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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2019

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 2019 (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 2019

| | <i>Notes</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 4 | 731,839 | 637,250 |
| Cost of services | | (662,046) | (564,002) |
| | | <hr/> | <hr/> |
| Gross profit | | 69,793 | 73,248 |
| Other income | 4 | 3,304 | 2,215 |
| Other gain | 4 | 47 | 1,219 |
| Administrative expenses | | (36,575) | (31,307) |
| Share of loss of associates | | – | (3,000) |
| Impairment loss on amounts due from associates | | – | (5,000) |
| Finance costs | 5 | (3,888) | (2,707) |
| | | <hr/> | <hr/> |
| Profit before tax | | 32,681 | 34,668 |
| Income tax expenses | 6 | (6,577) | (4,361) |
| | | <hr/> | <hr/> |
| Profit for the year | 7 | 26,104 | 30,307 |
| Other comprehensive income | | | |
| <i>Item that will not be reclassified subsequently to profit or loss:</i> | | | |
| Fair value gain on financial assets at fair value through other comprehensive income | | 8,009 | – |
| | | <hr/> | <hr/> |
| | | 8,009 | – |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 204 | – |
| | | <hr/> | <hr/> |
| | | 204 | – |
| | | <hr/> | <hr/> |
| Other comprehensive income for the year | | 8,213 | – |
| | | <hr/> | <hr/> |
| Total comprehensive income for the year | | 34,317 | 30,307 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 24,271 | 27,075 |
| Non-controlling interests | | 1,833 | 3,232 |
| | | <hr/> | <hr/> |
| | | 26,104 | 30,307 |
| | | <hr/> <hr/> | <hr/> <hr/> |

| | <i>Note</i> | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------------|--------------------------------|------------------|
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 32,484 | 27,075 |
| Non-controlling interests | | 1,833 | 3,232 |
| | | <u>34,317</u> | <u>30,307</u> |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 9 | <u>2.21</u> | <u>2.65</u> |

Consolidated Statement of Financial Position

As at 31 March 2019

| | <i>Notes</i> | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 41,535 | 41,486 |
| Interests in associates | | – | – |
| Financial assets at fair value through other comprehensive income | | 50,360 | – |
| Prepayments | | 10,806 | 7,084 |
| | | 102,701 | 48,570 |
| Current assets | | | |
| Inventories | | – | 2,880 |
| Amounts due from customers for contract work | | – | 65,329 |
| Trade and other receivables | <i>10</i> | 252,323 | 249,377 |
| Amounts due from other partners of joint operations | | 2 | 3 |
| Contract assets | | 129,024 | – |
| Pledged bank deposits | | 43,745 | 11,345 |
| Bank balances and cash | | 112,742 | 170,455 |
| | | 537,836 | 499,389 |
| Current liabilities | | | |
| Amounts due to customers for contract work | | – | 25,751 |
| Contract liabilities | | 11,537 | – |
| Trade and other payables | <i>11</i> | 125,129 | 155,591 |
| Bank borrowings | | 126,482 | 21,135 |
| Income tax payable | | 4,238 | 2,082 |
| | | 267,386 | 204,559 |
| Net current assets | | 270,450 | 294,830 |
| Total assets less current liabilities | | 373,151 | 343,400 |
| Non-current liability | | | |
| Deferred tax liabilities | | 464 | 268 |
| NET ASSETS | | 372,687 | 343,132 |

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Capital and Reserves | | |
| Share capital | 11,000 | 11,000 |
| Reserves | 360,401 | 329,379 |
| | <hr/> | <hr/> |
| Equity attributable to owners of the Company | 371,401 | 340,379 |
| Non-controlling interests | 1,286 | 2,753 |
| | <hr/> | <hr/> |
| TOTAL EQUITY | 372,687 | 343,132 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

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 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. The Group also engaged in building works in the Southeast Asia.

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.

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.

| | |
|-----------------------------|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and related Amendments |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of Annual Improvements to HKFRSs 2014 - 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC)-Interpretation 22 | Foreign Currency Transactions and Advance Consideration |

Except as described below, 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.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 April 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The impact of transition to HKFRS 15 was insignificant on the retained earnings at 1 April 2018.

The amount of adjustment on relevant financial statement line item of the consolidated statement of financial position at 1 April 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

| | | Carrying amount previously reported at 31 March 2018 | Impact on adoption of HKFRS 15 – Reclassification | Carrying amount as restated before adoption of HKFRS 9 at 1 April 2018 |
|--------------------------------|-------------|--|--|---|
| | Notes | HK\$'000 | HK\$'000 | HK\$'000 |
| Current assets | | | | |
| Amounts due from customers for | | | | |
| contract work | <i>a</i> | 65,329 | (65,329) | – |
| Trade and other receivables | <i>b</i> | 249,377 | (29,550) | 219,827 |
| Contract assets | <i>a, b</i> | – | 94,879 | 94,879 |
| Current liabilities | | | | |
| Amounts due to customers for | | | | |
| contract work | <i>c</i> | 25,751 | (25,751) | – |
| Contract liabilities | <i>c</i> | | 25,751 | 25,751 |

Notes:

- (a) In relation to construction contracts previously accounted for under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Unbilled revenue of approximately HK\$65,329,000 arising from the construction contracts were reclassified from amounts due from customers for contract work to contract assets as at 1 April 2018.
- (b) At the date of initial application, retention receivables of approximately HK\$29,550,000, arising from the construction contracts are conditional on the satisfaction of the service quality by the customers over the period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets as at 1 April 2018.

- (c) The amounts due to customers for contract work of approximately HK\$25,751,000 were reclassified to contract liabilities as at 1 April 2018. Contract liabilities under HKFRS 15 represented the Group's obligations to transfer to the customers of the services to which the assets relate and the Group has received consideration from the customers.

Estimated impact on the amounts reported in respect of the year ended 31 March 2019 as a result of the adoption of HKFRS 15 on 1 April 2018

The following table summarises the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 March 2019 and the consolidated statement of cash flows for the year ended 31 March 2019 by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included.

| | As reported <i>HK\$'000</i> | Impact of adopting HKFRS 15 <i>HK\$'000</i> | Amount without adoption of HKFRS 15 <i>HK\$'000</i> |
|--|---------------------------------------|---|---|
| Current assets | | | |
| Amounts due from customers for contract work | – | 100,047 | 100,047 |
| Trade and other receivables | 252,323 | 28,977 | 281,300 |
| Contract assets | 129,024 | (129,024) | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Current liabilities | | | |
| Amounts due to customers for contract work | – | 11,537 | 11,537 |
| Contract liabilities | 11,537 | (11,537) | – |
| | <u> </u> | <u> </u> | <u> </u> |

Impact on the consolidated statement of cash flows for the year ended 31 March 2019:

| | As reported <i>HK\$'000</i> | Impact of adopting HKFRS 15 <i>HK\$'000</i> | Amount without adoption of HKFRS 15 <i>HK\$'000</i> |
|---|---------------------------------------|---|---|
| Increase in amounts due from customers for contract work | – | (34,718) | (34,718) |
| Decrease in trade and other receivables | (37,881) | 573 | (37,308) |
| Increase in contract assets | (34,145) | 34,145 | – |
| Increase in contract liabilities | (14,214) | 14,214 | – |
| Increase in amounts due to customers for contract work | – | (14,214) | (14,214) |
| | <u> </u> | <u> </u> | <u> </u> |

The estimated impact on the amount reported in the current year in respect of the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are results of reclassifications explained in notes (a) to (c) above for describing the adjustments made to the consolidated statement of financial position at 1 April 2018 upon adoption of HKFRS 15.

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 April 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets on initial application are recognised in retained earnings and other components of equity as at 1 April 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail below.

Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

Impairment under expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

An additional impairment recognised under ECL model increased the impairment allowances by HK\$1,462,000 at 1 April 2018. As a result, the adjustment to the opening retained earnings at 1 April 2018 amounted to HK\$1,462,000.

Summary of effects arising from initial application of HKFRS 9

The table below summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKRS 9 on 1 April 2018

| | Carrying amount at 31 March 2018 <i>HK\$'000</i> | Adoption of HKFRS 9 – Remeasurement <i>HK\$'000</i> | Carrying amount at 1 April 2018 <i>HK\$'000</i> |
|--|---|--|--|
| Financial assets | | | |
| – Trade and other receivables and retention money receivables | 240,494 | (1,462) | 239,032 |

The following table summarises the impact of transition to HKFRS 9 on retained earnings reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) at 31 March 2018 to the new impairment allowance measured in accordance with HKFRS 9 (under ECL model) at 1 April 2018:

| | Retained earnings <i>HK\$'000</i> |
|--|---|
| Closing balance as 31 March 2018 | 80,426 |
| Remeasurement: | |
| Loss allowance under ECL model | <u>(1,462)</u> |
| Total change as a result of adoption of HKFRS9 on 1 April 2018 | <u><u>78,964</u></u> |

3. 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 and Southeast Asia. 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 and Thailand, based on the location of the customers. Information about the Group's non-current assets, other than financial assets at fair value through other comprehensive income is presented based on the geographical location of the assets.

| | 2019 | 2018 |
|-----------------------------------|-----------------------|---------------------------|
| | HK\$'000 | HK\$'000 |
| Revenue from external customers | | |
| Hong Kong (city of domicile) | 615,239 | 637,250 |
| Thailand | 116,600 | – |
| | <u>731,839</u> | <u>637,250</u> |
| | | |
| | | Non-current Assets |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| – Hong Kong (country of domicile) | 52,341 | 48,570 |
| | <u>52,341</u> | <u>48,570</u> |

Information about major customers

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

| | 2019 | 2018 |
|--------------|-----------------------|------------------|
| | HK\$'000 | HK\$'000 |
| – Customer A | 162,474 | 141,043 |
| – Customer B | 277,867 | 108,456 |
| – Customer C | 106,210 | 345,913 |
| – Customer D | 116,600 | N/A ¹ |
| | <u>116,600</u> | <u>N/A</u> |

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

4. REVENUE, OTHER INCOME AND OTHER GAIN

Revenue

During the year, the Group's revenue represents amount received and receivable from contract works performed.

| | 2019 <i>HK\$'000</i> | 2018* <i>HK\$'000</i> |
|--|--------------------------------|--------------------------|
| Revenue from contracts with customers within the scope of HKFRS 15 for the year ended 31 March 2019: | | |

Revenue by services lines:

| | | |
|--|-----------------------|----------------|
| – Provision of construction and maintenance works on civil engineering contracts, recognised over time | <u>731,839</u> | <u>637,250</u> |
|--|-----------------------|----------------|

* The amounts for the year ended 31 March 2018 were recognised under HKAS 11 and related interpretation.

Other income and other gain

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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Other income | | |
| Bank interest income | 268 | 261 |
| Other interest Income | 1,970 | – |
| Consultancy fee income | – | 310 |
| Sundry income | <u>1,066</u> | <u>1,644</u> |
| | <u>3,304</u> | <u>2,215</u> |
| Other gain | | |
| Gain on disposal of property, plant and equipment | <u>47</u> | <u>1,219</u> |

5. FINANCE COSTS

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|-------------------------|--------------------------------|-------------------------|
| Interests on bank loans | <u>3,888</u> | <u>2,707</u> |

6. INCOME TAX EXPENSES

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|---------------------------------|--------------------------------|-------------------------|
| Current tax: | | |
| Hong Kong | 4,897 | 4,099 |
| Thailand | 1,518 | – |
| | 6,415 | 4,099 |
| Over provision in prior years: | | |
| Hong Kong | (34) | – |
| Deferred tax | | |
| Current year | 196 | 262 |
| Income tax expense for the year | 6,577 | 4,361 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the year ended 31 March 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of others Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the ended 31 March 2018, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

The Corporate Income Tax in Thailand is calculated at 20% of assessable profit during year ended 31 March 2019.

7. PROFIT FOR THE YEAR

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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Auditor’s remuneration | 1,100 | 980 |
| Depreciation | 4,917 | 4,865 |
| Exchange loss | 1,509 | – |
| Operating lease rentals in respect of | | |
| – Leasehold land and buildings | 2,502 | 5,685 |
| – Plant and equipment | 141 | 461 |
| Emoluments of directors and chief executive | 3,776 | 4,686 |
| Salaries, wages and other benefits (excluding directors’ emoluments) | 88,351 | 84,800 |
| Retirement benefits scheme contributions (excluding directors) | 2,709 | 3,162 |
| Total staff costs | 94,836 | 92,648 |

8. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

9. 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

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Earnings for the purpose of basic earnings per share | <u><u>24,271</u></u> | <u><u>27,075</u></u> |

Number of shares

| | 2019 <i>'000</i> | 2018 <i>'000</i> |
|--|----------------------------|-------------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u><u>1,100,000</u></u> | <u><u>1,020,219</u></u> |

Since there were no potential dilutive shares in issue during the years ended 31 March 2019 and 2018, basic and diluted earnings per share are the same for both years.

10. TRADE AND OTHER RECEIVABLES

| | As 31 March 2019 <i>HK\$'000</i> | At 1 April 2018 <i>HK\$'000</i> | At 31 March 2018 <i>HK\$'000</i> |
|--|--|---------------------------------------|--|
| Trade receivables | <u>35,567</u> | <u>51,777</u> | <u>51,777</u> |
| Retention money receivables | – | – | 29,570 |
| Less: allowance for impairment of retention money receivables | <u>–</u> | <u>–</u> | <u>(20)</u> |
| Net retention money receivables | <u>–</u> | <u>–</u> | <u>29,550</u> |
| Performance deposit | 29,582 | – | – |
| Other receivables in relation to a transferred construction project | 111,043 | – | – |
| Other receivables | 7,756 | 3,410 | 3,410 |
| Receivables from subcontractors | 62,028 | 70,846 | 70,846 |
| Consideration receivables of sale of securities investments | – | 86,006 | 86,006 |
| Less: allowance for impairment of other receivables | <u>(2,557)</u> | <u>(2,557)</u> | <u>(1,095)</u> |
| Net other receivable | <u>207,852</u> | <u>157,705</u> | <u>159,167</u> |
| Prepayments and deposits | <u>19,710</u> | <u>15,967</u> | <u>15,967</u> |
| Total trade and other receivables | 263,129 | 225,449 | 256,461 |
| Less: Prepayments classified under non-current assets | <u>(10,806)</u> | <u>(7,084)</u> | <u>(7,084)</u> |
| | <u><u>252,323</u></u> | <u><u>218,365</u></u> | <u><u>249,377</u></u> |

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.

| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Within 30 days | 23,216 | 48,109 |
| More than 30 days but within 90 days | 2,034 | 3,369 |
| More than 90 days but within 180 days | 9,448 | 13 |
| More than 180 days but within 365 days | <u>869</u> | <u>286</u> |
| | <u><u>35,567</u></u> | <u><u>51,777</u></u> |

11. TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|-----------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 73,143 | 61,237 |
| Retention payables | 39,692 | 44,242 |
| Amount due to ex-director | – | 25,000 |
| Other payables and accruals | 12,294 | 25,112 |
| | <u>125,129</u> | <u>155,591</u> |

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

| | 2019 | 2018 |
|--------------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 47,356 | 43,377 |
| More than 30 days but within 90 days | 5,873 | 8,734 |
| More than 90 days | 19,914 | 9,126 |
| | <u>73,143</u> | <u>61,237</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.

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”); (iv) building works as a contractor in Hong Kong; and overseas construction projects.

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 2019:

| 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 | | | | | | |
| KL/2012/03 | Civil Engineering and Development Department | Kai Tak Development – Stage 4 infrastructure at former north apron area | 2/9/2017 ⁽¹⁾ | 960.0 | 897.8 | 62.2 |
| GE/2013/06 | Civil Engineering and Development Department | 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/2013/16 | Civil Engineering and Development Department | 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 ⁽¹⁾ | 241.3 | 225.3 | 16.0 |
| CV/2015/01 | Civil Engineering and Development Department | Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2 | 8/11/2019 | 254.1 | 187.4 | 66.7 |
| 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 ⁽¹⁾ | 132.4 | 123.3 | 9.1 |

| 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 |
|-----------------|--|--|--|---|---|--|
| NE/2016/05 | Civil Engineering and Development Department | Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1 | 30/3/2020 | 299.0 | 94.4 | 204.6 |
| GE/2018/03 | Civil Engineering and Development Department | Landslip Prevention and Mitigation Programme, 2012, Package C, Landslip Prevention and Mitigation Works in Lantau and Hong Kong Island | 25/12/2020 | 113.9 | 15.5 | 98.4 |
| P20000489 | Architectural Services Department | Refurbishment of Shek Kwu Lung Village Public Toilet | 23/5/2019 | 1.7 | 0.5 | 1.2 |
| DC/2018/10 | Drainage Services Department | Condition Survey and Rehabilitation of Underground Sewers and Stormwater Drains – Stage 1 | 13/4/2022 | 158.9 | 0.5 | 158.4 |
| 20170102 | Housing Authority | Road Improvement Works at Ma On Shan, Sha Tin | 15/12/2021 | 233.9 | 0.9 | 233.0 |
| 2018-JA-JPCT-01 | Rungrueangkit Construction Engineering Co. Ltd (formerly known as JPC Group (Thailand) Co. Ltd.) | JW Marriott and Courtyard Hotel in Chalong Bay, Phuket, Thailand | 30/11/2018 ⁽³⁾ | 116.6 | 116.6 | – |
| Total | | | | | <u>1,782.9</u> | <u>849.6</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

(3): On 29 November 2018, the Group entered into a tri-party agreement in relation to the resort hotel project in Phuket, Thailand, pursuant to which it was agreed that, due to the revision to certain designs of the hotel required by the hotel owner, the Group agreed that the Group and the customer (namely Rungrueangkit Construction Engineering Co. Ltd) (the “RCE”) agreed that the Group shall cease to perform the contractual obligations or bear the related legal liabilities under the original outsource hotel construction project contract. RCE will pay the value of works completed by the Group, the project deposit together with the construction advance payments and related interests to the Group after the completion of the hotel construction.

Tendered by the Group's joint venture or joint operations

| Contract number | Customer | Particular of contract | Original/extended date for completion | Estimated Contract sum <i>HK\$ million</i> | Estimated Total revenue to be received by our Group <i>HK\$ million</i> | Cumulative Amount of revenue recognised by our Group <i>HK\$ million</i> | Further revenue expected to be recognised by Our Group <i>HK\$ million</i> |
|-----------------|--|---|---------------------------------------|---|--|---|---|
| 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 | 99.5 | 10.3 |
| HY/2013/19 | HyD | Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section | 27/12/2019 | 585.0 | 298.4 | 242.9 | 55.5 |
| HY/2014/14 | HyD | Retrofitting of Noise Barriers on Tuen Mun Road – Fu Tei Section | 27/6/2020 | 462.8 | 236.0 | 162.9 | 73.1 |
| CV/2015/08 | Civil Engineering and Development Department | Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3 | 28/1/2020 | 158.5 | 103.0 | 67.3 | 35.7 |
| 1/WSD/17(L) | WSD | Term contract for Waterworks District L – Lantau and the Outlying Islands | 31/8/2020 | 198.1 | 101.0 | 59.1 | 41.9 |
| DC/2017/04 | Drainage Services Department | Drainage Maintenance and Construction in Hong Kong Island and Islands Districts (2017-2021) | 22/9/2021 | 308.0 | 157.1 | 28.2 | 128.9 |
| Total | | | | | <u>1,005.3</u> | <u>659.9</u> | <u>345.4</u> |

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Year amounted to approximately HK\$731.84 million (2018: approximately HK\$637.30 million), represented an increase of 14.8% or approximately HK\$94.54 million as compared to the year ended 31 March 2018.

| | Year ended 31 March | |
|--|---------------------|----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Waterworks | 107,007 | 108,456 |
| Road works and drainage and site formation works | 480,369 | 447,452 |
| LPM Services | 27,863 | 81,342 |
| Hotel construction project in Phuket, Thailand | 116,600 | – |
| | <u>731,839</u> | <u>637,250</u> |

Revenue in the waterworks engineering services remained stable as compared to last year.

During the Reporting Year, revenue in the road works and drainage category increased by 7.4% to approximately HK\$480.37 million (2018: approximately HK\$447.45 million), primarily due to the contribution of approximately HK\$289.24 million in revenue from the contracts HY/2013/19, HY/2014/14, NE/2016/05 and CV/2015/01 for the year ended 31 March 2019 (2018: approximately HK\$189.85 million). There was also an additional revenue contribution of approximately HK\$28.16 million from the new contract DC/2017/04 for the year ended 31 March 2019. However, certain contracts of the Group, mainly included DC/2012/05, KL/2012/03, NE/2016/04 and HY/2014/12, have substantially completed during the Reporting Year and contributed a revenue in aggregate of approximately HK\$94.95 million for the year ended 31 March 2019 (2018: approximately HK\$194.26 million), which have offset most of the increase.

Revenue in the LPM works for the Reporting Year decreased by 65.7% to approximately HK\$27.86 million (2018: approximately HK\$81.34 million), mainly due to the project GE/2013/16 has already completed during the last year, which has contributed a revenue of approximately HK\$61.10 million to the Group for the last year.

Our first overseas project, the hotel construction project in Phuket, Thailand, involves construction of the JW Marriott and Courtyard Hotel in Phuket, Thailand. The construction works in which the Group participated has substantially completed during the Reporting Year, and contributed a revenue of approximately HK\$116.60 million to the Group.

Cost of services

Cost of services increased from approximately HK\$564.00 million for the year ended 31 March 2018 to approximately HK\$662.05 million for the Reporting Year, representing an increase of 17.4%. The increase was mainly attributable to the recognition of cost of the hotel construction in Phuket, Thailand of approximately HK\$111.05 million 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 | |
|--|---------------------|-------|
| | 2019 | 2018 |
| Waterworks | 7.8% | 19.6% |
| Road works and drainage and site formation works | 12.0% | 3.2% |
| LPM Services | 0.1% | 62.1% |
| Hotel construction project in Phuket, Thailand | 5% | – |

The gross profit margin for waterworks engineering service dropped to 7.8% for the Reporting Year (2018: 19.6%). Such decrease was mainly due to the substantial completion and additional payments received for the contract 10/WSD/10 during the last reporting year, which resulted in a significant increase in gross profit margin for the last year.

The gross profit margin for road works and drainage and site formation works service increased to 12.0% for the Reporting Year (2018: 3.2%). Such increase was mainly attributable to the substantial completion and additional payments received for the contract KL/2012/03 during the Reporting Year, which contributed to the Group a comparatively higher gross profit margin for the year ended 31 March 2019.

The gross profit margin for the LPM Service decreased significantly to 0.1% for the Reporting Year (2018: 62.1%). Such decrease was mainly due to the one-off recognition of the payments received as revenue upon completion of the projects GE/2010/21, GE/2012/11, GE/2013/06 and GE/2013/17 in the last year, while the project GE/2013/16 has substantially completed and additional payments has been received in the Reporting Year.

Other income and other gain

Other income and other gain for the Reporting Year amounted to approximately HK\$3.35 million (2018: approximately HK\$3.40 million). Gain arisen from disposal of motor vehicles decreased by approximately HK\$1.17 million as compared to last year, while other sundry income reduced by approximately HK\$0.60 million as compared to last year. Nevertheless, interest income from receivables arisen from hotel construction project of the Group of HK\$1.97 million has significantly offset the aforementioned decrease in the other income.

Administrative expenses

Administrative expenses for the Reporting Year amounted to approximately HK\$36.58 million (2018: approximately HK\$31.30 million), representing an increase of 23.1%. The increase was mainly due to the increase in staff cost of approximately HK\$1.36 million and increase in professional fees of approximately HK\$1.61 million during the Reporting Year.

Finance costs

Finance costs for the Reporting Year amounted to approximately HK\$3.89 million (2018: approximately HK\$2.70 million), which was mainly attributable to the increase in bank borrowings during the Reporting Year.

Income tax expenses

Income tax expenses for the Reporting Year amounted to approximately HK\$6.58 million (2018: approximately HK\$4.36 million). The increase in income tax expenses was mainly attributable to the tax for the Thailand hotel construction project, which amounted to HK\$1.52 million.

Profit and total comprehensive income

Profit and total comprehensive income for the Reporting Year amounted to approximately HK\$34.32 million (2018: approximately HK\$30.30 million). The increase was mainly attributable to the share of loss of associates of HK\$3.00 million and impairment loss on amounts due from associates of HK\$5.00 million for the last year, while there was no such loss and impairment for the Reporting Year. Besides, the Group acquired common shares of a company listed on the Philippine Stock Exchange, Inc. during the current year, which were recognised as financial assets at fair value through other comprehensive income. Such financial assets also contributed a gain of approximately HK\$8.00 million to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2019, the Group had net current assets of approximately HK\$270.45 million (2018: approximately HK\$294.80 million), representing a decrease of approximately HK\$24.35 million, which was mainly attributable to the increase in bank borrowings.

The current ratio of the Group as at 31 March 2019 was approximately 2.01 times (2018: approximately 2.44 times), which remained stable as compared to last year.

The cash and cash equivalents for the Reporting Year amounted to approximately HK\$112.74 million (2018: approximately HK\$170.50 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 and pledged bank deposits) divided by total capital plus net debt, was approximately 22.2% as at 31 March 2019 (2018: approximately 5.7%). The increase was mainly due to the bank borrowings of the Group increased from HK\$21.14 million to HK\$126.48 million as at 31 March 2019.

CAPITAL STRUCTURE

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 2019, the Company's issued share capital was HK\$11.00 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\$2.36 million as at 31 March 2019 (2018: approximately HK\$1.80 million). As at 31 March 2019, the Group did not have any significant capital commitments (2018: 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 2019 (2018: 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 92% of which was derived from three major customers as at 31 March 2019 (2018: 98%). 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 2019, the Group pledged bank deposits amounted to approximately HK\$43.75 million (2018: approximately HK\$11.30 million) as securities for banking facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2019, the Group employed a total of 397 employees, comprising 281 staff employed on a full-time basis and 116 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$94.84 million for the Reporting Year (2018: approximately HK\$92.00 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 2019, 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

In the coming three years, the Group shall actively participate in the construction of infrastructure projects of the Hong Kong Government. We shall also reduce costs and improve efficiency by introducing and enhancing artificial intelligence project management and mechanised construction abilities, so as to strengthen our market competitiveness. Meanwhile, we shall grasp every development opportunities brought up by the "Belt and Road", and make use of the advantages of the background of the Group's shareholders and the advantages of financing in the international capital markets as a listed company, with an aim of implementing the development strategy of expanding into overseas markets and eventually achieving our goal of business diversification and sustainable development.

EVENT AFTER REPORTING PERIOD

On 3 June 2019, the Group entered into the subscription agreement with a subscriber Splendid Horizon Limited (the "Subscriber") pursuant to which the subscriber has conditionally agreed to Subscriber for, and the Company has conditionally agreed to allot and issue an aggregate of 220,000,000 subscription shares at the subscription price at HK\$0.485 per subscription share. Details of such are set out in the Company's announcements on 3 June 2019 and 4 June 2019.

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 2019.

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.

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 2019.

Publication of 2019 Annual Report

The 2019 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, 28 June 2019

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.