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KWAN ON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1559)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2018

The board (the “**Board**”) of Directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**”) is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2018 (the “**Reporting Year**”), together with audited comparative figures for the corresponding preceding year, as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018

| | <i>Notes</i> | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--|--------------|--------------------------------|---------------------------------------|
| Revenue | 3 | 637,250 | 780,404 |
| Cost of services | | (564,002) | (716,312) |
| | | <hr/> | <hr/> |
| Gross profit | | 73,248 | 64,092 |
| Other income | 3 | 2,215 | 1,511 |
| Other gain | 3 | 1,219 | 1,750 |
| Administrative expenses | | (31,307) | (27,830) |
| Share of loss of associates | | (3,000) | – |
| Impairment loss on amounts due from associates | | (5,000) | – |
| Finance costs | 5 | (2,707) | (2,822) |
| | | <hr/> | <hr/> |
| Profit before tax | | 34,668 | 36,701 |
| Income tax expenses | 6 | (4,361) | (3,165) |
| | | <hr/> | <hr/> |
| Profit and total comprehensive income for the year | 4 | 30,307 | 33,536 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 27,075 | 33,344 |
| Non-controlling interests | | 3,232 | 192 |
| | | <hr/> | <hr/> |
| | | 30,307 | 33,536 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 8 | 2.65 | 3.47 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Consolidated Statement of Financial Position

As at 31 March 2018

| | <i>Notes</i> | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------|--------------------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 41,486 | 40,319 |
| Interests in associates | | – | 3,000 |
| Prepayments | | 7,084 | 3,429 |
| | | <u>48,570</u> | <u>46,748</u> |
| Current assets | | | |
| Inventories | | 2,880 | 6,715 |
| Amounts due from customers for contract work | | 65,329 | 56,814 |
| Trade and other receivables | 9 | 249,377 | 139,462 |
| Tax recoverable | | – | 420 |
| Amounts due from associates | | – | – |
| Amounts due from other partners of joint operations | | 3 | 2 |
| Pledged bank deposits | | 11,345 | 58,033 |
| Bank balances and cash | | 170,455 | 194,368 |
| | | <u>499,389</u> | <u>455,814</u> |
| Current liabilities | | | |
| Amounts due to customers for contract work | | 25,751 | 60,323 |
| Trade and other payables | | 155,591 | 137,357 |
| Amount due to a director | | – | 95,000 |
| Bank borrowings | 10 | 21,135 | 73,902 |
| Income tax payable | | 2,082 | 494 |
| | | <u>204,559</u> | <u>367,076</u> |
| Net current assets | | <u>294,830</u> | <u>88,738</u> |
| Total assets less current liabilities | | <u>343,400</u> | <u>135,486</u> |

| | <i>Note</i> | 2018 HK\$'000 | 2017 HK\$'000 |
|--|-------------|--------------------------------|-----------------------|
| Non-current liability | | | |
| Deferred tax liabilities | | <u>268</u> | <u>6</u> |
| NET ASSETS | | <u>343,132</u> | <u>135,480</u> |
| Capital and Reserves | | | |
| Share capital | <i>11</i> | 11,000 | 9,600 |
| Reserves | | <u>329,379</u> | <u>122,429</u> |
| Equity attributable to owners of the Company | | 340,379 | 132,029 |
| Non-controlling interests | | <u>2,753</u> | <u>3,451</u> |
| TOTAL EQUITY | | <u>343,132</u> | <u>135,480</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 Unit 2801, 118 Connaught Road West, 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. 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.

Information about major customers

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

| | 2018 | 2017 |
|--------------|--------------------------|--------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| – Customer A | 141,043 | N/A ¹ |
| – Customer B | 108,456 | 115,593 |
| – Customer C | 345,913 | 452,825 |
| | <u><u> </u></u> | <u><u> </u></u> |

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND OTHER GAIN

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

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

| | 2018 | 2017 |
|---|--------------------------|--------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Restated) |
| <i>Other income</i> | | |
| Bank interest income | 261 | 169 |
| Consultancy fee income | 310 | 300 |
| Sundry income | 1,644 | 1,042 |
| | <u> </u> | <u> </u> |
| | 2,215 | 1,511 |
| | <u><u> </u></u> | <u><u> </u></u> |
| <i>Other gain</i> | | |
| Gain on disposal of property, plant and equipment (<i>Note</i>) | 1,219 | 1,750 |
| | <u> </u> | <u> </u> |
| | <u><u> </u></u> | <u><u> </u></u> |

Note:

Included in the amount, approximately HK\$722,000 (2017: HK\$977,000) represents ex-gratia payment from the government for retirement of motor vehicles. There was no unfulfilled conditions and other contingencies attached to the receipt for the ex-gratia payment.

4. PROFIT FOR THE YEAR

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

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditor's remuneration | 980 | 880 |
| Depreciation | 4,865 | 4,769 |
| Operating lease rentals in respect of | | |
| – Leasehold land and buildings | 5,685 | 4,048 |
| – Plant and equipment | 461 | 633 |
| Emoluments of directors and chief executive | 4,061 | 4,751 |
| Salaries, wages and other benefits (excluding directors' emoluments) | 84,800 | 86,804 |
| Retirement benefits scheme contributions (excluding directors) | 3,162 | 3,399 |
| Total staff costs | 92,023 | 94,954 |

5. FINANCE COSTS

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interests on: | | |
| – finance lease | – | 1 |
| – bank loans | 2,707 | 2,629 |
| Imputed interest expense on non-current retention payables | – | 192 |
| | 2,707 | 2,822 |

6. INCOME TAX EXPENSES

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---------------------------------|--------------------------------|-------------------------|
| Current tax: | | |
| Hong Kong | <u>4,099</u> | <u>3,216</u> |
| Deferred tax | | |
| Current year | <u>262</u> | <u>(51)</u> |
| Income tax expense for the year | <u><u>4,361</u></u> | <u><u>3,165</u></u> |

Hong Kong Profits Tax is calculated at 16.5% (2017:16.5%) of the estimated assessable profits during the year.

7. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

8. 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

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Earnings for the purpose of basic earnings per share | <u><u>27,075</u></u> | <u><u>33,344</u></u> |

Number of shares

| | 2018 <i>'000</i> | 2017 <i>'000</i> |
|--|----------------------------|-----------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u><u>1,020,219</u></u> | <u><u>960,000</u></u> |

Since there were no potential dilutive shares in issue during the years ended 31 March 2018 and 2017, basic and diluted earnings per share are the same for both years.

9. TRADE AND OTHER RECEIVABLES

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Trade receivables | <u>51,777</u> | <u>61,662</u> |
| Retention money receivables | 29,570 | 27,895 |
| Less: allowance for impairment of retention money receivables | <u>(20)</u> | <u>(20)</u> |
| Net retention money receivables | 29,550 | 27,875 |
| Other receivables | 3,410 | 3,521 |
| Debit notes issued to subcontractors | 70,846 | 38,241 |
| Consideration receivables of sale of securities investments | 86,006 | – |
| Less: allowance for impairment of other receivables | <u>(1,095)</u> | <u>(1,095)</u> |
| Other receivables, net | 159,167 | 40,667 |
| Prepayments and deposits | <u>15,967</u> | <u>12,687</u> |
| Total trade and other receivables | 256,461 | 142,891 |
| Less: Prepayments classified under non-current assets | <u>(7,084)</u> | <u>(3,429)</u> |
| | <u>249,377</u> | <u>139,462</u> |

Included in other receivables of the Group is amount due from the non-controlling interest of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,079,000 as at 31 March 2018 (2017: HK\$1,766,000). 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 2018, retention money receivables of approximately HK\$3,769,000 (2017: nil) are expected to be collected in more than one year after the reporting period.

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Within 30 days | 48,109 | 50,997 |
| More than 30 days but within 90 days | 3,369 | 10,388 |
| More than 90 days but within 180 days | 13 | 30 |
| More than 180 days but within 365 days | 286 | 247 |
| | <u>51,777</u> | <u>61,662</u> |

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$3,668,000 (2017: HK\$10,665,000) 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.

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--------------------------------------|--------------------------------|-------------------------|
| Neither past due nor impaired | 48,109 | 50,997 |
| Past due but not impaired: | | |
| Within 30 days | 3,369 | 10,388 |
| More than 30 days but within 90 days | 13 | 30 |
| More than 90 days | 286 | 247 |
| | <u>51,777</u> | <u>61,662</u> |

Movement in the impairment on trade and other receivables:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|-------------------------|--------------------------------|-------------------------|
| At 1 April and 31 March | <u>1,115</u> | <u>1,115</u> |

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 (2017: 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.

10. BANK BORROWINGS

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Secured bank borrowings, repayable on demand or within one year | 21,135 | 73,902 |
| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
| Carrying amount of bank borrowings repayable within one year and contain a repayable on demand clause* | 10,475 | 62,302 |
| 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) | 10,660 | 11,600 |
| | 21,135 | 73,902 |

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

During the year ended 31 March 2018, secured bank borrowings bore floating interest rates of 4.25% to 6% (2017: 4% to 6.75%) per annum.

As at 31 March 2018, the Group's bank borrowings and other banking facilities are secured by:

- (a) bank deposits amounting to approximately HK\$11,345,000;
- (b) 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) leasehold land and building amounting to approximately HK\$32,224,000.

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

- (a) bank deposits amounting to approximately HK\$58,033,000;
- (b) personal guarantees executed by Mr. Wong which has been released in December 2017 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) leasehold land and building amounting to approximately HK\$32,882,000.

The unutilised banking facilities as at 31 March 2018 amounted to approximately HK\$10,000,000 (2017: HK\$50,000,000).

11. SHARE CAPITAL

| | Number | Amount HK\$'000 |
|---|----------------------|--------------------|
| Authorised: | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| At 1 April 2016 and 31 March 2017 and 1 April 2017 and 31 March 2018 | 2,000,000,000 | 20,000 |
| Issued and fully paid | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| At 1 April 2016 and 31 March 2017 | 960,000,000 | 9,600 |
| Share subscription (<i>Note i</i>) | 140,000,000 | 1,400 |
| At 31 March 2018 | 1,100,000,000 | 11,000 |

Note i: On 1 September 2017, the Company and Sino Coronet Group Limited, a substantial shareholder of the Company (the “**Subscriber**”) entered into a subscription agreement, pursuant to which the Subscriber has agreed to subscribe for, and the Company has agreed to allot and issue, a total of 140,000,000 shares at the price of HK\$1.30 per share. The subscription was completed on 26 October 2017. The gross proceeds from the subscription were approximately HK\$182,000,000 and were used for the project to be tendered for. Details are set out in the announcement of Company dated 29 September 2017.

12. COMPARATIVE FIGURES

The comparative figures of other income of approximately HK\$977,000 were classified to other gains to conform to the presentation of the current year. The directors of the Company considered that the reclassifications would result in more appropriate manner to reflect the core business of the Company. The reclassifications have no material impact on the Company's total equity as at 31 March 2017 or the Company's profit or loss for the year ended 31 March 2017.

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 2018:

| Contract number | Customer | Particular of contract | Original/ extended date for completion | Estimated Contract sum <i>HK\$ million</i> | Cumulative revenue recognised <i>HK\$ million</i> | Further revenue expected to be recognised <i>HK\$ million</i> |
|---|--|--|--|--|--|---|
| 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⁾ | 169.3 | 169.3 | – |
| KL/2012/03 | Civil Engineering and Development Department (“CEDD”) | Kai Tak Development – Stage 4 infrastructure at former north apron area | 2/9/2017 | 820.1 | 819.8 | 0.3 |
| 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⁾ | 99.0 | 99.0 | – |
| GE/2013/06 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Package J, Landslip Prevention and Mitigation Works in New Territories | 23/4/2016 ⁽²⁾ | 120.7 | 120.7 | – |
| GE/2013/17 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Package M, Landslip Prevention and Mitigation Works in Lantau North | 19/1/2016 ⁽²⁾ | 79.0 | 79.0 | – |

| 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 |
|-----------------|--|--|--|---|---|--|
| 20130375 | Housing Authority | Main Engineering Infrastructure in Association with The Proposed Developments at Area 56 in Tung Chung | 29/2/2016 ⁽¹⁾ | 47.2 | 47.2 | – |
| 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 | 21/4/2018 | 225.8 | 219.9 | 5.9 |
| CV/2015/01 | CEDD | Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2 | 8/11/2019 | 254.1 | 109.5 | 144.6 |
| 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 | 90.1 | 38.8 |
| 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 Kwu Tung North New Development Area | 4/11/2017 | 13.4 | 9.8 | 3.6 |
| NE/2016/05 | CEDD | Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1 | 30/3/2020 | 299.0 | 30.9 | 268.1 |
| 2018-JA-JPCT-01 | JPC Group (Thailand) Co. Ltd. | JW Marriott and Courtyard Hotel in Chalong Bay, Phuket, Thailand | 30/11/2018 | 403.5 | – | 403.5 |
| Total | | | | | <u>1,805.4</u> | <u>869.8</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 Reporting Year.

(2): Date of substantial completion

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 Total revenue to be received by our Group HK\$ million | Cumulative Amount of revenue recognised by our Group HK\$ million | Further revenue expected to be recognised by Our Group HK\$ million |
|-----------------|-----------------------------|---|---------------------------------------|--|---|--|--|
| 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 | 84.8 | 25.4 |
| 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 | 4.5 | 0.5 |
| HY/2013/19 | HyD | Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section | 27/12/2019 | 585.0 | 298.4 | 181.1 | 117.3 |
| HY/2014/14 | HyD | Retrfitting of Noise Barriers on Tuen Mun Road – Fu Tei Section | 27/6/2020 | 462.8 | 236.0 | 77.0 | 159.0 |
| CV/2015/08 | CEDD | Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3 | 28/1/2020 | 158.5 | 103.0 | 40.2 | 62.8 |
| 1/WSD/17(L) | WSD | Term contract for Waterworks District L – Lantau and the Outlying Islands | 31/8/2020 | 198.1 | 101.0 | 8.6 | 92.4 |
| Total | | | | | <u>853.2</u> | <u>396.2</u> | <u>457.4</u> |

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Year amounted to approximately HK\$637.3 million (2017: approximately HK\$780.4 million), represented a decrease of 18.3% or approximately HK\$143.2 million as compared to the year ended 31 March 2017.

| | Year ended 31 March | |
|--|---------------------|----------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Waterworks | 108,456 | 115,593 |
| Road works and drainage and site formation works | 447,452 | 504,850 |
| LPM Services | 81,342 | 159,961 |
| | <u>637,250</u> | <u>780,404</u> |

The revenue in the waterworks engineering services decreased by 6.2% to approximately HK\$108.5 million (2017: approximately HK\$115.6 million). Such decrease was due to contract 10/WSD/10 substantial completion during the Reporting Year.

The decrease in revenue in the road works and drainage category by 11.4% to approximately HK\$447.5 million (2017: approximately HK\$504.9 million) during the Report Year was mainly due to decrease in revenue contributed from contracts KL/2012/03 and TK/2008/01. The contracts have recognised approximately HK\$142.6 million to revenue for the year ended 31 March 2018 (2017: approximately HK\$263.5 million), net of increase in revenue for new contract NE/2016/05, CV/201508, CV/2015/01 and NE/201604, which contributed approximately HK\$122.5 million to revenue for the year ended 31 March 2018 (2017: approximately HK\$58.7 million).

The decrease in revenue in the LPM works during the Reporting Year was mainly due to the substantial completion of the project GE/2013/16 during the Reporting Year. As such, the revenue in LPM services decreased by 49.1% to approximately HK\$81.3 million for the Reporting Year (2017: approximately HK\$160.0 million).

Cost of services

Cost of services decreased from approximately HK\$716.3 million for the year ended 31 March 2017 to approximately HK\$564.0 million for the Reporting Year, representing an decrease of 21.3%. The decrease was mainly attributable to the decrease in subcontracting charges and purchase of materials of approximately HK\$142.5 million, which was mainly due to the completion or substantial completion of several 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 | |
|--|---------------------|-------|
| | 2018 | 2017 |
| Waterworks | 19.6% | 7.6% |
| Road works and drainage and site formation works | 17.0% | 5.2% |
| LPM Services | 62.1% | 32.5% |

The gross profit margin for waterworks engineering service increased to 19.6% for the Reporting Year (2017: 7.6%). Such increase was mainly due to the completion of the maintenance period of contract 9/WSD/13, substantial completion and additional payments received for 10/WSD/10 together with the gross profit generated from the new contract 1/WSD/17 in the Reporting Year, which contributed to the Group a comparatively higher gross profit margin for the year ended 31 March 2018.

Gross profit margin for road works and drainage and site formation works service increased to 17.0% for the Reporting Year (2017: 5.2%). Such increase was mainly due to the completion of the maintenance period for contract DC/2012/05 and revenue recognition from contract HY/2014/14 during the Reporting Year.

Gross profit margin for LPM Service increased significantly to 62.1% for the Reporting Year (2017: 32.5%). Such increase was mainly due to the increase in revenue recognised for contract GE/2010/21 was completed during the Reporting Year and the one-off recognition of the payments received as revenue upon completion of the projects, namely GE/2012/11, GE/2013/06 and GE/2013/17, in the Reporting Year.

Other income and other gain

Other income and other gain for the Reporting Year amounted to approximately HK\$3.4 million (2017: approximately HK\$3.3 million). The increase was mainly due to the increase in service income arisen from the new joint venture contract 1/WSD/17 of approximately HK\$0.7 million and decrease in gain arisen from disposal of motor vehicles of approximately to approximately HK\$0.4 million during the Reporting Year (2017: approximately HK\$0.8 million).

Administrative expenses

Administrative expenses for the Reporting Year amounted to approximately HK\$31.3 million (2017: approximately HK\$27.8 million) representing an increase by 12.5%. The increase was mainly due to the increase in staff cost of approximately HK\$19.8 million (2017: approximately HK\$15.3 million), particularly for remuneration to Directors during the Reporting Year.

Share of loss of associates and impairment loss on amounts due from associates

During the Reporting Year, the Group had invested in a licensed corporation which is granted a licence by the Securities and Futures Commission under the Securities and Futures Ordinance for approximately HK\$8.0 million, comprising of approximately HK\$3.0 million in 34.5% equity interest and HK\$5.0 million as debts, for the purpose of diversifying the Group's business. The associate incurred loss of approximately HK\$7.3 million for the year ended 31 December 2017 and recorded a net liabilities of approximately HK\$1.8 million, based on its unaudited management accounts as at 31 December 2017 as the results of failure to secure customers to generate sufficient revenue.

In view of these impairment indicators, an impairment assessment of the interests in the associates was carried out.

In assessing the recoverability, a discounted cash flows projection model was adopted to calculate the difference between the carrying amount and the recoverable amount. Accordingly, an impairment loss of approximately HK\$8.0 million was recognised.

Finance costs

Finance costs for the Reporting Year amounted to approximately HK\$2.7 million (2017: approximately HK\$2.8 million).

Income tax expenses

Income tax expense for the Reporting Year amounted to approximately HK\$4.4 million (2017: approximately HK\$3.2 million). The increase was mainly due to increase in profits generated from projects while the share of loss of associates and impairment loss on amounts due from associates were not tax deductible.

Profit and total comprehensive income

Profit and total comprehensive income for the Reporting Year amounted to approximately HK\$30.3 million (2017: approximately HK\$33.5 million). The decrease was mainly attributable to the increase in gross profit generated from the projects in LPM Services offset by share of loss of associates of HK\$3.0 million (2017: Nil) and impairment loss on amounts due from associates of HK\$5.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2018, the Group had net current assets of approximately HK\$294.8 million (2017: approximately HK\$88.7 million), increase of approximately HK\$206.1 million, representing an increase of approximately 232.2% as compared with the prior year.

The current ratio of the Group as at 31 March 2018 was approximately 2.44 times (2017: approximately 1.24 times). The increase 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\$170.5 million (2017: approximately HK\$194.4 million).

The gearing ratio, calculated based on the net debt (including amounts due to customers for contract work, trade and other payables, bank borrowings, amount due to a director, amounts due to other partner of a joint operation and less bank balances and cash) divided by total capital plus net debt, was approximately 8.6% as at 31 March 2018 (2017: approximately 56.6%). The decrease was mainly due to our significant increase in equity as at 31 March 2018 of approximately HK\$343.1 million (2017: approximately HK\$135.5 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 2016. On 26 October 2017, the Company has issued 140,000,000 ordinary shares of HK\$0.01 each upon the completion of the Subscription Agreement dated 1 September 2017 and the circular issued by the Company dated 29 September 2017. Save as aforesaid, 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 2018, the Company's issued share capital was HK\$11.0 million and the number of ordinary shares issued was 1,100,000,000 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\$1.8 million as at 31 March 2018 (2017: approximately HK\$1.2 million). As at 31 March 2018, the Group did not have any significant capital commitments (2017: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

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.

CONTINGENT LIABILITIES

Save for certain litigations involved, the Group did not have any material contingent liabilities as at 31 March 2018 (2017: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group was not exposed to foreign exchange risk during the Reporting Year (2017: 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 98% of which was derived from two major customers as at 31 March 2018 (2017: 91%). 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 2018, the Group pledged bank deposits amounted to approximately HK\$11.3 million (2017: approximately HK\$58.0 million) as securities for banking facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2018, the Group employed a total of 483 employees, comprising 328 staff employed on a full-time basis and 155 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$92.0 million for the Reporting Year (2017: approximately HK\$95.0 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 2018, the Group was involved in certain litigations. In the opinion of the Directors, based on the advice of the Group's legal counsels, 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, and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

PROSPECT

The Group foresees that the market for public works construction in Hong Kong will be competitive. The Group will continue to evaluate the potential opportunities in Hong Kong and overseas for business diversification.

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.

OTHER INFORMATION

Corporate Governance Practice

The Board recognised that the transparency and accountability are important to a listed company. Therefore, 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 (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 2018.

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 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.

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.

Interests in Competing Business

As at the date of this announcement, 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.

The independent non-executive Directors have also reviewed the compliance by each of the Covenantors 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 Covenantors of the Undertaking given by them.

Subsequent Events

Subsequent to the end of the reporting period, the Group has entered into an agreement with Sigma Epsilon Fund Limited, pursuant to acquire IRC Properties, Inc ("IRC"), a listed company in Philippines which is principally engage in the acquisition, reclamation, development or exploration of land, forests, minerals, oil, gas, and other resources at a consideration of PHP280,000,000 (equivalent to approximately HK\$42,360,000). It represents approximately 13.3% equity interest in IRC. Details are set out in the Group's announcement dated on 10 May 2018 and 24 May 2018.

Sufficiency of Public Float

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

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 and financial reporting matters and the audited consolidated financial statements for the year ended 31 March 2018.

Publication of 2018 Annual Report

The 2018 annual report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and will also be published on the website of the Company at <http://www.kwanonconstruction.com> and the website of the Stock Exchange at <http://www.hkexnews.hk>.

By order of the Board
Kwan On Holdings Limited
Chen Zhenghua
Chairman

Hong Kong, 29 June 2018

As at the date of this announcement, the Executive Directors are Mr. Chen Zhenghua, Mr. Zhang Fangbing, Mr. Wong Wa, and Mr. Cao Lei, and the Independent Non-Executive Directors are Professor Lam Sing Kwong, Simon, Mr. Lum Pak Sum and Mr. Gong Zhenzhi.

This announcement will remain on the “Latest Company Announcements” page of the website of the Stock Exchange at www.hkexnews.hk for 7 days from the date of its posting. This announcement will also be posted on the Company’s website at www.kwanonconstruction.com.