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KWAN ON HOLDINGS

均安控股

## KWAN ON HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1559)**

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board (the “**Board**”) of Directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six ended 30 September 2018 (the “**Reporting Period**”), together with unaudited comparative figures for the corresponding preceding period, as follows:

#### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 September 2018*

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Notes</i>	<b>2018</b>	<b>2017</b>
		<b>HK\$’000</b>	<b>HK\$’000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	4	<b>207,275</b>	316,341
Cost of services		<u><b>(183,115)</b></u>	<u>290,857</u>
Gross profit		<b>24,160</b>	25,484
Other income		<b>464</b>	608
Other gains and losses		<b>(67)</b>	355
Administrative expenses		<b>(16,967)</b>	(11,825)
Unrealised loss on held-for-trading securities		<u><b>–</b></u>	<u>(6,899)</u>

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Operating profit	<b>7,590</b>	7,723
Finance costs	<b>(1,436)</b>	(1,558)
Profit before income tax expense	<b>6,154</b>	6,165
Income tax expense	<b>(774)</b>	(2,155)
Profit for the period	<b>5,380</b>	4,010
<b>Other comprehensive income</b>		
Changes in the fair value of financial asset through other comprehensive income	<b>23,981</b>	–
Total comprehensive income for the period	<b>29,361</b>	4,010
<b>Attributable to:</b>		
Owners of the Company	<b>5,672</b>	2,912
Non-controlling interests	<b>(292)</b>	1,098
Profit for the period	<b>5,380</b>	4,010
<b>Earnings per share</b>		
– Basic and diluted (HK cents)	5	<b>0.52</b>
		0.30

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2018*

		30 September 2018	31 March 2018
	<i>Notes</i>	<b>HK\$'000</b> (Unaudited)	<b>HK\$'000</b> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	6	41,758	41,486
Prepayments	7	7,084	7,084
		48,842	48,570
<b>Current assets</b>			
Inventories		2,840	2,880
Amounts due from customers for contract work		134,871	65,329
Trade and other receivables	7	235,138	249,377
Financial asset through other comprehensive income	8	66,332	–
Amounts due from other partners of joint operations		3	3
Pledged bank deposits		41,345	11,345
Bank balances and cash		98,637	170,455
		579,166	499,389

		<b>30 September 2018</b>	31 March 2018
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Current liabilities</b>			
Amounts due to customers for contract work		<b>42,929</b>	25,751
Trade and other payables	9	<b>120,130</b>	155,591
Bank borrowings	10	<b>90,020</b>	21,135
Income tax payable		<b>1,979</b>	2,082
		<u><b>255,058</b></u>	<u>204,559</u>
<b>Net current assets</b>		<u><b>324,108</b></u>	<u>294,830</u>
<b>Total assets less current liabilities</b>		<u><b>372,950</b></u>	<u>343,400</u>
<b>Non-current liability</b>			
Deferred tax liabilities		<u><b>457</b></u>	<u>268</u>
<b>NET ASSETS</b>		<u><b>372,493</b></u>	<u><b>343,132</b></u>
<b>Capital and Reserves</b>			
Share capital	11	<b>11,000</b>	11,000
Reserves		<u><b>359,032</b></u>	<u>329,379</u>
Equity attributable to owners of the Company		<b>370,032</b>	340,379
Non-controlling interests		<u><b>2,461</b></u>	<u>2,753</u>
<b>TOTAL EQUITY</b>		<u><b>372,493</b></u>	<u><b>343,132</b></u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2018*

	Attributable to owners of the Company							Non- controlling interests	Total
	Share capital	Share premium	Merger reserve	Contributed surplus	Capital Reserve	Retained earnings	Total		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		
As at 1 April 2017	9,600	23,811	9,755	22,968	12,544	53,351	132,029	3,451	135,480
Profit and total comprehensive income for the period	-	-	-	-	-	2,912	2,912	1,098	4,010
Changes in distribution to non-controlling interests	-	-	-	-	-	-	-	200	200
<b>As at 30 September 2017 (unaudited)</b>	<b><u>9,600</u></b>	<b><u>23,811</u></b>	<b><u>9,755</u></b>	<b><u>22,968</u></b>	<b><u>12,544</u></b>	<b><u>56,263</u></b>	<b><u>134,941</u></b>	<b><u>4,749</u></b>	<b><u>139,690</u></b>
As at 1 April 2018	11,000	203,686	9,755	22,968	12,544	80,426	340,379	2,753	343,132
Profit for the period	-	-	-	-	-	5,672	5,672	(292)	5,380
Other comprehensive income	-	-	-	-	-	23,981	23,981	-	23,981
<b>As at 30 September 2018 (unaudited)</b>	<b><u>11,000</u></b>	<b><u>203,686</u></b>	<b><u>9,755</u></b>	<b><u>22,968</u></b>	<b><u>12,544</u></b>	<b><u>110,079</u></b>	<b><u>370,032</u></b>	<b><u>2,461</u></b>	<b><u>372,493</u></b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(41,043)	(10,328)
Net cash used in investing activities	(74,660)	(84,530)
Net cash generated from/(used in) financing activities	<u>43,885</u>	<u>(63,648)</u>
Net decrease in cash and cash equivalents	(71,818)	(158,506)
Cash and cash equivalents at beginning of the period	<u>170,455</u>	<u>194,368</u>
Cash and cash equivalents at end of the period	<u><u>98,637</u></u>	<u><u>35,862</u></u>
Represented by:		
Bank balances and cash	<u><u>98,637</u></u>	<u><u>35,862</u></u>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2018*

## 1. GENERAL INFORMATION

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. The registered office of the Company is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is at Unit 2801, 118 Connaught Road West, Hong Kong.

The Company is an investment holding company and its subsidiaries 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. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the Reporting Period have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules. Intra-group balances and transactions, if any, have been fully and properly eliminated. The accounting policies and basis of preparation adopted in the preparation of the financial statements for the Reporting Period are consistent with those adopted in the Group’s consolidated financial statements for the year ended 31 March 2018. The adoption of new and amended standards as set out below.

The unaudited condensed consolidated financial statements for the Reporting Period have not been audited by the Company’s independent auditors, but have been reviewed by the Audit Committee of the Company.

The unaudited condensed consolidated financial statements for the Reporting Period are presented in Hong Kong dollars (“HK\$”), which is the same functional currency of the Company.

### **Impacts and changes in accounting policies of application on HKFRS 15 Revenue for contracts with customers**

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 15 Construction Contracts and the related interpretations.

HKFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligation in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

*Over time revenue recognition: measurement of progress towards complete satisfaction of performance obligation*

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is recognized revenue on the basis of the Group's effect or inputs to the satisfaction of an obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or service.

*Variable consideration*

For contracts that contain variable consideration (to specify), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updated the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The Directors believe that the application of HKFRS 15 has no material impact on the amounts reported set out in the interim financial statements.

**Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments**

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRS. HKFRS 9 introduce new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for the financial assets and contract assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provision set out in HKFRS 9 i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.



### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognized financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. There were no impact on the amounts reported set out in the interim financial statements.

### *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and retention receivables and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and retention receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 35 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and retention receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

The directors reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The directors has concluded that the impact of expected credit losses on financial assets is not significant as at 1 April 2018.

### *Classification and measurement of financial liabilities*

For financial liabilities that are designated as at FVTPL, 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 recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

### *Summary of effects arising from initial application of HKFRS 9*

#### Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and retention receivables and contract assets. To measure the ECL, trade and retention receivables and contract assets have been grouped based on shared credit risk characteristics.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade and retention receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

The directors believes that the credit risk inherent the Group's outstanding trade and retention sum receivable due from the customers is not significant.

### **3. SEGMENT INFORMATION**

#### **Operating segments**

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 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**

During the Reporting Period, the Group's revenue was derived from Hong Kong, as the location of its customers and non-current assets were in Hong Kong. Therefore, no geographical information is presented.

### **4. REVENUE**

The Group's revenue represents amount received and receivable from contract work performed and recognised during the Reporting Period, which is also the Group's turnover, being revenue generated from its principal activities.

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the following data:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	<b>2017</b>
	<i><b>HK\$'000</b></i>	<i><b>HK\$'000</b></i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Earnings</b>		
Profit attributable to owners of the Company	<u><u><b>5,672</b></u></u>	<u><u><b>2,912</b></u></u>
	<b>Number of shares</b>	
<b>Number of shares</b>	<i><b>'000</b></i>	
Weighted average number of ordinary shares	<u><u><b>1,100,000</b></u></u>	<u><u><b>960,000</b></u></u>

Diluted earnings per share were the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the six months ended 30 September 2018 and 2017.

**6. PROPERTY, PLANT AND EQUIPMENT**

During the Reporting Period, the Group acquired property, plant and equipment amounting to approximately HK\$4,200,000 (2017 Interim: approximately HK\$4,379,000).

## 7. TRADE AND OTHER RECEIVABLES

	<b>30 September 2018</b>	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade receivables ( <i>Note (a)</i> )	<b>51,855</b>	51,777
Retention receivables ( <i>Note (b)</i> )	<b>29,984</b>	29,550
Other receivables	<b>108,824</b>	159,167
Prepayments and deposits	<b>51,559</b>	15,967
	<hr/>	<hr/>
	<b>242,222</b>	256,461
Less: Prepayments classified under non-current assets	<b>(7,084)</b>	(7,084)
	<hr/>	<hr/>
	<b>235,138</b>	249,377
	<hr/> <hr/>	<hr/> <hr/>

- (a) Trade receivables were mainly derived from provision of construction work on civil engineering contracts, and non-interest bearing. The Group does not hold any collateral or other credit enhancements over these balances. The Group grants an average credit period of 21 days to its trade customers of contract works. Application for progress payments of contract works is made on a regular basis.

The following is an analysis of trade receivables by age, presented based on the invoice dates:

	<b>30 September 2018</b>	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within 30 days	<b>31,973</b>	48,109
More than 30 days but within 90 days	<b>3,284</b>	3,369
More than 90 days but within 180 days	<b>13,038</b>	13
More than 180 days but within 365 days	<b>3,560</b>	286
	<hr/>	<hr/>
	<b>51,855</b>	51,777
	<hr/> <hr/>	<hr/> <hr/>

- (b) Retention monies withheld by customers of contract works are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.

Included in other receivables of the Group is the amount due from the non-controlling interest of a subsidiary, U-Tech Engineering Co. Ltd., amounting to approximately HK\$1,972,000 as at 30 September 2018 (31 March 2018: HK\$1,079,000). The balance is unsecured, interest-free and repayable on demand.

## 8. FINANCIAL ASSET THROUGH OTHER COMPREHENSIVE INCOME

	<b>30 September 2018</b>	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Common shares listed on The Philippine Stock Exchange., Inc., at market value	<u><u>66,332</u></u>	<u><u>–</u></u>

On 9 May 2018 (after trading hours), Jovial Elm Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, has entered into a share sale agreement to acquire 200,000,000 common shares in IRC Properties, Inc., a company listed on The Philippine Stock Exchange Inc. Stock Code: IRC) (“**IRC**”) at a consideration of PHP280,000,000 (equivalent to approximately HK\$42,360,000), represented approximately 13.3% equity interest in IRC.

Further details are referred to the Company’s announcements dated 10 May 2018 and 24 May 2018.

Subsequently, IRC had increased its issued capital from 1.5 billion to 6,061,578,964. Accordingly the equity interest of the Group had been changed from approximately 13.3% to approximately 3.3%.

## 9. TRADE AND OTHER PAYABLES

	<b>30 September 2018</b>	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade payables ( <i>Note (a)</i> )	<b>46,703</b>	61,237
Retention payables ( <i>Note (b)</i> )	<b>48,576</b>	44,242
Amount due to ex-director	–	25,000
Other payables and accruals	<b>24,851</b>	25,112
	<b>120,130</b>	155,591

- (a) An ageing analysis of trade payables as at the end of each of the reporting period, based on the invoice dates, is as follows:

	<b>30 September 2018</b>	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Current or less than 1 month	<b>26,769</b>	43,377
1 to 3 months	<b>1,897</b>	8,734
More than 3 months but less than one year	<b>18,037</b>	9,126
	<b>46,703</b>	61,237

The Group's trade payables are non-interest bearing and generally have payment terms of 30 to 45 days.

- (b) Retention monies withheld from sub-contractors of contract works are released by the Group after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.



## 10. BORROWINGS

Movement in borrowings during the Reporting Period is analysed as follows:

	<i>HK\$'000</i> (Unaudited)
Opening amount as at 1 April 2018	21,135
Proceeds from drawdowns	178,129
Repayments of borrowings	<u>(109,244)</u>
Closing amount as at 30 September 2018	<u><u>90,020</u></u>

Borrowings and banking facilities as at 30 September 2018 and 31 March 2018 are secured by:

- (a) bank deposits amounting to approximately HK\$41,345,000 (31 March 2018: approximately HK\$11,345,000);
- (b) corporate guarantees given by certain entities within the Group;
- (c) land and building amounted to approximately HK\$32,224,000 as at 30 September 2018 (31 March 2018: HK\$32,224,000);
- (d) accrued benefits of certain life insurance contracts.

## 11. SHARE CAPITAL

	<b>The Company</b>	
	<b>Number</b>	<b>Amount</b> <i>HK\$'000</i>
<b>Authorised:</b> <i>Ordinary shares of HK\$0.01 each</i> At 31 March 2018 and 1 April 2018 and 30 September 2018	<u><u>2,000,000,000</u></u>	<u><u>20,000</u></u>
<b>Issued and fully paid:</b> <i>Ordinary shares of HK\$0.01 each</i> At 31 March 2018 and 1 April 2018 and 30 September 2018	<u><u>1,100,000</u></u>	<u><u>11,000</u></u>

## 12. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transactions during the Reporting Period:

Name of related parties	Nature of transactions	Six months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Ms. Chiu Gar Man (a)	Rental expense (d)	144	141
Shiu Mau Development Limited (b)	Rental expense (d)	495	495
U-Tech Engineering Company Limited (c)	Subcontracting fee (d)	56	592

Notes:

- (a) Ms. Chiu Gar Man is the spouse of Mr. Wong Yee Tung, Tony, ex-director of the Company.
- (b) The company is partially and beneficially owned by Mr. Wong Yee Tung, Tony, ex-director of the Company.
- (c) U-Tech Engineering Company Limited is a minority partner of the Company's subsidiary, Kwan On – U-Tech Joint Venture.
- (d) The transactions were conducted on terms and conditions mutually agreed between the relevant parties. The Directors are of the opinion that these related party transactions were conducted in the ordinary course of business of the Group.

Key management compensation amounted to approximately HK\$5,400,000 for the Reporting Period (2017 Interim: HK\$4,970,000).

## 13. 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. 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.

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 of the Company, 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.

## 14. SUBSEQUENT EVENTS

There are no significant events which have taken place subsequent to 30 September 2018.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The board (the “**Board**”) of directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**” or “**Kwan On**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2018 (the “**Reporting Period**”).

## **BUSINESS REVIEW AND OUTLOOK**

The Group is engaged as main contractor 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 in Hong Kong and Southeast Asia.

Kwan On Construction Company Limited, (“**KOCCL**”) 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 Hong Kong Special Administrative Region Government (“**WBDB**”).

As at 30 September 2018, the Group had 15 contracts in progress, including contracts awarded to KOCCL and to the Group’s joint venture and joint operations and one contract in Thailand. There was one new contract awarded with estimated contract sum of approximately HK\$113.9 million during the Reporting Period. The estimated outstanding contract sum as at 30 September 2018 amounted to approximately HK\$1.3 billion (31 March 2018: HK\$1.3 billion).

During the Reporting Period, the Group had submitted 15 tenders for contracts with total estimated contract sum of approximately HK\$3.9 billion and the results for nine of them are pending.

## **PROSPECTS**

Going forward, the Group will continue to identify main contractor works in Hong Kong and Southeast Asia to capture more potential business opportunities and to achieve market diversification.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue for the Reporting Period amounted to approximately HK\$207.3 million, representing a decrease of approximately 34.5% as compared to the six months ended 30 September 2017 (“**2017 Interim**”) of approximately HK\$316.3 million. The decrease in revenue was mainly attributable to the decrease in contributions from five projects, namely GE/2012/11, GE/2013/06, CDO2016061, 15/WSD/11, 10/WSD/10 which had been completed during the Reporting Period.

### **Cost of services**

Cost of services decreased to approximately HK\$183.1 million for the Reporting Period (2017 Interim: HK\$290.9 million), representing a decrease of approximately 37.0% as a result of decrease in the subcontracting charges and wages upon completion of projects.

### **Gross profit**

Gross profit for the Reporting Period was approximately HK\$24.2 million (2017 Interim: HK\$25.5 million) while gross profit margin for the Reporting Period was approximately 11.7% (2017 Interim: 8.1%). The increase in gross profit margin was the result of recovery of costs from customers’ payment certification in relation to certain works completed during the Reporting Period where revenue had not been previously recognised.

### **Other income**

Other income for the Reporting Period amounted to approximately HK\$0.5 million (2017 Interim: HK\$0.6 million), represented a decrease of approximately 23.7%.

### **Administrative expenses**

Administrative expenses for the Reporting Period were approximately HK\$17.0 million (2017 Interim: HK\$11.8 million), representing an increase by 43.5%. The increase was mainly attributable to the increase in staff costs incurred in the headquarters during the Reporting Period.

### **Finance costs**

Finance costs for the Reporting Period amounted to approximately HK\$1.4 million (2017 Interim: HK\$1.6 million).

### **Income tax expense**

Income tax expense decreased to approximately HK\$0.8 million (2017 Interim: HK\$2.2 million) for the Reporting Period. The effective tax rate was approximately 12.6% during the Reporting Period, in line with the statutory tax rate, (2017 Interim: 35.0%).

## **Profit and total comprehensive income**

As a result of the foregoing, profit for the Reporting Period amounted to approximately HK\$5.4 million (2017 Interim: HK\$4.0 million).

The Group recorded changes in the fair value of financial asset through other comprehensive income of approximately HK\$24.0 million (2017 Interim: Nil), represented the changes in book value of 200,000,000 common shares in IRC Properties Inc. acquired in May 2018 and the quoted market price at the end of the Reporting Period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations with internally generated cash flow and facilities provided by banks. As at 30 September 2018, the Group had bank and cash of approximately HK\$98.6 million (31 March 2018: HK\$170.5 million), while outstanding borrowings amounted to approximately HK\$90.0 million (31 March 2018: HK\$21.1 million). The decrease in bank and cash was mainly attributable to (i) acquisition of 200,000,000 common shares in IRC Properties Inc., a company listed on the Philippines Stock Exchange with cost of acquisition amounted to approximately HK\$42.4 million (details referred to the Company's announcements dated 10 May 2018 and 24 May 2018) and (ii) increase in amounts due from customers for contract work amounted to approximately HK\$69.5 million as a result of costs incurred for construction works where certifications and payments had yet received from customers.

As at 30 September 2018, the Group had pledged bank deposits of approximately HK\$41.3 million (31 March 2018: HK\$11.3 million). The current ratio as at 30 September 2018 was approximately 2.27 times (31 March 2018: 2.44 times). Net current assets amounted to approximately HK\$324.1 million (31 March 2018: HK\$294.8 million). Gearing ratio, calculated based on net debt (including amounts due to customers for contract work, trade and other payables, bank borrowings less bank balances and cash) divided by total capital plus net debt, was approximately 30.7% as at 30 September 2018 (31 March 2018: 8.6%). The increase was mainly attributable to the increase in bank borrowings amounted to approximately HK\$90.0 million as at 30 September 2018 (31 March 2018: HK\$21.1 million) for costs incurred in the Group's construction projects.

Save for the Group's financial asset through other comprehensive income of approximately HK\$66.3 million as at 30 September 2018 (31 March 2018: Nil), the Group was not exposed to foreign exchange risk during the Reporting Period.

As at 30 September 2018, the Group did not have any capital commitments (31 March 2018: Nil). Save for any contingent liabilities which may arise from any of the litigations disclosed herein, the Group had no material contingent liabilities as at 30 September 2018 (31 March 2018: Nil).

## **CAPITAL STRUCTURE**

There had been no change in the capital structure of the Group during the Reporting Period. As at 30 September 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.

## **EMPLOYMENT, TRAINING AND DEVELOPMENT**

As at 30 September 2018, the Group had a total of 309 (31 March 2018: 373) employees, including Directors. 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.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **CORPORATE GOVERNANCE PRACTICES**

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company has complied with the code provisions in the CG Code during the Reporting Period.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "**Model Code**") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

### **AUDIT COMMITTEE**

The Company established an Audit Committee and the written terms of reference are available on the websites of the Stock Exchange and the Company. The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Lum Pak Sum, Prof. Lam Sing Kwong Simon and Mr. Gong Zhenzhi. Mr. Lum Pak Sum is the chairman of the Audit Committee and has appropriate professional qualifications and experience in accounting matters.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Reporting Period.

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2018, 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:

Name	Capacity	Number of issued shares interested	Percentage of the issued share capital of the Company
Mr. Chen Zhenghua (“ <b>Mr. Chen</b> ”) ( <i>Note 1</i> )	Interest of controlled corporation	248,000,000 (L)	22.55%
Mr. Zhang Fangbing (“ <b>Mr. Zhang</b> ”) ( <i>Note 1</i> )	Interest of corporation	248,000,000 (L)	22.55%

*Notes:*

1. The interests of Mr. Chen and Mr. Zhang were held by Sino Coronet, which is a wholly-owned subsidiary of 江蘇省建築工程集團有限公司. 江蘇省建築工程集團有限公司 is beneficially owned as to 55% by 綠地城市投資集團有限公司, and as to 45% by 江蘇華遠投資集團有限公司. 江蘇華遠投資集團有限公司 is owned as to 89.3% by Mr. Chen and 10.7% by 江蘇省城開投資有限公司, which is owned as to approximately 39.56% by Mr. Chen and approximately 1.25% by Mr. Zhang, an Executive Director of the Company and approximately 59.19% by independent third parties.

Save as disclosed above, none of the Directors or Chief Executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 Model Code.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 30 September 2018, 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.

Name	Capacity	Number of issued shares interested	Percentage of the issued share capital of the Company
Sino Coronet Group Limited ("Sino Coronet") (Note 1)	Beneficial owner	248,000,000 (L)	22.55%
江蘇省建築工程集團有限公司 ("JPC") (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
江蘇華遠投資集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
Mr. Chen (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
Mr. Zhang (Note 1)	Interest of corporation	248,000,000 (L)	22.55%
綠地城市投資集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
綠地控股集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
綠地控股集團股份有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	22.55%
Wisum Holdings Limited (Note 2)	Beneficial owner	66,000,000 (L)	6.00%
Ms. Guo Jing (Note 2)	Interest of controlled corporation	66,000,000 (L)	6.00%



*Notes:*

1. Sino Coronet is a wholly-owned subsidiary of JPC, which is beneficially owned as to 55% by 綠地城市投資集團有限公司, and as to 45% by 江蘇華遠投資集團有限公司. 綠地城市投資集團有限公司 is owned as to 94.74% by 綠地控股集團有限公司, which is in turn wholly-owned by 綠地控股集團股份有限公司. 江蘇華遠投資集團有限公司 is owned as to 89.3% by Mr. Chen, Chairman of the Board and an Executive Director of the Company and 10.7% by 江蘇省城開投資有限公司, which is owned as to approximately 39.56% by Mr. Chen and approximately 1.25% by Mr. Zhang and approximately 59.19% by independent third parties. Accordingly, JPC, 江蘇華遠投資集團有限公司, Mr. Chen, 綠地城市投資集團有限公司, 綠地控股集團有限公司 and 綠地控股集團股份有限公司 are deemed to be interested in such 248,000,000 Shares.
2. The 66,000,000 Shares were held by Wisum Holdings Limited, which is wholly-owned by Ms. Guo Jing. Accordingly, Ms. Guo Jing is deemed to be interested in such 66,000,000 Shares.

Save as disclosed above, the Company had not been notified by any persons (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as at 30 September 2018.

#### **PURCHASE, SALES OF REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

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

#### **DIVIDENDS**

The Board did not recommend any payment of dividend for the Reporting Period.

#### **SHARE OPTION SCHEME**

The Company adopted a share option scheme on 16 March 2015 (the “**Scheme**”). No share option has been granted since adoption and there were no share options outstanding as at 30 September 2018.

## **CHANGE OF DIRECTORS**

Changes in Directors during the Reporting Period up to the date of this Report are summarised as follows:

- (a) On 23 April 2018, Mr. Gong Zhenzhi was appointed as an Independent Non-executive Director and a member of the Audit Committee, the Risk Management Committee and the chairman of the Nomination Committee of the Company.
- (b) On 23 April 2018, Prof. Ho Ho Ming has resigned as an Independent Non-executive Director and a member of the Audit Committee, the Risk Management Committee and the chairman of the Nomination Committee of the Company.

For more details, please refer to the Company's announcement dated 23 April 2018.

## **PUBLICATION OF 2018 INTERIM REPORT**

The 2018 interim 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, 26 November 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.*