting Year.

The Group continued the implementation of the Ongoing Contracts and the Relevant Projects as programmed during the Reporting Year. The Group has substantially completed contract GE/2012/11, GE/2013/06 and GE/2013/17 during the Reporting Year.

The Group continued the monitoring the progress of implementation by the subcontractors for the Ongoing Contracts and the Relevant Projects during the Reporting Year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Year amounted to approximately HK\$780.4 million (2016: approximately HK\$719.8 million), represented an increase of approximately 8.4% or approximately HK\$60.6 million as compared to the year ended 31 March 2016.

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Waterworks	115,593	215,830
Road works and drainage and site formation works	504,850	335,523
LPM Services	159,961	164,704
Building works	–	3,713
	780,404	719,770

The revenue in the waterworks engineering services decreased by approximately 46.4% to approximately HK\$115.6 million (2016: approximately HK\$215.8 million). Such decrease was due to project completion or substantial completions for the Reporting Year.

The increase in revenue in the road works and drainage category by approximately 50.5% to approximately HK\$504.9 million (2016: approximately HK\$335.5 million) during the year ended 31 March 2017 was mainly due to revenue contributed from contracts KL/2012/03, CV/2015/01 and GW/2015/05/038. The contracts have recognised approximately HK\$356.2 million to revenue for the year ended 31 March 2017 (2016: approximately HK\$209.4 million).

The decrease in revenue in the LPM works during the Reporting Year was mainly due to the completion of the project GE/2010/21 during the Reporting Year. As such, the revenue in LPM services decreased by approximately 2.9% to approximately HK\$160.0 million for the Reporting Year (2016: approximately HK\$164.7 million).

The Group has no revenue generated from the building works category for the Reporting Year (2016: approximately HK\$3.7 million). This was mainly due to the completion of contract SDB807 in the prior year and the Group did not have any building works projects during the Reporting Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of services

Cost of services increased from approximately HK\$662.5 million for the year ended 31 March 2016 to approximately HK\$716.3 million for the Reporting Year, representing an increase of approximately 8.1%. The increase was mainly attributable to the increase in subcontracting charges by approximately HK\$72.4 million, which was mainly due to the commencement of several site formation works projects during the Reporting Year.

Gross profit and gross profit margin

The gross profit margins by categories of works performed are set out below:

	Year ended 31 March	
	2017	2016
Waterworks	7.6%	2.7%
Road works and drainage and site formation works	5.2%	12.2%
LPM Services	32.5%	8.6%
Building works	—	0.9%

The gross profit margin for waterworks engineering service increased to approximately 7.6% for the Reporting Year (2016: approximately 2.7%). Such increase was mainly due to the completion of the maintenance period and the receipt of final payment of two completed contracts 11/WSD/08 and 24/WSD/09 in the Reporting Year, which contributed to the Group a comparatively high gross profit margin for the year ended 31 March 2017.

Gross profit margin for road works and drainage and site formation works service decreased to approximately 5.2% for the Reporting Year (2016: approximately 12.2%). Such decrease was mainly due to the decrease in the percentage of turnover generated from project KL/2012/03 together with the costs incurred and recognised from new contract HY/2014/14 is greater than the increase in revenue recognised during the Reporting Year.

Gross profit margin for LPM Service increased significantly to approximately 32.5% for the Reporting Year (2016: approximately 8.6%). Such increase was mainly due to the increase in revenue recognition from contract GE/2011/03 was completed during the Reporting Year and the favourable margin from projects, namely GE/2012/11, GE/2013/06 and GE/2013/17, generated at the maintenance stage of the contracts in the Reporting Year.

No gross profit generated for building works during the Reporting Year (2016: 0.9%) because the Group did not have any building work projects in progress during the Reporting Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income and other gain and loss

Other income and other gain and loss for the Reporting Year amounted to approximately HK\$3.3 million (2016: approximately HK\$2.9 million). The increase was mainly due to the increase in gain on disposal of motor vehicles of approximately HK\$0.8 million (2016: loss on disposal of approximately HK\$0.5 million) during the Reporting Year.

Administrative expenses

Administrative expenses for the Reporting Year amounted to approximately HK\$27.8 million (2016: approximately HK\$23.9 million). The increase was mainly due to the increase in donation expenses of approximately HK\$1.0 million to the Community Chest of Hong Kong; and the increase in professional service expenses of approximately HK\$1.0 million upon the successful listing of the shares of the Company on the Main Board of the Stock Exchange on 15 August 2016.

Finance costs

Finance costs for the Reporting Year amounted to approximately HK\$2.8 million (2016: approximately HK\$4.5 million). The decrease was mainly due to the decrease in bank interest expenses of approximately HK\$1.2 million as a result of the decrease in average outstanding borrowings for the Reporting Year as compared to that of the year ended 31 March 2016.

Income tax expense

Income tax expense for the Reporting Year amounted to approximately HK\$3.2 million (2016: approximately HK\$4.0 million). The decrease was mainly due to the utilisation of tax loss generated by certain subsidiaries of the Group for the Reporting Year.

Profit and total comprehensive income

Profit and total comprehensive income for the Reporting Year amounted to approximately HK\$33.5 million (2016: approximately HK\$27.8 million). The increase was mainly attributable to the increase in gross profit generated from the Group projects in LPM Services.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the Group had net current assets of approximately HK\$88.7 million (2016: approximately HK\$86.2 million), increase of approximately HK\$2.5 million, representing an increase of approximately 2.9% as compared with the prior year.

The current ratio of the Group as at 31 March 2017 was approximately 1.24 times (2016: approximately 1.35 times). The decrease was mainly due to cash used in the purchase of the office premises which was classified as non-current assets.

The cash and cash equivalents for the Reporting Year amounted to approximately HK\$194.4 million (2016: approximately HK\$107.2 million). The increase was mainly resulted from the proceeds collected from settlement of trade and other receivables and advances from a Director amounted to approximately HK\$95.0 million.

The gearing ratio, calculated based on the total debt (including borrowings and finance lease payables) divided by total equity, was approximately 54.5% as at 31 March 2017 (2016: approximately 70.2%). The decrease was mainly due to our significant increase in equity as at 31 March 2016 of approximately HK\$135.5 million (2016: approximately HK\$103.4 million) as a result of the profitable operation of the Group.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 15 August 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2017, the Company's issued share capital was HK\$9.6 million and the number of ordinary shares issued was 960,000,000 of HK\$0.01 each.

COMMITMENTS

The Group was committed to make future minimum lease payments in respect of properties under non-cancellable operating leases. The Group's operating lease commitments amounted to approximately HK\$1.2 million as at 31 March 2017 (2016: approximately HK\$3.8 million). As at 31 March 2017, the Group did not have any significant capital commitments (2016: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Reporting Year, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS

Save as disclosed in Note 17 to the consolidated financial statements, the Group did not have any significant investments as at 31 March 2017 (2016: Nil).

CONTINGENT LIABILITIES

As at 31 March 2017, the Group was involved in certain litigations, details of which are set out in Note 34 to the consolidated financial statements.

FOREIGN EXCHANGE EXPOSURE

The Group was not exposed to foreign exchange risk during the Reporting Year (2016: Nil).

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade and retention receivables and deposits with banks. The credit risk of the Group's trade and retention receivables is concentrated since approximately 91% of which was derived from two major customers as at 31 March 2017 (2016: approximately 75%). As the customers of the Group are mainly government departments/organisation, the credit risk is considered to be low. The Group's major bank balances are deposited with banks with good reputation and hence the management does not expect any losses from nonperformance by these banks. In relation to the management of liquidity risk, the Group's policy is to regularly monitor the liquidity requirements in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet the liquidity requirements in short and long term.

CHARGE OF GROUP'S ASSETS AND SECURITIES FOR BANKING FACILITIES

As at 31 March 2017, the Group pledged bank deposits amounted to approximately HK\$58.0 million (2016: approximately HK\$66.7 million) as securities for banking facilities.

Further details of the banking facilities granted to the Group are set out in Note 24 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2017, the Group employed a total of 373 employees, comprising 249 staff employed on a full-time basis and 124 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$95.0 million for the Reporting Year (2016: approximately HK\$101.8 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

SHARE OPTION SCHEME

The Group has adopted a share option scheme 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.

LITIGATIONS

As at 31 March 2017, the Group was involved in certain litigations, details of which are set out in Note 34 to the consolidated financial statements.

PROSPECT

With the increasing government budget for infrastructure, the outlook for the construction industry in Hong Kong remains optimistic. Going forward, the Group will continue to identify and tender for more rewarding contracts in Hong Kong and to identify opportunities for joint ventures to capture more potential business opportunities.

Looking ahead, the Group will endeavor to strengthen the development of its existing businesses and to provide steady return as well as growth prospects for the Company's shareholders.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board recognised that transparency and accountability are important to a listed company. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's stakeholders as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Directors will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly stringent regulatory requirements from time to time, and to meet the rising expectation of shareholders and other stakeholders of the Company.

In the opinion of the Board, the Company has complied with the provisions of the CG Code for the year ended 31 March 2017 (the "**Reporting Year**").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules (the "**Model Code**"). The Company periodically issues notices to its Directors reminding them to the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiries with the Directors, our Directors have confirmed that they have complied with the required standard of dealings regarding securities transactions by the Directors throughout the Reporting Year.

BOARD OF DIRECTORS

As at 31 March 2017, the Board comprised six Directors, including three Executive Directors and three Independent Non-executive Directors. Subsequently, one Executive Director has resigned and the Company has appointed two Executive Directors. As at the date of this report, the Board comprised seven Directors, including four Executive Directors and three Independent Non-executive Directors.

Executive Directors

Mr. Chen Zhenghua (*Appointed on 1 June 2017*)

Mr. Wong Yee Tung Tony

Mr. Wong Wa (*Appointed on 26 August 2016*)

Mr. Zhang Fangbing (*Appointed on 1 June 2017*)

Mr. Kwong Wing Kie (*Resigned on 1 June 2017*)

Mr. Chung Chi Ngong (*Resigned on 20 September 2016*)

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Prof. Ho Ho Ming

Prof. Lam Sing Kwong Simon

Mr. Lum Pak Sum (*Appointed on 26 August 2016*)

Mr. Chan Chung Kik, Lewis (*Resigned on 13 September 2016*)

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has the full support from the Executive Directors and the senior management of the Company to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code and the disclosures in this annual report. All Directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent Non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee (as defined under the paragraph headed "Board Committees").

The biographical details of the Directors and other senior management are set out in the section headed with "Biographical Details of Directors and Senior Management" from pages 5 to 10 of this annual report. Save as disclosed in the section "Biographical Details of the Directors and Senior Management" in this annual report, each of the Board members has no financial, business, family or other material or relevant relationships with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Pursuant to Code Provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and the CEO should be clearly established and set out in writing. Since the Company has not appointed a chief executive officer, the roles of the chairman and chief executive officer are not separated and performed by two different individuals. During the Reporting Year, Mr. Wong Yee Tung, Tony ("Mr. Wong") is the Managing Director of the Company, who is responsible for the Group's overall development direction and strategies and ensures the Board functions effectively and discharges its responsibilities. As there is no chief executive officer appointed, the daily operations of the Group are delegated to the Executive Directors and the senior management. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the “**Board Diversity Policy**”) from the date of Listing up to the date of this corporate governance report. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

The Company recognised the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board’s composition, Board diversity has been considered from a number of measurable aspects including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, all of which the Company considers to be important to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and recommend any proposed changes to the Board for approval. The Nomination Committee will review the Board Diversity Policy as appropriate from time to time to ensure its effectiveness.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the Reporting Year.

ATTENDANCE RECORDS OF MEETINGS

Code Provision A.1.1 prescribes that at least two regular board meetings should be held in each year with active participation of majority of Directors, either in person or through electronic means of communication.

The Company convened and held three regular Board meetings during the Reporting Year.

Additional Board meetings will be convened, as and when required, to deal with ad hoc issues. Any Director who is not able to present physically may participate at any Board meeting through electronic means of communication, such as conference phone or other similar communication equipment, in accordance with the Articles.

CORPORATE GOVERNANCE REPORT

Notice convening each regular Board meeting is sent at least 14 days in advance, and reasonable notice is given for other Board meetings and committee meetings. The Company Secretary assists the Board to prepare the meeting notice and agenda. Each Director may include any item in the agenda. The agenda, accompanied by meeting papers with sufficient and reliable information, are sent to each Director at least 3 days before each Board meeting or committee meeting to enable the Directors to make informed decisions on the matters to be discussed, except where a Board meeting or committee meeting is convened on a very urgent basis to consider any urgent ad hoc matter.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes will normally be circulated to Directors for comments within a reasonable time after each meeting and the final version is open for Directors' inspection.

During the Reporting Year, three regular Board meetings, three Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting and the 2016 annual general meeting (“**AGM**”) were held. Details of individual Directors' attendance at these meetings are set out in the following table:

Directors	Attended/Eligible to attend					AGM
	Regular Board Meeting	Audit Committee Meeting	Remuneration on Committee Meeting	Nomination Committee Meeting	Risk Management Committee	
Executive Directors						
Mr. Chen Zhenghua	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wong Yee Tung, Tony	2/3	N/A	1/1	N/A	N/A	1/1
Mr. Kwong Wing Kie	3/3	N/A	N/A	1/1	0/0	1/1
Mr. Chung Chi Ngong	2/2	N/A	N/A	N/A	N/A	1/1
Mr. Wong Wa	0/1	N/A	N/A	N/A	N/A	0/0
Mr. Zheng Fangbing	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors						
Prof. Ho Ho Ming	3/3	3/3	N/A	1/1	0/0	1/1
Prof. Lam Sing Kwong, Simon	3/3	3/3	1/1	1/1	0/0	1/1
Mr. Chan Chung Kik, Lewis	2/2	2/2	1/1	N/A	N/A	1/1
Mr. Lum Pak Sum	1/1	1/1	N/A	N/A	0/0	0/0

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our Executive Directors has entered into a service contract with our Company upon appointment and we have issued letters of appointment to each of our independent non-executive Directors. The service contracts with our Executive Directors are for an initial term of three years commencing from the date which the Company successfully listed on the Growth Enterprise Market of the Stock Exchange on 27 March 2015 (the "**Listing Date**") or date of appointment, where appropriate. The letters of appointment with each of our Independent Non-executive Directors are for an initial fixed term of three years commencing from the Listing Date or date of appointment, where appropriate. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles and the applicable Listing Rules.

The Articles provide that subject to the manner of retirement by rotation of Directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

The Company has three Independent Non-executive Directors which complies with Rule 3.10(1) of the Listing Rules. Among the three Independent Non-executive Directors, Mr. Chan Chung Kik, Lewis, who has resigned on 13 September 2016 and Mr. Lum Pak Sum has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Independent Non-executive Directors represent at least one-third of the Board in compliance with Rule 3.10A of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each of the Independent Non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his independence. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independency pursuant to Rule 3.13 of the Listing Rules and the Company considers these Independent Non-executive Directors to be independent.

Pursuant to article 84(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being shall retire from office and shall be eligible to offer themselves for re-election. In addition, separate ordinary resolutions in relation to the proposed re-election of the retiring Directors should be put forward to the shareholders in the annual general meeting. The term of office of the Directors who have been re-elected shall commence from the date of the annual general meeting which approves their re-appointments and end at the conclusion of the third subsequent annual general meeting of the Company.

The Company has taken out directors and officers liability insurance to cover liabilities arising from legal action against the Directors.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. All the Directors have received training hosted by the Company's legal advisor which was about, inter alia, the Listing Rules, the Companies Ordinance and the Securities and Futures Ordinance before the Listing Date.

All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

Pursuant to the Code Provision A.6.5 of the CG Code, the Company has arranged an in-house training on the updates of Listing Rules in the form of a seminar conducted by the Company's auditors and the relevant training material has been distributed to the attending Directors. The training covered topics on risk management, environmental, social and governance reporting. All Directors had participated in the in-house training except for Mr. Wong Wa, Mr. Chan Chung Kik Lewis (who has resigned on 13 September 2016), Mr. Chung Chi Ngong (who has resigned on 20 September 2016), Mr. Chen Zhenghua (appointed on 1 June 2017) and Mr. Zhang Fangbing (appointed on 1 June 2017).

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established four board committees, namely the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”) and the nomination committee (the “**Nomination Committee**”) and the risk management committee (the “**Risk Management Committee**”). Save for the Risk Management Committee, the written terms of reference are available on the websites of the Stock Exchange and the Company.

All Board committees are provided with sufficient resources to perform their duties, and upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company’s expense.

The Board is responsible for performing the corporate governance duties set out in the CG Code which include developing and reviewing the Company’s policies and practices on corporate governance, training and continuous professional development of Directors, reviewing the Company’s compliance with the code provisions in the CG Code and disclosures in this annual report.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 March 2015 with written terms of reference in compliance with the Listing Rules. In accordance with provisions set out in the CG Code, these terms of reference are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of three Independent Non-executive Directors, namely Prof. Ho Ho Ming, Prof. Lam Sing Kwong, Simon and Mr. Lum Pak Sum. The chairman of the Audit Committee is Mr. Lum Pak Sum, who has appropriate professional qualifications and experience in accounting matters.

The main duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor’s independency, objectivity and the effectiveness of the audit process and to discuss the nature and scope of the audit with the external auditor. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) financial control, internal control and risk management systems of the Company.

The consolidated financial statements of the Group for the Reporting Year have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the Reporting Year has complied with the applicable accounting standards, Listing Rules and that adequate disclosures have been made. The Audit Committee had reviewed the Group’s consolidated financial statements for the Reporting Year.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the Reporting Year.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 16 March 2015 comprising one Executive Director, namely Mr. Wong Yee Tung, Tony and two Independent Non-executive Directors, namely Prof. Lam Sing Kwong, Simon and Mr. Lum Pak Sum. Prof. Lam Sing Kwong, Simon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriated policies and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the Reporting Year.

NOMINATION COMMITTEE

The Nomination Committee was established on 16 March 2015 comprising one Executive Director, namely Mr. Kwong Wing Kie (resigned on 1 June 2017 and Mr. Chen Zhenghua was appointed as a member of the Nomination Committee on 1 June 2017) and two Independent Non-executive Directors, namely Prof. Ho Ho Ming and Prof. Lam Sing Kwong, Simon. Prof. Ho Ho Ming is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange.

The primary duties of the Nomination Committee are to review and assess the structure, size and diversity of the Board and the independence of the Independent Non-executive Directors and makes recommendations to the Board on appointment of new Directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. In designing the Board's composition, board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the Reporting Year is set out below:

Remuneration band	Number of persons
Less than HK\$500,000	6
HK\$500,001 to HK\$1,000,000	1
HK\$1,000,001 to HK\$1,500,000	3
HK\$1,500,001 to HK\$2,000,000	1

Particulars regarding Directors' remuneration and the five highest paid employees are required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Notes 12 and 13 to the consolidated financial statements in this annual report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 March 2017, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, SHINEWING (HK) CPA Limited, about their reporting responsibility on the financial of the Group are set out in the independent auditor's report included in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee and the Risk Management Committee assist the Board in fulfilling its oversee and corporate governance roles in the Group's financial, operational, procedural compliance, risk management and internal control functions.

CORPORATE GOVERNANCE REPORT

Main Features of the systems

The Group has established a risk management framework integrated with the internal control system, which includes, but not limited to the participation of the Board, the Audit Committee and the Risk Management Committee. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the effectiveness of risk management. The Risk Management Committee meets, at least on an annual basis, to review the overall risk management strategies and the risk tolerance/appetite level to assess the effectiveness of the Group in mitigating risks. On a daily basis, the management monitor the business operations to ensure their internal controls are implemented as intended. Any weaknesses identified would be remediated by the management immediately.

Risk identification Process

The Group has established an on-going process for identifying, evaluating and managing the significant risks of the Group. Such process comprises the following stages:

1. Risk identification – identify potential risks and recorded into the risk register, which summarize into four categories: reporting, operational, strategic and compliance risk;
2. Risk assessment and prioritization – assess the risks in terms of impact and vulnerability, then assign a rating and prioritize in descending order;
3. Risk response – risk can be accepted, mitigated, shared, or avoided. A remediation plan will be established to respond to the identified risks;
4. Risk monitoring – monitor the effectiveness of the remediation plan on a periodic basis.

Procedures for the handling and dissemination of inside information

The Board has established a policy on the procedures and internal controls for the handling and dissemination of inside information. For any material violation of this policy, the Board will decide, or designate appropriate personnel to decide the course of actions for rectifying the problems and avoiding recurrence. The Group handles and disseminates inside information with due care. Staff is required to comply with confidentiality terms. Only personnel at appropriate level can get reach of price sensitive and inside information.

CORPORATE GOVERNANCE REPORT

Internal Audit

An independent consulting firm (the “**Firm**”) has been engaged to work with the Group to perform the Internal Audit functions. Key risks and internal controls for selected processes are assessed by the Firm. The review results and proposed recommendations are communicated to senior management, the Audit Committee and the Risk Management Committee. The Board, through the Audit Committee and the Risk Management Committee, has reviewed the results of the work done by the Firm in relation to the effectiveness of the internal control and risk management systems of the Group. In response to any material internal control defects identified, the Firm would provide recommendations for major observations of control weaknesses. Management will take suggestions raised by the Firm to further enhance its risk management and internal control systems.

The Board has reviewed and confirmed the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, financial reporting and internal audit functions. There is no significant control weaknesses noted for the Reporting Year. The Board confirms that the Group’s risk management and internal control systems are effective and adequate.

AUDITOR’S REMUNERATION

SHINEWING (HK) CPA Limited was appointed as the external auditor of the Company. During the Reporting Year, the total fees paid and payable to SHINEWING (HK) CPA Limited amounted to approximately HK\$1.5 million, comprising approximately HK\$0.9 million for audit services and approximately HK\$0.6 million for non-audit services.

PERMITTED INDEMNITY PROVISION

The Company has taken out and maintained directors’ liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Company.

COMPANY SECRETARY

Mr. Ng Sai Cheong (“**Mr. Ng**”) is the Company Secretary of the Company, whose biographical details are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report. Mr. Ng has informed the Company that he has taken more than 15 hours of relevant professional training for the Reporting Year. The Company considers that the training of the Company Secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules for the Reporting Year.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant change in the constitutional documents of the Company during the Reporting Year.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the website of The Stock Exchange and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to the articles of association of the Company. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors and welcomes suggestions from investors, shareholders and the public.

Enquiries and concerns to the Board and the Company may be sent by post to the head office and principal place of business of the Company in Hong Kong at "5/F, So Hong Commercial Building, 41, 43, 45 & 47 Jervois Street, Hong Kong", for the attention of the Board and/or the company secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

CORPORATE GOVERNANCE REPORT

The Company has established several channels to communicate with the shareholders and investors as follows:

- (a) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the website of the Stock Exchange “www.hkexnews.hk” and the Company’s website at “www.kwanonconstruction.com”;
- (b) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (c) corporate information is made available on the Company’s website;
- (d) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (e) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

ENVIRONMENTAL POLICY

Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promotes awareness towards environmental protection to the employees. Our Group implements green office practices which include double-sided printing, copying, promoting the use of recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances. Our Group will review the environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group’s business and enhance environmental sustainability.

ESG POLICIES AND PERFORMANCE

During the Reporting Year, the Group has complied with the “comply or explain” provisions set out in the Environmental, Social and Governance (“ESG”) Reporting Guide. Information about the Company’s ESG policies and performance during the Reporting Year will be set out in the Environmental, Social and Governance Report to be available on the Company’s website.

REPORT OF DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2017 (the “**Reporting Year**”).

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the principal activities of its subsidiaries are set out in Note 1 to the consolidated financial statements. There was no significant change in the Group’s principal activities during the Reporting Year.

FINANCIAL RESULTS

The results of the Group for the Reporting Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this annual report.

USE OF PROCEEDS

The net proceeds from the listing of the Company (after deducting related expenses) amounted to approximately HK\$26.7 million. As at 31 March 2017, the Group has fully used up 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.

BUSINESS REVIEW

Further discussion and analysis of the business activities of the Group, including a business review of the Group for the Reporting Year and an indication of likely future developments in the Group’s business, can be found in the Management Discussion and Analysis as set out on pages 11 to 21 of this annual report. These discussions form part of this Directors’ report.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, the principal risks and uncertainties faced by the Group are set out below:

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 Reporting Year, the customer base of our Group was highly concentrated. Revenue generated from Government contracts represented approximately 98.7% (2016: approximately 90.5%) of our Group’s total revenue for the Reporting Year. 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

REPORT OF DIRECTORS

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 for, 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 Reporting Year 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 annual report. 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 Reporting Year, 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.

REPORT OF DIRECTORS

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.

ENVIRONMENTAL POLICIES, PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is dedicated to maintain sustainable working practices and pay close attention to ensure all resources are efficiently utilised. We strive to become an environmental-friendly corporation, and that we participated in the Ex-gratia Payment Scheme initiated by the Environmental Protection Department and we phased out 8 Pre-Euro IV Diesel Commercial Vehicles possessed by our Group during the Reporting Year.

We have an environmental management plan for each contract undertaken by our Group, which sets out our general environmental policies, organisational structure and responsibilities of our environmental protection team, in-house rules and regulations, environmental performance monitoring, implementation measures, waste management measures and review of requirements.

The Group and its business activities are subject to requirements under various laws. The laws and regulations which have a significant impact on the Group include, among others, Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong), Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong), Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong), Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), Occupational

REPORT OF DIRECTORS

Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), and Immigration Ordinance (Chapter 115 of the Laws of Hong Kong). The Group has put in place in-house rules containing measures and work procedures to ensure that the Group's operation is in compliance with the applicable laws and regulations.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors are of view that employees, customers and business partners are the keys to the sustainable development of the Group. Our Directors believe that our Group maintains good working relations with its employees and business partners and it endeavours to improve the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. We provide various types of trainings to our employees, including (i) conducting in-house continuous professional development seminars; (ii) subsidizing our staff in pursuing further studies in related fields; and (iii) provision of safety training programme to staff to enhance their safety awareness.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer accounted for approximately 60.8% (2016: approximately 51.0%) of the Group's total revenues. The five largest customers accounted for approximately 97.4% (2016: approximately 86.2%) of the Group's total revenue for the Reporting Year.

The Group five largest suppliers together accounted for approximately 43.4% (2016: approximately 39.0%) of the Group's total cost of services for the Reporting Year. The largest subcontractor accounted for approximately 16.8% (2016: approximately 11.3%) of the total cost of services of the Group for the Reporting Year.

U-Tech, being the largest supplier of the Group, is a connected person of our Company in respect of Kwan On – U-Tech 1 as disclosed in the section headed "Connected Transactions".

Other than as set out in the paragraph above, to the best knowledge of the Directors, neither the Directors, their associates, nor any Shareholders, who owned more than 5% of the Company's issued voting shares, had any beneficial interest in any of the Group's five largest customers or suppliers during the Reporting Year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Year are set out in Note 16 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme (the “**Scheme**”) of the Company was adopted on 16 March 2015. There were no share option granted or agreed to be granted under the Scheme since the date of the adoption to the date of this annual report.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant options to the employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or any subsidiary (including any Director of the Company or any subsidiary) who is in full-time or part-time employment with or otherwise engaged by the Company or any subsidiary at the time when an option is granted to such employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner or any person who, in the absolute discretion of the Board has contributed or may contribute to the Group as incentive or reward for their contribution to the Group.

(b) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the Scheme together with options which may be granted under any other share option schemes for the time being of the Group shall not exceed such number of shares as equals 10% of the issued share capital of the Company at the date of approval of the Scheme, being 960,000,000 shares, unless the Company obtains a fresh approval.

(c) Maximum number of options to any one grantee

Unless approved by the shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each grantee in any 12-month period must not exceed 1% of the shares in issue.

REPORT OF DIRECTORS

(d) Price of shares

The subscription price for shares under Scheme shall be determined at the discretion of the Directors but will not be less than the highest of:

- (i) The closing price of the shares on the Stock Exchange as shown in the daily quotation sheet of the Stock Exchange on the offer date of the particular option, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("**Business Day**");
- (ii) The average of the closing prices of the shares shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date of that particular option; and
- (iii) The nominal value of a share on the offer date of the particular option.

(e) Time of exercise of option

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but not later than 10 years from the date of grant but subject to the early termination of the Scheme.

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Year are set out in Note 26 to the financial statements

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Year are set out in Note 32(a) to the financial statements and in the consolidated statement of changes in equity, respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the Reporting Year.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained public float as required under the Listing Rules.

DIRECTORS

The Directors during the Reporting Year and up to the date of this annual report were as follows:

Executive Directors

Mr. Chen Zhenghua (*Chairman*)(*Appointed on 1 June 2017*)
Mr. Wong Yee Tung, Tony (“Mr. Wong”)
Mr. Kwong Wing Kie (“Mr. Kwong”) (*Resigned on 1 June 2017*)
Mr. Chung Chi Ngong (*Resigned on 20 September 2016*)
Mr. Wong Wa (*Appointed on 26 August 2016*)
Mr. Zhang Fangbing (*Appointed on 1 June 2017*)

Independent Non-executive Directors

Prof. Ho Ho Ming
Prof. Lam Sing Kwong, Simon
Mr. Chan Chung Kik, Lewis (*Resigned on 13 September 2016*)
Mr. Lum Pak Sum (*Appointed on 26 August 2016*)

Pursuant to article 83(3) of the articles of association of the Company (the “**Articles**”), the Directors shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the shareholders of the Company after his appointment and be subject to re-election. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to article 84(1) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of 3), the number nearest to but not less than one-third shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

In accordance with articles 83(3) and 84(2) of the articles of association of the Company, Mr. Chen Zhenghua, Mr. Zhang Fangbing, Mr. Wong Wa, and Mr. Lum Pak Sum and Mr. Wong Yee Tung Tony will retire and being eligible, will offer themselves for re-election at the Company’s forthcoming annual general meeting.

Biographical details of the Directors and senior management are set out in the section headed “Biographies of Directors and Senior Management”. Information regarding Directors’ and Chief Executive’s emoluments is set out in Note 12 to the consolidated financial statements. An annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules have been received from each of the Independent Non-executive Directors.

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 5 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the date which the Company successfully listed on the Growth Enterprise Market of the Stock Exchange on 27 March 2015 or the date of appointment, as appropriate and will continue thereafter until terminated in accordance with the terms of the contract. Independent Non-executive Directors are appointed for a term of three years initially and will continue thereafter unless terminated by either party giving at least three months' notice in writing.

INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Each of Mr. Wong Yee Tung, Tony, Mr. Kwong Wing Kie, Ms. Chiu Gar Man ("**Ms. Chiu**"), Mr. Wong Juen Gar, Newton, Mr. Wong Ming San Andy, Decade Success Investments Limited ("**Decade Success**"), Success Ally Investments Limited ("**Success Ally**") and Twilight Treasure Limited (the "**Covenators**") has provided annual confirmations in respect of the compliance with non-competition undertaking (the "**Undertaking**") given by them.

The Independent Non-executive Directors have also reviewed the compliance by each of the Covenators with the Undertaking during the Reporting Year. The Independent Non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the Covenators of the Undertaking given by them.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 12 and 13 to the consolidated financial statements.

The Remuneration Committee of the Company will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Scheme.

REPORT OF DIRECTORS

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed “Biographical Details of Directors and Senior Management” in this annual report, there was no change in the information of the Directors required to be disclosed under the Listing Rules for the Reporting Year.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 March 2017, the interests and short positions of the Directors and CEO in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

Ordinary shares in the Company

Name	Capacity and nature of interests	Number of shares held (Note 1)	Approximate percentage of shareholdings involved
Mr. Wong (Notes 1 to 3)	Interest of controlled corporation	61,653,000 (L)	6.42%
Mr. Kwong (resigned on 1 June 2017) (Notes 1 to 3)	Interest of controlled corporation	61,653,000 (L)	6.42%

L: Long positions

Notes:

1. 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.
2. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Wong.
3. The entire issued share capital of Decade Success is legally and beneficially owned by Mr. Kwong.

Saved as disclosed above, none of the Directors and Chief Executive of the Company had any other interests or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to Appendix 10 to the Listing Rules.

REPORT OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 March 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and CEO.

Ordinary shares in the Company

Name	Capacity and nature of interests	Number of shares held	Approximate percentage of shareholdings involved
Ren Jinhua (Note 1)	Beneficial owner	144,000,000 (L)	15.00%
Sino Coronet Group Limited (Note 1)	Beneficial owner	108,000,000 (L)	11.25%
Guo Jing (Note 2)	Beneficial owner	66,000,000 (L)	6.88%
Winsum Holdings Limited (Note 2)	Beneficial owner	66,000,000 (L)	6.88%
Twilight Treasure Limited ("Twilight Treasure") (Note 3)	Beneficial owner	61,653,000 (L)	6.42%
Success Ally (Notes 3 and 4)	Interest of controlled corporation	61,653,000 (L)	6.42%
Ms. Chiu (Note 6)	Interest of spouse	61,653,000 (L)	6.42%

L: Long positions

Notes:

1. The issued capital of Sino Coronet Group Limited is wholly owned by Mr. Ren Jinhua.
2. The issued capital of Winsum Holdings Limited is wholly owned by Ms. Guo Jing.
3. 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.

REPORT OF DIRECTORS

4. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Wong.
5. The entire issued share capital of Decade Success is legally and beneficially owned by Mr. Kwong.
6. Ms. Chiu is deemed to be interested in the 61,653,000 Shares held by Mr. Wong pursuant to the SFO by virtue of her being the spouse of Mr. Wong.

Saved as disclosed above, none of the Directors and CEO had any other interests or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to Appendix 10 to the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party and connected transactions of the Group are set out in Note 31 to the consolidated financial statements. The related party transactions set out in Note 31 to the consolidated financial statements were fully exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Connected Transactions Exempt from the Circular, Independent Financial Advice and Shareholders' Approval Requirements

On 29 July 2012, Kwan On Construction Company Limited ("**Kwan On Construction**"), a wholly-owned subsidiary of the Company formed an unincorporated joint venture, Kwan On – U-Tech, with U-Tech for the purpose of preparing and submitting the joint tender and subsequent execution of the works relating to the contract 10/WSD/10. U-Tech is regarded as a connected person of the Company by reason of its ability to exercise influence over the affairs of Kwan On – U-Tech.

Joint operation formed by Kwan On Construction and U-Tech

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

REPORT OF DIRECTORS

Subcontracting arrangements

During the Reporting Year, the following subcontracting arrangements had been entered into between certain members of the Group and U-Tech:

- (1) on 31 January 2013 and 10 August 2013, Kwan On Construction (as main contractor) and U-Tech (as subcontractor) entered into two articles of agreement pursuant to which Kwan On Construction agreed to engage U-Tech as a subcontractor to perform the sewage and associated works at Sai Pin Wai, Yuen Long at approximately HK\$20.5 million and HK\$6.5 million (subject to adjustment) respectively as required under the main contract entered into between Kwan On Construction and DSD for project DC/2012/05. The subcontract sum shall be payable by Kwan On Construction to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the **“DC/2012/05 Subcontracting Arrangement”**);

The total contract sum under the DC/2012/05 Subcontracting Arrangement was determined based on the tender submitted by Kwan On Construction. The contract sum paid by Kwan On Construction to U-Tech under the DC/2012/05 Subcontracting Arrangement for the Reporting Year amounted to approximately HK\$1.1 million (2016: HK\$8.2 million).

- (2) on 16 October 2012, Kwan On Construction (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On Construction agreed to engage U-Tech as a subcontractor to perform the pipe laying work at approximately HK\$18.2 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On Construction and WSD for project 15/WSD/11. The subcontract sum shall be payable by Kwan On Construction to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the **“15/WSD/11 Subcontracting Arrangement”**);

The total contract sum under the 15/WSD/11 Subcontracting Arrangement was determined based on the tender submitted by Kwan On Construction. The contract sum paid by Kwan On Construction to U-Tech under the 15/WSD/11 Subcontracting Arrangement for the Reporting Year amounted to approximately HK\$1.1 million (2016: HK\$6.0 million).

- (3) on 24 August 2011, Kwan On – U-Tech (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On – U-Tech agreed to engage U-Tech as a subcontractor to perform water mains rehabilitation in Shatin and Sai Kung at approximately HK\$33.8 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On – U-Tech and WSD for project 10/WSD/10. The subcontract sum shall be payable by Kwan On – U-Tech to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the **“10/WSD/10 Subcontracting Arrangement”**); and

REPORT OF DIRECTORS

The total contract sum under the 10/WSD/10 Subcontracting Arrangement was determined based on the schedule of rates agreed by Kwan On – U-Tech and U-Tech by reference to the prevailing market rates. The contract sum paid by Kwan On – U-Tech to U-Tech under the 10/WSD/10 Subcontracting Arrangement for the Reporting Year amounted to approximately HK\$1.4 million (2016: HK\$3.5 million).

- (4) on 18 September 2013, Kwan On Construction (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On Construction agreed to engage U-Tech as a subcontractor to perform the sub-contract for Box Culvert and pumping station at approximately HK\$70.4 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On Construction and CEDD for project KL/2012/03. The subcontract sum shall be payable by Kwan On Construction to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the “**KL/2012/03 Subcontracting Arrangement**”).

The total contract sum under the KL/2012/03 Subcontracting Arrangement was determined based on the tender submitted by Kwan On Construction. The contract sum paid by Kwan On Construction to U-Tech under the KL/2012/03 Subcontracting Arrangement for the Reporting Year amounted to approximately HK\$34.9 million (2016: HK\$43.3 million).

The Directors, including the Independent Non-executive Directors, consider that all the continuing connected transactions above are conducted on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole and are in the ordinary and usual course of the business. The Directors, including the Independent Non-executive Directors, are also of the view that the annual caps of all the exempted continuing connected transactions above are fair and reasonable.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company’s compliance advisor, Dakin Capital Limited (the “**Compliance Adviser**”), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 1 February 2016 (the “**Compliance Adviser’s Agreement**”), neither the Compliance Adviser nor its directors, employees or associates had any interest in the securities to the Company which is required to be notified to the Group.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

REPORT OF DIRECTORS

EQUITY-LINK AGREEMENTS

Save as disclosed in this annual report relating to share option scheme, no equity-link agreement have been entered into during the Reporting Year or subsisted at the end of the Reporting Year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance to which the Company or any of its subsidiaries was a party in which a Director had a material interest subsisted at the end of the Reporting Year or any time during the Reporting Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Year.

EMPLOYEES AND REMUNERATION POLICIES

The employees and remuneration policies of the Group during the Reporting Year is set out in the subsection headed "Employees and Remuneration Policies" on page 21 of this annual report. The content is part of the Management Discussion and Analysis.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than shareholdings disclosed above, at no time during the Reporting Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EVENTS AFTER THE REPORTING YEAR

Except for certain litigations taken place subsequent to 31 March 2017 as disclosed in Note 34 to the consolidated financial statements, there are no other significant event which have taken place subsequent to the end of the Reporting Year.

DONATIONS

The Group had made donations of approximately HK\$1,000,000 during the Reporting Year (2016: Nil).

AUDIT COMMITTEE

The Audit Committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group, discussed internal controls, risk management and financial reporting matters and the audited consolidated financial statements for the Reporting Year.

REPORT OF DIRECTORS

AUDITORS

The consolidated financial statements for the Reporting Year have been audited by SHINEWING (HK) CPA Limited, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

The Company nominated SHINEWING (HK) CPA Limited as the auditor of the Group with effect from 11 November 2015 to fill the casual vacancy following the retirement of BDO Limited which took effect from 29 September 2015.

Save as disclosed above, there has been no other change in auditor of the Company in the preceding three years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of this annual report on the websites of the Company and the Stock Exchange.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Friday, 11 August 2017. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 7 August 2017 to Friday, 11 August 2017 (both days inclusive), during which period no share transfers will be registered.

In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 4 August 2017.

On behalf of the Board

Chen Zhenghua

Chairman

Hong Kong, 26 June 2017

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KWAN ON HOLDINGS LIMITED

均安控股有限公司

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Kwan On Holdings Company (the “Company”) and its subsidiaries (“the Group”) set out on pages 56 to 121, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Accounting measurement for construction contracts

Refer to Note 19 and Note 20 to the consolidated financial statements and the accounting policies on page 73 and page 74.

The key audit matter

For construction companies, there is considerable judgment in assessing the appropriate contract revenue and margin to recognise which in turn affecting the recognition of amounts due from (to) customers for contract work.

Revenue and margin are recognised based on the stage of completion of individual contract. Stage of completion was determined based on the percentage of surveys of work performed for individual contract (revenue-based method) or the proportion of contract costs incurred for works performed to date relative to the estimated total contract costs (cost-based method). Estimation of proper margin involves the assessment of the completeness and accuracy of forecast costs to completion.

How the matter was addressed in our audit

We tested revenue and cost of sales recognised under Hong Kong Accounting Standard 11 Construction Contracts during the reporting period to ensure that the Group's recognition policy of construction contracts is in line with the standard.

We assessed whether the stage of completion of individual contracts was reasonable through inspecting the certificate of completion stage issued by customers (revenue-based method), or critically challenging the contracts costs incurred and forecast costs to completion (cost-based method). We performed recalculation, test checked to the certification reports and matched to interim payment notices. We also assessed whether the contract sums agreed with respective signed contracts and approved budgets.

We assessed reliability of management's assessment in budget costs by considering the historical actual costs and estimation of budget costs of completed projects.

We arranged confirmations to confirm the contract sum, progress billing amount, percentage of completion for both projects and outstanding balances.

INDEPENDENT AUDITOR'S REPORT

Accounting measurement for construction contracts (Continued)

The key audit matter (Continued)

As at 31 March 2017, the Group had amounts due from customers for contract work and trade receivables derived from construction contracts of approximately HK\$56,814,000 and HK\$61,662,000 respectively. We focused on recoverability of amounts due from customers for contract work and trade receivables because the policy for making impairment requires a high level of management judgment and due to the significance of the amounts involved.

How the matter was addressed in our audit (Continued)

Our procedures were designed to review the management's assessment of indicators for impairment of amounts due from customers for contract work and trade receivables.

We have challenged the reasonableness of the methods and assumptions used by the management by taking into consideration of ageing analysis, credit-worthiness of each customer, cash receipt and billings raised after year end of trade receivables for the recoverability of amounts due from customers for contract work and trade receivables.

In addition of the material amount due from customers for contract works, we had also assessed if the remaining contract sum is sufficient to cover the outstanding amount.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors of the Company and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Lau Kai Wong.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Lau Kai Wong

Practising Certificate Number: P06623

Hong Kong

26 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	8	780,404	719,770
Cost of services		<u>(716,312)</u>	<u>(662,485)</u>
Gross profit		64,092	57,285
Other income	8	2,488	3,372
Other gain and loss	8	773	(493)
Administrative expenses		<u>(27,830)</u>	<u>(23,917)</u>
Finance costs	9	<u>(2,822)</u>	<u>(4,462)</u>
Profit before tax		36,701	31,785
Income tax expense	10	<u>(3,165)</u>	<u>(4,006)</u>
Profit and total comprehensive income for the year	11	<u>33,536</u>	<u>27,779</u>
Profit and total comprehensive income			
for the year attributable to:			
Owners of the Company		33,344	27,003
Non-controlling interests		<u>192</u>	<u>776</u>
		<u>33,536</u>	<u>27,779</u>
Earnings per share			
Basic and diluted (HK cents)	15	<u>3.47</u>	<u>2.81</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	16	40,319	8,817
Investments in associates	17	3,000	–
Prepayments	19	3,429	8,422
		<u>46,748</u>	<u>17,239</u>
Current assets			
Inventories	18	6,715	11,670
Amounts due from customers for contract work	20	56,814	1,567
Trade and other receivables	19	139,462	141,200
Tax recoverable		420	3,934
Amounts due from other partners of joint operations	27	2	484
Pledged bank deposits	21	58,033	66,729
Bank balances and cash	21	194,368	107,150
		<u>455,814</u>	<u>332,734</u>
Current liabilities			
Amounts due to customers for contract work	20	60,323	30,226
Trade and other payables	22	137,357	139,797
Amount due to a director	28	95,000	–
Amount due to other partner of a joint operation	27	–	27
Bank borrowings	24	73,902	72,441
Finance lease payables	23	–	115
Income tax payable		494	3,966
		<u>367,076</u>	<u>246,572</u>
Net current assets		<u>88,738</u>	<u>86,162</u>
Total assets less current liabilities		<u>135,486</u>	<u>103,401</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current liability			
Deferred tax liabilities	25	<u>6</u>	<u>57</u>
NET ASSETS		<u>135,480</u>	<u>103,344</u>
Capital and Reserves			
Share capital	26	9,600	9,600
Reserves		<u>122,429</u>	<u>89,085</u>
Equity attributable to owners of the Company		132,029	98,685
Non-controlling interests		<u>3,451</u>	<u>4,659</u>
TOTAL EQUITY		<u>135,480</u>	<u>103,344</u>

The consolidated financial statements on pages 56 to 121 were approved and authorised for issue by the board of directors on 26 June 2017 and are signed on its behalf by:

Mr. Wong Yee Tung, Tony
Director

Mr. Wong Wa
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Capital reserve HK\$'000 (Note c)	(Accumulated losses) retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2015	9,600	23,811	9,755	22,968	12,544	(6,996)	71,682	5,683	77,365
Profit and total comprehensive income for the year	-	-	-	-	-	27,003	27,003	776	27,779
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	(1,800)	(1,800)
At 31 March 2016	<u>9,600</u>	<u>23,811</u>	<u>9,755</u>	<u>22,968</u>	<u>12,544</u>	<u>20,007</u>	<u>98,685</u>	<u>4,659</u>	<u>103,344</u>
At 1 April 2016	9,600	23,811	9,755	22,968	12,544	20,007	98,685	4,659	103,344
Profit and total comprehensive income for the year	-	-	-	-	-	33,344	33,344	192	33,536
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	(1,400)	(1,400)
At 31 March 2017	<u>9,600</u>	<u>23,811</u>	<u>9,755</u>	<u>22,968</u>	<u>12,544</u>	<u>53,351</u>	<u>132,029</u>	<u>3,451</u>	<u>135,480</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

Note a: The merger reserve of the Group represents the difference between the investment costs in subsidiaries and the nominal value of the issued share capital of the Group's subsidiaries.

Note b: Contributed surplus of approximately HK\$22,968,000 represents the excess of the carrying amount of the Company's share of equity value of a subsidiary acquired and the nominal amount of the Company's shares issued for such acquisition at the time of the group reorganisation which were completed on 16 March 2015.

Note c: The capital reserve arose from capital contribution from equity holders resulted from the events set out below:

- (i) Pursuant to a written confirmation on 23 March 2015, two of the Company's shareholders, Fortune Decade Investments Limited ("**Fortune Decade**") and Twilight Treasure Limited ("**Twilight Treasure**"), agreed to bear the listing expenses in connection with 120,000,000 sales shares sold through the placing of the Company's shares took place during the year ended 31 March 2015 and reimburse their share of these expenses to the Company upon the listing of shares of the Company on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The reimbursement of approximately HK\$7,453,000 by these shareholders in their capacity as shareholders was accounted for as capital contribution to the Company; and
- (ii) The shareholders of certain subsidiaries of the Company agreed to repay the dividends previously received by them by the way of set-off against their respective amounts receivable from those subsidiaries of the Group. Such repayment of dividends was accounted for as capital contribution to the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	2017	2016
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before tax	36,701	31,785
Adjustments for:		
Depreciation of property, plant and equipment	4,769	4,991
Finance costs	2,822	4,462
Interest income	(169)	(91)
(Gain) loss on disposal of property, plant and equipment	(773)	493
Imputed interest on non-current retention receivables	–	(823)
Operating cash flows before movements in working capital	43,350	40,817
Decrease in inventories	4,955	5,962
Increase in amounts due from customers for contract work	(55,247)	(1,567)
Decrease (increase) in trade and other receivables	6,731	(9,863)
Decrease in trade and other payables	(2,632)	(261)
Decrease (increase) in amounts due from other partners of joint operations	482	(243)
(Decrease) increase in amount due to other partner of a joint operation	(27)	27
Increase in amounts due to customers for contract work	30,097	6,872
Cash generated from operations	27,709	41,744
Hong Kong Profits Tax paid, net	(3,174)	(1,120)
NET CASH GENERATED FROM OPERATING ACTIVITIES	24,535	40,624

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	2017	2016
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(36,561)	(2,872)
Proceeds from disposal of property, plant and equipment	1,063	324
Placement of pledged bank deposits	(319,075)	(446,882)
Withdrawal of pledged bank deposits	327,771	433,842
Interest received	169	91
Acquisition of investment in associates	(3,000)	–
Repayment from shareholders	–	9,492
	<u> </u>	<u> </u>
NET CASH USED IN INVESTING ACTIVITIES	(29,633)	(6,005)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	364,300	481,834
Repayment of bank borrowings	(362,839)	(483,017)
Advances from a director	95,000	–
Repayment of finance lease payables	(115)	(121)
Interest paid	(2,630)	(3,146)
Distribution paid to non-controlling interests	(1,400)	(1,800)
	<u> </u>	<u> </u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	92,316	(6,250)
NET INCREASE IN CASH AND CASH EQUIVALENTS	87,218	28,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	107,150	78,781
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	194,368	107,150
	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. GENERAL INFORMATION

Kwan On Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 6 December 2012 as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The registered office of the Company is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands. The principal place of business is 5/F., So Hong Commercial Building, 41, 43, 45 and 47 Jervois Street, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

The Company is an investment holding company and its subsidiaries (together referred to as the “**Group**”) are principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has adopted the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“**HKAS(s)**”), amendments and Interpretations (“**Int(s)**”) issued by the HKICPA.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle ³
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKAS 40	Transfers of Investment Property ²
Amendments to HKFRS 4	Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance Contracts” ²
Amendments to HKFRS 10 and HKAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ²

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

⁴ Effective for annual periods beginning on or after 1 January 2019.

⁵ Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“**FVTOCI**”) measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

The directors anticipate that the adoption of HKFRS 9 (2014) in the future may have an impact on the Group’s results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in HKAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. HKFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. For financial liabilities designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk could be presented in other comprehensive income. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 (2014) until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;
- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The directors of the Company anticipate that the application of HKFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detail review is completed.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. As at 31 March 2017, the Group has non-cancellable operating lease commitments of approximately HK\$1,196,000 as disclosed in Note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group’s financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

Control is achieved where the Group has:

- (i) the power over the investee;
- (ii) exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method.

Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for services rendered in the normal course of business, net of discounts and sales related taxes.

The Group's policy for recognition of service income from provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading from construction contracts is set out in the accounting policy headed "Construction contracts" below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Consultancy fee income is recognised when the respective services are rendered.

Construction contracts

Where the outcome of a construction contract in relation to provision of construction and maintenance works on civil engineering contracts can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured by reference to the percentage of surveys of work performed for individual contract up to the reporting date or based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (Continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings (classified as finance lease) held for use in the production or supply of services or administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building (Continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group, as a joint operator, recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity enters into a transaction with a joint operation in which the group entity is a joint operator, such as a sale or contribution of assets, the Group is considered to be conducting the transaction with the other parties to the joint operation and the Group recognises gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When a group entity enters into a transaction with a joint operation in which the group entity is a joint operator, such as a purchase of assets, the Group recognises its share of the gains and losses until it resells those assets to a third party.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss, if any.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash, amounts due from other partners of joint operations) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 21 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable, other receivable or deposits are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to other partner of a joint operation, amount due to a director, finance leases payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognised financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimation (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Consolidation of Kwan On-U-Tech Joint Venture 1 ("Kwan On-U-Tech 1")

The Group formed a legal joint venture, Kwan On-U-Tech 1, with an independent third party namely U-Tech Engineering Co. Ltd. ("**U-Tech**"), for the purpose of execution of a contract. The Group can appoint the majority of the board of directors of Kwan On-U-Tech 1 and thus direct its relevant activities. The Group shares 70% of the profits or losses of Kwan On-U-Tech 1. The directors have therefore determined the Group has control over Kwan On-U-Tech 1 and the Group's financial statements have consolidated the results of Kwan On-U-Tech 1.

Joint operations

The Group formed six unincorporated joint ventures, Kwan On-U-Tech Joint Venture 2 ("**Kwan On-U-Tech 2**"), Kwan On-U-Tech Joint Venture 3 ("**Kwan On-U-Tech 3**"), Kwan On-China Geo Joint Venture ("**Kwan On-China Geo**"), Kwan On-China Geo Joint Venture 2 ("**Kwan On-China Geo 2**"), KO-CG Joint Venture 1 with two independent third parties namely U-Tech and China Geo-Engineering Corporation ("**China Geo**") respectively, KO-CG Joint Venture 2 ("**KO-CG 2**") and KO-Richwell-SCG Joint Venture with two independent third parties namely Richwell Machinery Engineering Limited ("**Richwell**") and Shanghai Construction Group Co Limited ("**SCG**") respectively for the purpose of execution of contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying the entity's accounting policies (Continued)

Joint operations (Continued)

The Group and U-Tech jointly control over the relevant activities of Kwan On-U-Tech 2 and Kwan On-U-Tech 3. Under the joint venture agreements the Group has participation share of 50% and 65% respectively to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On-U-Tech 2 and Kwan On-U-Tech 3. As decisions about the relevant activities require unanimous consent of both the Group and U-Tech, the directors have determined that the joint arrangements are joint operations.

The Group and China Geo jointly control over the relevant activities of Kwan On-China Geo Joint Venture, Kwan On-China Geo Joint Venture 2, KO-CG Joint Venture 1 and KO-CG Joint Venture 2. Under the joint venture agreements, the Group has participation share of 51% to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On-China Geo Joint Venture, Kwan On-China Geo Joint Venture 2, KO-CG Joint Venture 1 and KO-CG Joint Venture 2. As decisions about the relevant activities require unanimous consent of both the Group and China Geo, the directors have determined that the joint arrangements are joint operations.

The Group, Richwell and SCG jointly control over the relevant activities of KO-Richwell-SCG Joint Venture. Under the joint venture agreement, the Group, Richwell and SCG have participation share of 34%, 33% and 33% respectively to the surplus, loss, assets, liabilities, right and obligation arising out of or in connection with the contract in KO-Richwell-SCG Joint Venture. As decisions about the relevant activities require unanimous consent of both the Group, Richwell and SCG, the directors have determined that the joint arrangement is a joint operation.

Classification of leasehold land and buildings

When a lease includes both land and building elements, the directors of the Company assess the classification of each element as a finance lease or an operating lease separately based on the assessment as to whether substantially all the risk and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

As at 31 March 2017, the directors of the Company determine that the lease payments of leasehold land and buildings of approximately HK\$32,882,000 (2016: nil) cannot be allocated reliably between the land and buildings elements due to infeasibility of the allocation of purchase price between the leasehold land and buildings. The total amount has been classified as a finance lease under property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Construction contracts revenue recognition

The Group recognises contract revenue and profit of a construction contract in relation to provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading according to the management's estimation of the total outcome of the contract including the assessment of profitability of on-going construction contracts as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit or loss recognised.

Income tax

As at 31 March 2017, no deferred tax asset has been recognised on the tax losses of approximately HK\$48,645,000 (2016: HK\$72,219,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Impairment of trade receivables and other receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2017, the carrying amount of trade and other receivables is approximately HK\$142,891,000 (2016: HK\$149,622,000), net of allowance for doubtful debts of approximately HK\$1,115,000 (2016: HK\$1,115,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

Impairment of inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 March 2017, the carrying amounts of inventories were approximately HK\$6,715,000 (2016: HK\$11,670,000), net of accumulated impairment loss of HK\$1,560,000 (2016: HK\$1,560,000).

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods. The carrying amounts of property, plant and equipment as at 31 March 2017 is HK\$40,319,000 (2016: HK\$8,817,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategies remain unchanged from prior year.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the year.

The capital structure of the Group consists of net debt, which includes the finance lease payables, bank borrowings and amount due to a director as disclosed in Notes 23, 24 and 28 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. CAPITAL RISK MANAGEMENT (CONTINUED)

The directors review the capital structure using gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as the total of amounts due to customers for contract work, trade and other payables, finance lease payables, bank borrowings, amount due to a director, amount due to other partner of a joint operation and less bank balances and cash. Capital includes equity attributable to owners of the Company.

	2017 HK\$'000	2016 HK\$'000
Total debt	366,582	242,606
Less: Bank balances and cash	(194,368)	(107,150)
Net debt	172,214	135,456
Equity attributable to the owners of the Company	132,029	98,685
Net debt and equity	304,243	234,141
Gearing ratio	57%	58%

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	385,820	304,610
Financial liabilities		
Financial liabilities at amortised cost	306,259	212,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, pledged bank deposits, amount due from other partners of joint operations, trade and other payables, finance lease payables, amount due to a director and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate interest bearing finance lease payables (see Note 23). The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings at prevailing market rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the related bank's Hong Kong Dollars Prime Rate arising from the Group's HK\$ denominated bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 25 basis point and 50 basis point (2016: 25 basis points and 50 basis points) increase or decrease is used on bank balances and bank borrowings respectively when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on bank balances had been 25 basis points (2016: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK\$486,000 (2016: HK\$268,000).

If interest rates on bank borrowings had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately HK\$370,000 (2016: HK\$362,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 March 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of Group's trade and retention receivables is concentrated since 91% of which was derived from two major customers as at 31 March 2017 (2016: 75%).

The Group's customers are mainly government departments/organisation and reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the reporting period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. None of the Group's financial assets are secured by collateral or other credit enhancements.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit - rating agency.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, amount due to a director and other source of funding and considers the risk is minimal.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, secured bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	On demand or within one year HK\$'000	More than one year but not exceeding two years HK\$'000	More than two year but not exceeding five years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 March 2017					
Trade and other payables	137,048	309	–	137,357	137,357
Amount due to a director	95,000	–	–	95,000	95,000
Bank borrowings	74,650	–	–	74,650	73,902
	<u>306,698</u>	<u>309</u>	<u>–</u>	<u>307,007</u>	<u>306,259</u>
As at 31 March 2016					
Trade and other payables	129,351	10,446	–	139,797	139,797
Amount due to other partner of a joint operation	27	–	–	27	27
Finance lease payables	116	–	–	116	115
Bank borrowings	73,410	–	–	73,410	72,441
	<u>202,904</u>	<u>10,446</u>	<u>–</u>	<u>213,350</u>	<u>212,380</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the “on demand or within one year” time band in the above maturity analysis. As at 31 March 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$73,902,000 (2016: HK\$72,441,000). Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$74,650,000. (2016: HK\$73,410,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value measurements recognised in the consolidated statement of financial position

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of current financial assets and current financial liabilities in the consolidated financial statements approximate their fair values.

7. SEGMENT INFORMATION

The Group was principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong. Information reported to the Group’s chief executive officer, being the chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group’s resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

All of the Group’s revenue was derived from Hong Kong, based on the location of the customers, and all of its non-current assets were located in Hong Kong, based on the location of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

7. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 HK\$'000	2016 HK\$'000
The Government of the Hong Kong Special Administrative Region		
– Water Supplies Department	115,593	215,830
– Civil Engineering and Development Department	452,825	365,770

8. REVENUE, OTHER INCOME AND OTHER GAIN AND LOSS

Revenue

During the year, the Group's revenue represents amount received and receivable from contract work performed, which is also the Group's turnover.

Other income and other gain and loss

An analysis of the Group's other income and other gain and loss recognised during the years are as follows:

	2017 HK\$'000	2016 HK\$'000
Other income		
Bank interest income	169	91
Imputed interest on non-current retention receivables	–	823
Ex-gratia payment from the government for retirement of motor vehicles	977	974
Consultancy fee income	300	798
Sundry income	1,042	686
	2,488	3,372
Other gain and loss		
Gain (loss) on disposal of property, plant and equipment	773	(493)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

9. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interests on:		
– finance lease	1	6
– bank loans	2,629	3,140
Imputed interest expense on non-current retention payables	192	1,316
	<u>2,822</u>	<u>4,462</u>

10. INCOME TAX EXPENSE

	2017 HK\$'000	2016 HK\$'000
Current tax:		
Hong Kong	3,216	4,484
Overprovision in prior years	–	(102)
	<u>3,216</u>	<u>4,382</u>
Deferred tax (Note 25)		
Current year	(51)	(376)
Income tax expense for the year	<u>3,165</u>	<u>4,006</u>

Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%) of the estimated assessable profits during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. INCOME TAX EXPENSE (CONTINUED)

The tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017	2016
	HK\$'000	HK\$'000
Profit before tax	36,701	31,785
Tax expense at rates applicable to profits in the jurisdiction concerned	6,056	5,245
Tax effect of income not taxable for tax purpose	(28)	(15)
Tax effect of expenses not deductible for tax purpose	1,027	773
Tax effect of tax losses not recognised	1,312	569
Utilisation of tax losses not recognised	(5,202)	(4,465)
Overprovision in prior years	–	(102)
Tax effect of deductible temporary difference not recognised	–	508
Tax effect of taxable temporary difference not recognised	–	1,493
Income tax expense for the year	3,165	4,006

Details of deferred tax liability are set out in Note 25.

The Group may be subject to a potential Section 82A penalty up to treble the amount of the tax undercharged due to the understatement of assessable profits in filing the profits tax return for the year of assessment 2011/12 by a subsidiary of the Group. The estimated maximum Section 82A penalty is approximately HK\$2,582,000 derived by treble the amount of tax undercharged of approximately HK\$861,000 based on the estimated assessment issued by the Inland Revenue Department (“IRD”). The tax payable of approximately HK\$861,000 was settled by the Group during the year ended 31 March 2014. As at 31 March 2017, the Group has not received any penalty notice from the IRD. The management, based on the tax advisor’s opinion, considered that the penalty may not be imposed and such amount could not be ascertained and therefore, the Group has not made any provision for the Section 82A penalty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. INCOME TAX EXPENSE (CONTINUED)

A subsidiary of the Group filed revised tax computations for the years of assessment of 2010/11 and 2011/12 to claim for reduction of assessable profits for the aforesaid years of assessment. Should the Group fail to claim the reduction of assessable profits successfully for the aforesaid years of assessment, the Group may be subject to additional tax liabilities of approximately HK\$681,000. As at 31 March 2017, the Group has not received any queries from the IRD. The management considered that the revised tax computations for the aforesaid years of assessment are reasonable and the additional tax liabilities are subject to the assessment on the revised tax computations by IRD and may not be incurred. Therefore, the Group has not made any provision for such additional tax liabilities.

11. PROFIT FOR THE YEAR

The Group's profit for the year has been arrived at after charging:

	2017	2016
	HK\$'000	HK\$'000
Auditor's remuneration	880	600
Depreciation	4,769	4,991
Operating lease rentals in respect of		
– Land and buildings	4,048	4,346
– Plant and equipment	633	1,124
Emoluments of directors and chief executive (Note 12)	4,751	4,445
Salaries, wages and other benefits (excluding directors' emoluments)	86,804	93,690
Retirement benefits scheme contributions (excluding directors)	3,399	3,640
	<u>94,954</u>	<u>101,775</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 8 (2016: 6) directors and the chief executive were as follows:

	Year ended 31 March 2017			Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	
Executive directors:				
Mr. Chung Chi Ngong ¹	–	1,046	52	1,098
Mr. Kwong Wing Kie (“Mr. Kwong”) ⁴	–	1,245	18	1,263
Mr. Wong Yee Tung, Tony (“Mr. Wong”)	–	1,572	–	1,572
Mr. Wong Wa ²	–	360	–	360
Independent non-executive directors				
Mr. Lam Sing Kwong, Simon	150	–	–	150
Mr. Ho Ho Ming	150	–	–	150
Mr. Chan Chung Kik, Lewis ³	68	–	–	68
Mr. Lum Pak Sum ²	90	–	–	90
Total emoluments	<u>458</u>	<u>4,223</u>	<u>70</u>	<u>4,751</u>

¹ resigned on 20 September 2016

² appointed on 26 August 2016

³ resigned on 13 September 2016

⁴ resigned on 1 June 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	Year ended 31 March 2016			Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	
Executive directors:				
Mr. Chung Chi Ngong	–	1,003	50	1,053
Mr. Kwong	–	1,292	18	1,310
Mr. Wong	–	1,632	–	1,632
Independent non-executive directors				
Mr. Lam Sing Kwong, Simon	150	–	–	150
Mr. Ho Ho Ming	150	–	–	150
Mr. Chan Chung Kik, Lewis	150	–	–	150
Total emoluments	<u>450</u>	<u>3,927</u>	<u>68</u>	<u>4,445</u>

Neither the chief executive, nor any of the directors waived or agreed to waive any emoluments in the year ended 31 March 2017 and 2016.

Mr. Wong is also the chief executive of the Company for the year ended 31 March 2017 and his emoluments disclosed above include those for services rendered by him as the chief executive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2016: three) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining two (2016: two) individuals were as follows:

	2017	2016
	HK\$'000	HK\$'000
Salaries and other benefits	2,001	1,984
Retirement benefits schemes contributions	36	60
	2,037	2,044

Their emoluments were within the following bands:

	2017	2016
	Number of	Number of
	individuals	Individuals
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1

During the years ended 31 March 2017 and 2016, no emoluments were paid by the Group to any of the directors or chief executive or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

14. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	2017	2016
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	<u>33,344</u>	<u>27,003</u>

Number of shares

	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>960,000</u>	<u>960,000</u>

Since there were no potential dilutive shares in issue during the years ended 31 March 2017 and 2016, basic and diluted earnings per share are the same for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

16. PROPERTY, PLANT AND EQUIPMENT

	Land and building HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 April 2015	–	1,103	6,090	16,988	15,376	39,557
Additions	–	–	435	1,250	1,187	2,872
Disposals	–	–	–	(301)	(2,134)	(2,435)
At 31 March 2016 and 1 April 2016	–	1,103	6,525	17,937	14,429	39,994
Additions	32,882	–	–	2,795	884	36,561
Disposals	–	–	(44)	(686)	(2,087)	(2,817)
At 31 March 2017	<u>32,882</u>	<u>1,103</u>	<u>6,481</u>	<u>20,046</u>	<u>13,226</u>	<u>73,738</u>
DEPRECIATION						
At 1 April 2015	–	138	3,588	14,251	9,827	27,804
Charge for the year	–	414	1,210	1,131	2,236	4,991
Eliminated on disposals	–	–	–	(292)	(1,326)	(1,618)
At 31 March 2016 and 1 April 2016	–	552	4,798	15,090	10,737	31,177
Charge for the year	–	414	871	1,687	1,797	4,769
Eliminated on disposals	–	–	(44)	(444)	(2,039)	(2,527)
At 31 March 2017	<u>–</u>	<u>966</u>	<u>5,625</u>	<u>16,333</u>	<u>10,495</u>	<u>33,419</u>
CARRYING VALUES						
At 31 March 2017	<u>32,882</u>	<u>137</u>	<u>856</u>	<u>3,713</u>	<u>2,731</u>	<u>40,319</u>
At 31 March 2016	<u>–</u>	<u>551</u>	<u>1,727</u>	<u>2,847</u>	<u>3,692</u>	<u>8,817</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, are depreciated on a straight-line basis at the following rates per annum:

Land and building	50 years or over the lease terms, whichever is shorter
Leasehold improvements	38% or over the lease terms, whichever is shorter
Furniture and fixtures	20% – 25%
Machinery	15% – 25%
Motor vehicles	25%

The net carrying value of motor vehicles of approximately HK\$3,692,000 includes an amount of approximately HK\$37,000 in respect of assets held under finance leases as at 31 March 2016 (2017: nil).

At 31 March 2017, the Group's land and building with carrying amount amounting to approximately HK\$32,882,000 (2016: nil) were pledged to secure banking facilities granted to the Group (Note 24).

17. INVESTMENTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Costs of investment in an associate	3,000	–
Share of post-acquisition losses and other comprehensive expenses	–	–
	3,000	–

As at 31 March 2017, the Group had interests in the following associate:

Name of entity	Form of entity	Country of incorporation	Class of shares held	Proportion of ownership interests or participating shares held by the Group		Proportion of voting power held		Principal activity
				2017	2016	2017	2016	
Ever Capital Holdings Limited ("Ever Capital")	Incorporated	Hong Kong	Ordinary	34.50%	–	34.50%	–	Investment holding
Ever Capital Corporate Finance Limited	Incorporated	Hong Kong	Ordinary	34.50%	–	34.50%	–	Provision of securities services (not yet commence business)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. INVESTMENTS IN ASSOCIATES (CONTINUED)

On 22 February 2017, the Company entered into a subscription agreement with Ever Capital in which the Company has agreed to subscribe for 9,500,000 shares at the consideration of HK\$3,000,000. Ever Capital engaged in the business of security trading in Hong Kong. The subscription was completed on 28 February 2017 and Ever Capital was an associate of the Group and has been accounted for using equity method.

Ever Capital and its subsidiary ("Ever Capital Group")	2017 HK\$'000	2016 HK\$'000
Non-current assets	<u>5,400</u>	<u>N/A</u>
Current assets	<u>7,832</u>	<u>N/A</u>
Current liabilities	<u>(4,536)</u>	<u>N/A</u>

There is no revenue and profits recognised since the date of completion of the subscription.

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in the associate is set out below:

	2017 HK\$'000	2016 HK\$'000
Net assets of the associate	<u>8,696</u>	<u>N/A</u>
Proportion of the Group's ownership interest in Ever Capital	<u>34.5%</u>	<u>N/A</u>
Carrying amount of the Group's interest in Ever Capital	<u>3,000</u>	<u>N/A</u>

18. INVENTORIES

Inventories mainly comprised construction materials and parts for various construction projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

19. TRADE AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables	<u>61,662</u>	<u>72,601</u>
Retention money receivables	27,895	21,770
Less: allowance for impairment of retention money receivables	<u>(20)</u>	<u>(20)</u>
Net retention money receivables	27,875	21,750
Other receivables	41,762	36,991
Less: allowance for impairment of other receivables	<u>(1,095)</u>	<u>(1,095)</u>
Other receivables, net	40,667	35,896
Prepayments and deposits	<u>12,687</u>	<u>19,375</u>
Total trade and other receivables	142,891	149,622
Less: Prepayments classified under non-current assets	<u>(3,429)</u>	<u>(8,422)</u>
	<u>139,462</u>	<u>141,200</u>

Included in other receivables of the Group is amount due from a minority venturer of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,766,000 as at 31 March 2017 (2016: HK\$1,517,000). The balance is unsecured, interest free and repayable on demand.

The Group allows an average credit period of 21 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on the invoice date at the end of the reporting period. The Group does not hold any collateral over its trade and other receivables. As at 31 March 2017, retention money receivables of nil (2016: approximately HK\$16,610,000) are expected to be collected in more than one year after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2017	2016
	HK\$'000	HK\$'000
Within 30 days	50,997	65,073
More than 30 days but within 90 days	10,388	7,443
More than 90 days but within 180 days	30	44
More than 180 days but within 365 days	247	41
	61,662	72,601

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$10,665,000 (2016: HK\$7,528,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss because they are mainly government departments of which the credit risk is minimal.

The aged analysis of trade receivables which are past due but not impaired is set out below:

	2017	2016
	HK\$'000	HK\$'000
Within 30 days	10,388	7,443
More than 30 days but within 90 days	30	44
More than 90 days	247	41
	10,665	7,528

Movement in the impairment on trade and other receivables:

	2017	2016
	HK\$'000	HK\$'000
At 1 April and 31 March	1,115	1,115

Included in the allowance for impairment of trade and other receivables are individually impaired trade and other receivables with an aggregate balance of approximately HK\$1,115,000 (2016: HK\$1,115,000) which had been long outstanding. The individually impaired trade and other receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK\$'000	2016 HK\$'000
<i>Contracts in progress at the end of the reporting period</i>		
Contract costs incurred plus recognised profits less recognised losses	2,843,877	2,291,116
Less: progress billings	(2,847,386)	(2,319,775)
At the end of the financial year	<u>(3,509)</u>	<u>(28,659)</u>
	2017 HK\$'000	2016 HK\$'000

Analysed for reporting purpose as:

Amounts due from customers for contract work	56,814	1,567
Amounts due to customers for contract work	(60,323)	(30,226)
	<u>(3,509)</u>	<u>(28,659)</u>

As at 31 March 2017, net retentions held by customers for contract work included in trade and other receivables amounted to approximately HK\$27,875,000 (2016: HK\$21,750,000).

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$58,033,000 (2016: HK\$66,729,000) have been pledged to secure bank overdrafts/short-term bank loans/undrawn facilities and are therefore classified as current assets.

The pledged deposits carry fixed interest rate ranged from 0.1% to 0.45% (2016: 0.1% to 0.45%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with maturity within three months from initial inception. Bank balances carried interest at market rates ranging from 0.5% to 0.75% (2016: 0.5% to 0.75%) per annum during the year ended 31 March 2017. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

22. TRADE AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables	68,483	77,674
Retention payables	43,691	37,806
Other payables and accruals	25,183	24,317
	<u>137,357</u>	<u>139,797</u>

At 31 March 2017, retention payables of approximately HK\$309,000 (2016: HK\$10,446,000) which are expected to be settled more than one year.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2017 HK\$'000	2016 HK\$'000
Within 30 days	43,770	62,073
More than 30 days but within 90 days	21,948	9,515
More than 90 days	2,765	6,086
	<u>68,483</u>	<u>77,674</u>

The average credit period on purchases of goods is 30 to 45 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

23. FINANCE LEASE PAYABLES

	2017 HK\$'000	2016 HK\$'000
Analysed for reporting purposes as:		
Current liabilities	<u>-</u>	<u>115</u>

It is the Group's policy to lease its motor vehicle under finance leases. The lease term is 5 years. Interest rates underlying all obligations under finance leases were fixed at respective contract dates at 1.6% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

23. FINANCE LEASE PAYABLES (CONTINUED)

	Minimum lease payments		Present value of minimum lease payments	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
<i>Amounts payable under finance leases</i>				
Within one year	–	116	–	115
Less: future finance charges	–	(1)	N/A	N/A
Present value of obligations under finance lease	<u>–</u>	<u>115</u>	–	115
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>–</u>	<u>(115)</u>
Amount due for settlement after 12 months			<u>–</u>	<u>–</u>

The Group's obligations under finance lease were secured by the lessor's charge over the leased asset and denominated in HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

24. BANK BORROWINGS

	2017	2016
	HK\$'000	HK\$'000
Secured bank borrowings, repayable on demand or within one year	73,902	72,441
	2017	2016
	HK\$'000	HK\$'000
Carrying amount of bank borrowings repayable within one year or on demand*	62,302	72,441
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	11,600	–
	73,902	72,441

* The amount due are based on scheduled repayment dates set out in the loan agreements.

During the year ended 31 March 2017, secured bank borrowings bore floating interest rates of 4% to 6.75% (2016: 4% to 6.75%) per annum.

As at 31 March 2017 and 2016, the Group's bank borrowings and other banking facilities are secured by:

- (a) bank deposits amounting to approximately HK\$58,033,000 (2016: HK\$66,729,000) as at 31 March 2017 (Note 21);
- (b) personal guarantees executed by Mr. Wong and corporate guarantees given by certain entities within the Group;
- (c) corporate guarantee executed by Win Vision Holdings Limited ("Win Vision"), a wholly-owned subsidiary of the Company and corporate guarantees given by certain entities within the Group; and
- (d) land and building amounting to approximately HK\$32,882,000 (2016: nil) as at 31 March 2017 (Note 16).

The unutilised banking facilities as at 31 March 2017 amounted to approximately HK\$50,000,000 (2016: HK\$56,560,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. DEFERRED TAX LIABILITY

The following are the major deferred tax liability recognised and movements thereon during the current and prior years:

	Accelerated depreciation allowances
	HK\$'000
At 1 April 2015	433
Credited to profit or loss	(376)
At 31 March 2016 and 1 April 2016	57
Credited to profit or loss	(51)
At 31 March 2017	<u>6</u>

At the end of the reporting period, the Group has unused tax losses of approximately HK\$48,645,000 (2016: HK\$72,219,000) available for offset against future profits. Deferred tax asset has not been recognised in respect of the losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$3,079,000 (2016: HK\$3,079,000) available for offset against future profits. Deferred tax asset has not been recognised in respect of the deductible temporary differences due to the unpredictability of future profit streams.

26. SHARE CAPITAL

	Number	Amount
		HK\$'000
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 April 2015 and 31 March 2016 and 1 April 2016 and 31 March 2017	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 April 2015 and 31 March 2016 and 1 April 2016 and 31 March 2017	<u>960,000,000</u>	<u>9,600</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

27. JOINT OPERATIONS

Details of investments in joint operations as at 31 March 2017 and 2016 are as follows:

Name	Place and date of operation	Principal activities	Participating shares
KO-U-Tech Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 16 December 2014	Civil engineering construction	50%
KO-U-Tech Joint Venture 3	Unincorporated joint operation operating in Hong Kong, 8 April 2016	Civil engineering construction	65%
KO-China Geo Joint Venture	Unincorporated joint operation operating in Hong Kong, 12 August 2013	Civil engineering construction	51%
KO-China Geo Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 14 July 2016	Civil engineering construction	51%
KO-CG Joint Venture 1	Unincorporated joint operation operating in Hong Kong, 23 December 2016	Civil engineering construction	51%
KO-CG Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 23 December 2016	Civil engineering construction	51%
KO-Richwell-SCG Joint Venture	Unincorporated joint operation operating in Hong Kong, 3 September 2016	Civil engineering construction	34%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

27. JOINT OPERATIONS (CONTINUED)

Pursuant to the terms of the joint venture agreement, the profit or loss sharing for each year of the joint operation shall be distributed to the joint operators in proportion to their respective participating interests.

Amounts due from (to) other partners of joint operations are unsecured, non-interest bearing, repayable on demand and are denominated in Hong Kong dollars.

28. AMOUNT DUE TO A DIRECTOR

The balance is unsecured, non-interest bearing and repayable on demand.

29. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	1,196	2,865
In the second to fifth years inclusive	—	980
	<u>1,196</u>	<u>3,845</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for terms ranging from one to three years.

30. RETIREMENT BENEFITS PLANS

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

The total cost charged to profit or loss of approximately HK\$3,469,000 (2016: HK\$3,708,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transactions with related parties:

Name of related parties	Nature of transactions	2017	2016
		HK\$'000	HK\$'000
Ms. Chiu (c)	Rental expense (d)	282	280
Shiu Mau Development Limited (a)	Rental expense (d)	990	923
U-Tech Engineering Co. Ltd (b)	Subcontracting fee (d)	38,572	3,461
	Consultancy fee income (d)	–	495

Notes:

- (a) The company is partially and beneficially owned by Mr. Tony Wong, a director of the Company.
- (b) U-Tech Engineering Co. Ltd. is a minority partner of a subsidiary, Kwan On- U Tech, of the Group.
- (c) Ms. Chiu is a director of a subsidiary, Univic Construction Resources Limited, of the Group.
- (d) These transactions were carried out at terms determined and agreed by the Group and the respective related party.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017	2016
	HK\$'000	HK\$'000
Short term employee benefits	6,682	6,361
Post-employment benefits	106	128
	<u>6,788</u>	<u>6,489</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK\$'000	2016 HK\$'000
Non-current assets		
Investments in subsidiaries	<u>22,978</u>	<u>22,978</u>
Current assets		
Other receivables	153	161
Amount due from a subsidiary (Note i)	37,443	33,250
Bank balances and cash	<u>109,689</u>	<u>2,442</u>
	<u>147,285</u>	<u>35,853</u>
Current liabilities		
Other payables	1,287	538
Bank borrowing	11,600	–
Amounts due to subsidiaries (Note i)	<u>119,025</u>	<u>13,018</u>
	<u>131,912</u>	<u>13,556</u>
Net current assets	<u>15,373</u>	<u>22,297</u>
Net assets	<u><u>38,351</u></u>	<u><u>45,275</u></u>
Capital and reserves		
Share capital	9,600	9,600
Reserves (Note a)	<u>28,751</u>	<u>35,675</u>
Total equity	<u><u>38,351</u></u>	<u><u>45,275</u></u>

Note i: The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(a) Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Movements in the Company's reserves during the current and prior years are as follows:

	Share premium	Contributed surplus	Capital reserves	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note)		
At 31 March 2015 and 1 April 2015	23,811	22,968	7,453	(16,059)	38,173
Loss for the year	—	—	—	(2,498)	(2,498)
As at 31 March 2016	23,811	22,968	7,453	(18,557)	35,675
Loss for the year	—	—	—	(6,924)	(6,924)
As at 31 March 2017	<u>23,811</u>	<u>22,968</u>	<u>7,453</u>	<u>(25,481)</u>	<u>28,751</u>

Note:

Pursuant to a written confirmation on 23 March 2015, two of the Company's shareholders, Fortune Decade and Twilight Treasure, agreed to bear the listing expenses in connection with 120,000,000 sales shares sold through the placing of the Company's shares took place during the year ended 31 March 2016 and reimburse their share of these expenses to the Company upon the listing of shares of the Company on the GEM of the Stock Exchange. The reimbursement of approximately HK\$7,453,000 by these shareholders in their capacity as shareholders was accounted for as capital contribution to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

(i) General information of subsidiaries

Details of the Company's subsidiaries at 31 March 2017 and 2016 are as follows:

Name of subsidiaries	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued ordinary share capital held by the Company		Forms of legal entity	Principal activities
			Directly %	Indirectly %		
Win Vision	BVI	US\$1	100	–	Wholly-owned foreign company	Investment holding,
Kwan On Construction Company Limited ("Kwan On")	Hong Kong	HK\$1	–	100	Private limited company	Civil engineering construction
Univic Engineering Limited ("UEL")	Hong Kong	HK\$100	–	100	Private limited company	Provision of contracting work on civil plumbing, fire protection, insulation, concrete repairs and related activities
Univic Engineering & Construction Limited	Hong Kong	HK\$1	–	100	Private limited company	Provision of civil, plumbing and fire protection engineering contract services
Univic Earthworks Limited	Hong Kong	HK\$1	–	100	Private limited company	Provision of civil and plumbing engineering contract services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

(i) General information of subsidiaries (Continued)

Details of the Company's subsidiaries at 31 March 2017 and 2016 are as follows:
(Continued)

Name of subsidiaries	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued ordinary share capital held by the Company		Forms of legal entity	Principal activities
			Directly	Indirectly		
			%	%		
Univic Building Contractors Limited	Hong Kong	HK\$1	-	100	Private limited company	Provision of construction site workmen services
Univic Construction Resources Limited ("UCRL")	Hong Kong	HK\$1	-	100	Private limited company	Provision of construction site workmen services
Univic Fireproofing & Construction Limited ("UFCL")	Hong Kong	HK\$1	-	100	Private limited company	Trading of diesel and provision of construction site workmen services
Kwan On-U-Tech 1 (Note 1)	Hong Kong	Not applicable	-	70	Private limited company	Civil engineering construction
Classic Vision Holdings Limited	BVI	US\$1	100	-	Wholly-owned foreign company	Investment holding
Kingway Dragon Construction Limited	Hong Kong	HK\$10,000	-	100	Private limited company	Civil engineering construction
Alpha Gold Investments Limited	Seychelles	US\$1	100	-	Private limited company	Property holding

Note:

- The entity is an unincorporated joint venture formed between Kwan On and an independent third party and is accounted for as a subsidiary by virtue of the Group's control over it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Places of establishment/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017	2016	2017	2016
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Kwan On-U-Tech 1	Hong Kong	30%	30%	<u>192</u>	<u>776</u>	<u>3,451</u>	<u>4,659</u>

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

Kwan On-U-Tech 1	2017	2016
	HK\$'000	HK\$'000
Non-current assets	<u>48</u>	<u>404</u>
Current assets	<u>18,294</u>	<u>25,863</u>
Current liabilities	<u>(6,841)</u>	<u>(10,739)</u>
Non-current liabilities	<u>–</u>	<u>–</u>
Equity attributable to owners of the Company	<u>8,050</u>	<u>10,869</u>
Non-controlling interests	<u>3,451</u>	<u>4,659</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Kwan On-U-Tech 1 (Continued)	2017	2016
	HK\$'000	HK\$'000
Revenue	52,553	82,208
Expenses	(51,913)	(79,623)
Profit for the year	640	2,585
Profit for the year attributable to owners of the Company	448	1,809
Profit for the year attributable to the non-controlling interests	192	776
Profit for the year	640	2,585
Total comprehensive income attributable to owners of the Company	448	1,809
Total comprehensive income attributable to the non-controlling interests	192	776
Total comprehensive income for the year	640	2,585
Distribution paid to non-controlling interests	1,400	1,800
Net cash inflow from operating activities	5,311	4,413
Net cash inflow from investing activities	–	2,763
Net cash outflow from financing activities	(1,400)	(1,800)
Net cash inflow	3,911	5,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

34. LITIGATIONS

At the end of the reporting period, there were a number of labour claims arising from the normal course of business being lodged against the Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors, the possibility of any outflow of resources in settling these claims was remote and/or sufficient insurance policies are maintained to cover the loss, if any, arising from these claims and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

- (a) In about February 2015, a District Court Action was commenced by an employee of UCRL against UCRL as the respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about March 2013 arising out of and in the course of his employment. The legal claim was approximately HK\$998,000. In the opinion of the directors, based on the advice from the Group's legal counsel, the claim amount is rather excessive. Accordingly, the Group has not provided for any claim arising from the litigation.
- (b) The Group is also a defendant in a legal claim of approximately HK\$9,516,000 initiated by a subcontractor of one of the Group's subcontractors, which is another defendant, for breach of certain oral agreement made by the Group. The action has been put in abeyance since September 2009. In the opinion of the directors, based on the advice from the Group's legal counsel, the Group has a valid defence against the claim and accordingly no provision has been made for such claim arising from the litigation.
- (c) In about December 2014, a District Court Action was commenced by an employee of UCRL against UCRL as the first respondent and Kwan On as the second respondent in respect of a claim for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by the employee in an accident happened on or about 9 December 2012 arising out of and in the course of his employment. The employee further filed an action on 4 December 2015 to the High Court to claim for personal injury in relation to the aforesaid accident for amount of approximately HK\$1,532,000. In the opinion of the directors, based on the advice from the Group's legal counsel, the claim amount is rather excessive. Accordingly, the Group has not provided for any claim arising from the litigation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

34. LITIGATIONS (CONTINUED)

(d) In about June 2015, a series of prosecutions were made to Kwan On and UFCL in respect of an incident happened in November 2014 at a construction site of the Group where the Group was in contrary of certain sections under Chapter 59 of the Factories and Industrial Undertaking Ordinance. No judgement has been made against Kwan On and UFCL in respect of the above prosecutions. In the opinion of the directors, based on the advice from the legal counsel, the Group has valid defence against the prosecutions and accordingly no provision has been made for the aforementioned prosecutions.

35. SHARE OPTION SCHEME

Shareholders of the Company have approved and adopted a share option scheme (the “**Scheme**”) on 16 March 2015.

A summary of the Scheme is set out as below:

The Scheme became effective for a period of 10 years commencing on 16 March 2015. Under the Scheme, the directors shall, in its absolute discretion select, make an offer to any eligible participants to subscribe for shares of the Company at a subscription price being not less than the highest of (i) the closing price of shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the offer date; or (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the share on the offer date. The offer of a grant of options may be accepted within 21 days from the date of the offer grant.

The maximum number of shares to be issued upon the exercise of all outstanding options granted at any time under the Scheme together with options which may be granted under any other share option schemes for the time being of the Company must not in aggregate exceed 10% of the issued share capital of the Company at the date of the approval of the Scheme. No options have been granted since the adoption of the share option scheme.

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2017
	2013	2014	2015	2016	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	311,880	393,283	693,150	719,770	780,404
Profit before income tax expense	9,490	29,418	23,444	31,785	36,701
Income tax expense	(3,762)	(5,790)	(2,364)	(4,006)	(3,165)
Profit for the year	<u>5,728</u>	<u>23,628</u>	<u>21,080</u>	<u>27,779</u>	<u>33,536</u>
Profit attributable to:					
Owners of the Company	1,483	20,043	17,410	27,003	33,344
Non-controlling interests	4,245	3,585	3,670	776	192
	<u>5,728</u>	<u>23,628</u>	<u>21,080</u>	<u>27,779</u>	<u>33,536</u>

ASSETS AND LIABILITIES

	As at 31 March				2017
	2013	2014	2015	2016	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	130,326	204,807	313,792	349,973	502,562
Total liabilities	142,723	186,976	236,427	246,629	367,082
(Deficiency in assets)/total equity	(12,397)	17,831	77,365	103,344	135,480
Non-controlling interests	3,228	4,413	5,683	4,659	3,451
Equity attributable to owners of the Company	<u>(15,625)</u>	<u>13,418</u>	<u>71,682</u>	<u>98,685</u>	<u>132,029</u>