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均安控股

Kwan On Holdings

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 2019**

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 months ended 30 September 2019 (the “**Reporting Period**”), together with comparative figures for the corresponding preceding period, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 September 2019

		Six months ended 30 September	
	<i>Notes</i>	2019	2018
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	5	243,032	207,275
Cost of services		(218,413)	(183,115)
Gross profit		24,619	24,160
Other income		3,439	464
Other gains and losses		5	(67)
Administrative expenses		(18,696)	(16,967)
Finance costs	6	(3,722)	(1,436)
Profit before tax		5,645	6,154
Income tax expense		(611)	(774)

		Six months ended	
		30 September	
	<i>Notes</i>	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit for the period	7	5,034	5,380
Other comprehensive (expense)/income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income		<u>(9,401)</u>	<u>23,981</u>
		<u>(9,401)</u>	<u>23,981</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>793</u>	<u>–</u>
		<u>793</u>	<u>–</u>
Other comprehensive (expense)/income for the period		<u>(8,608)</u>	<u>23,981</u>
Total comprehensive (expense)/income for the period		<u>(3,574)</u>	<u>29,361</u>
Profit for the year attributable to:			
Owners of the Company		4,821	5,672
Non-controlling interests		<u>213</u>	<u>(292)</u>
		<u>5,034</u>	<u>5,380</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(3,787)	29,653
Non-controlling interests		<u>213</u>	<u>(292)</u>
		<u>(3,574)</u>	<u>29,361</u>
Earnings per share			
– Basic and diluted (HK cents)	8	<u>0.40</u>	<u>0.52</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019 <i>HK\$'000</i> (Unaudited)	31 March 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	40,460	41,535
Right-of-use assets		5,527	–
Financial assets at fair value through other comprehensive income	10	41,761	50,360
Prepayments		<u>11,038</u>	<u>10,806</u>
		<u>98,786</u>	<u>102,701</u>
Current assets			
Inventories	11	115,087	–
Trade and other receivables	12	343,867	252,323
Amounts due from other partners of joint operations		–	2
Contract assets		172,207	129,024
Pledged bank deposits		51,345	43,745
Bank balances and cash		<u>100,012</u>	<u>112,742</u>
		<u>782,518</u>	<u>537,836</u>
Current liabilities			
Contract liabilities		6,526	11,537
Lease liabilities		3,823	–
Trade and other payables	13	156,237	125,129
Bank borrowings		129,835	126,482
Income tax payable		<u>4,313</u>	<u>4,238</u>
		<u>300,734</u>	<u>267,386</u>
Net current assets		<u>481,784</u>	<u>270,450</u>
Total assets less current liabilities		<u>580,570</u>	<u>373,151</u>

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Non-current liability		
Lease liabilities	1,705	–
Bank borrowings	82,555	–
Deferred tax liabilities	414	464
	<u>84,674</u>	<u>464</u>
NET ASSETS	<u>495,896</u>	<u>372,687</u>
Capital and Reserves		
Share capital	13,200	11,000
Reserves	459,825	360,401
Equity attributable to owners of the Company	473,025	371,401
Non-controlling interests	22,871	1,286
TOTAL EQUITY	<u>495,896</u>	<u>372,687</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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. The Group also engaged in building works and property development in Southeast Asia.

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 Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

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.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2019.

APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“**HKAS 17**”), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties and machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. The application of new definition of a lease has no material impact to the condensed consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term end within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 April 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any restoration and reinstatement costs by applying HKFRS 16 C8 (b) (ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.36%.

	<i>HK\$'000</i>
Operating lease commitments disclosed as at 31 March 2019	<u>2,361</u>
Lease liabilities discounted at relevant incremental borrowing rates and relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	<u><u>2,168</u></u>
Current	1,376
Non-current	<u>792</u>
	<u><u>2,168</u></u>

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	2,168
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By class:	
Buildings	2,168

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included

	Carrying amounts previously reported at 31 March 2019	Impact on adoption of HKFRS 16	Carrying amounts under HKFRS 16 at 1 April 2019
Non-current Assets			
Right-of-use assets	–	2,168	2,168
Current Liabilities			
Lease liabilities	–	1,376	1,376
Non-current Liabilities			
Lease liabilities	–	792	792
	<u>–</u>	<u>792</u>	<u>792</u>

4. SEGMENT INFORMATION

Operating segments

The Group was principally engaged in the property development, 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 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 other than financial assets at fair value through other comprehensive income were in Hong Kong. Therefore, no geographical information is presented.

5. REVENUE

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

	Six months ended	
	30 September	
	2019	2018*
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15 for the period ended 30 September 2019:		

Revenue by services lines:

– Provision of construction and maintenance works on civil engineering contracts, recognised over time	243,032	207,275
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- The amounts for the period ended 30 September 2018 were recognised under HKAS 11 and related interpretation

6. FINANCE COSTS

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowing	4,199	1,436
Lease liabilities	22	–
	4,221	1,436
Less: Amount capitalised in inventories	(499)	–
	3,722	1,436

Borrowing costs capitalised are interest expenses incurred for financing the development of qualifying assets specifically. The capitalisation rate of borrowings is 7.5% (for the six months ended 30 September 2018: Nil).

7. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	2,419	1,970
Depreciation of right-of-use assets	1,246	–
	<u>3,665</u>	<u>1,970</u>

8. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings purpose	<u>4,821</u>	<u>5,672</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,209,392</u>	<u>1,100,000</u>

No diluted earnings per share is presented as there were no dilative potential ordinary shares during both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment amounting to approximately HK\$1,344,000 (2018 Interim: approximately HK\$4,200,000).

10. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Equity investments designated at fair value through other comprehensive income Common shares listed on The Philippine Stock Exchange., Inc., at market value	41,761	50,360

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 during the year ended 31 March 2019, IRC had increased its number of issued common shares to 6,061,578,964. Accordingly the equity interest of the Group was immediately diluted. As at 30 September 2019, the Group held the interest of IRC was approximately 3.3%.

11. INVENTORIES

Included in the inventories are property under development for sale on a freehold land located in the Republic of the Philippines. There is no write-down of inventories to net realisable value nor the reversal of such a write-down during the period (six months ended 30 September 2018: Nil).

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate direct cost of development, direct tax and borrowing costs capitalized.

12. TRADE AND OTHER RECEIVABLES

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables (<i>Note (a)</i>)	39,718	35,567
Performance deposit (<i>Note (b)</i>)	29,925	29,582
Other receivables in relation to a transferred construction project (<i>Note (c)</i>)	127,294	111,043
Other receivables	27,751	7,756
Receivable from subcontractors	57,688	62,028
Prepayment for direct development cost of property under development for sale	49,918	–
Prepayments and deposits	25,168	19,710
Less: allowance for impairment of other receivable	(2,557)	(2,557)
	354,905	263,129
Less: Prepayments classified under non-current assets	(11,038)	(10,806)
	343,867	252,323

- (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:

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	25,866	23,216
More than 30 days but within 90 days	1,296	2,034
More than 90 days but within 180 days	1,920	9,448
More than 180 days but within 365 days	10,636	869
	39,718	35,567

- (b) the amount represented the performance deposit amounted to PHP198,545,576 (equivalent to approximately HK\$29,925,000) paid to the land owner for construction project in Philippines. The balance was interest free, repayable upon the completion of construction project which is expected to be within one year from the end of the reporting period, secured by the pledge of entire equity interests in the land owner and guaranteed by a substantial shareholder of the Company.
- (c) During the year ended 31 March 2019, the Group entered into a subcontracting agreement with an independent overseas main contractor for a construction project in Thailand and made performance deposit and advanced payments in aggregate of THB454,588,793 (equivalent to approximately HK\$122,202,000) (the “**Deposit**”). Following certain changes in the development progress, the Group, after completing partial works, transferred the subcontracting agreement to an independent third party company registered in Thailand (the “**Successor**”). Pursuant to the tripartite agreement entered between the Group, the main contractor and the Successor, all the Group’s obligations and liabilities under the subcontracting agreement were transferred to the Successor on 29 November 2018. As stipulated in the tripartite agreement, the main contractor will return the deposit together with an interest at 5% per annum to the Group on completion of the project, which is expected to be within one year from the end of the reporting period. The accumulated interest receivable as at 30 September 2019 was approximately THB19,888,000 (equivalent to approximately HK\$5,092,000). The Deposit and the interest thereon are guaranteed by a substantial shareholder of the Company, who is also the beneficial owner of the project
- (d) Included in other receivables of the Group is amount due from the non-controlling interest of a subsidiary, Anncore Properties Group Corp. amounting to HK\$21,331,000 as at 30 September 2019 (31 March 2019: Nil).

13. TRADE AND OTHER PAYABLES

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Trade payables (<i>Note (a)</i>)	67,752	73,143
Retention payables (<i>Note (b)</i>)	44,436	39,692
Retention payable and direct tax payables in relation to a property under development for sale	27,569	–
Other payables and accruals	16,480	12,294
	<u>156,237</u>	<u>125,129</u>

- (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:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Within 30 days	17,522	47,356
More than 30 days but within 90 days	17,659	5,873
More than 90 days	32,571	19,914
	<u>67,752</u>	<u>73,143</u>

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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; 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.

As at 30 September 2019, the Group had 16 contracts in progress, including contracts awarded to KOCCL and to the Group’s joint venture and joint operations. There was one new contract awarded with estimated contract sum of approximately HK\$118.9 million during the Reporting Period. The estimated outstanding contract sum as at 30 September 2019 amounted to approximately HK\$1.0 billion (31 March 2018: HK\$1.2 billion).

During the Reporting Period, the Group acquired two contiguous parcels of land with an aggregate area of approximately 3,312 square meters in the Republic of the Philippines. The Group intends to develop the land into a large-scale residential development which is a 61 storey residential building (the “Building”). The construction work is expected to start in December 2019 and completed by December 2023. The Group intends to sell out the residential units of the Building for income generated from sale of properties upon completion of the construction of the Building. (details refer to the Company’s announcements dated 27 September 2019 and 23 September 2019.)

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\$243.0 million, representing an increase of approximately 17.3% as compared to the six months ended 30 September 2018 (“**2018 Interim**”) of approximately HK\$207.3 million. The increase in the revenue was mainly attributable to the increase in contributions from Project. KL201203, due to recognition of job variations and claims in the stage of substantial completion of the project as revenue.

Cost of services

Cost of services increased to approximately HK\$218.4 million for the Reporting Period (2018 Interim: HK\$183.1 million), representing an increase of approximately 19.3% as a result of (i) the prolonged completion of the Group’s major projects, which led to the overrun of the Group’s project fixed cost. (ii) the construction cost including subcontracting fee showing an increasing trend.

Gross profit

Gross profit for the Reporting Period was approximately HK\$24.6 million (2018 Interim: HK\$24.2 million) while gross profit margin for the Reporting Period was approximately 10.1% (2018 Interim: 11.7%). The decrease in the gross profit margin was the result of keen competition in the market which drove down contract prices and profit margin while the construction cost including subcontracting fee showing an increasing trend. The prolonged completion of the Group’s major projects had led to an increase of the Group’s project fixed cost incurred in the Reporting Period.

Other income

Other income for the Reporting Period amounted to approximately HK\$3.4 million (2018 Interim: HK\$0.5 million). Such increase was mainly due to the interest income arisen from the receivable in relation to a transferred construction project in Thailand.

Administrative expenses

Administrative expenses for the Reporting Period were approximately HK\$18.7 million (2018 Interim: HK\$17.0 million), representing an increase by 10.2%. The increase was mainly attributable to the increase in staff costs incurred in the headquarters and professional fee for oversea projects during the Reporting Period.

Finance costs

Finance costs for the Reporting Period amounted to approximately HK\$3.7 million (2018 Interim: HK\$1.4 million). The increase of finance costs was mainly due to the increase of outstanding bank loans.

Income tax expense

Income tax expense decreased to approximately HK\$0.6 million (2018 Interim: HK\$0.8 million) for the Reporting Period. The effective tax rate was approximately 10.8% during the Reporting Period, (2018 Interim: 12.6%).

Profit and total comprehensive income

As a results of the foregoing, profit for the Reporting Period amounted to approximately HK\$5.0 million (2018 Interim: HK\$5.4 million).

The Group recorded a fair value loss of financial asset through other comprehensive income of approximately HK\$9.4 million (2018 Interim: fair value gain of HK\$24.0 million). This loss represented the changes in the quoted market price of 200,000,000 common shares in IRC Properties Inc. 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 2019, the Group had bank and cash of approximately HK\$100.0 million (31 March 2019: HK\$112.7 million), while outstanding borrowings amounted to approximately HK\$212.4 million (31 March 2019: HK\$126.5 million). The change in bank and cash was mainly attributable to (i) the land cost and development cost for a property under development for sales in the Republic of the Philippines amounted to approximately HK\$87.0 million; (ii) cash outflow from net change in working capital amounted to approximately HK\$106.6 million; (iii) Cash inflow from issue of new shares amounted to approximately HK\$ 105.4 million; and (iv) Cash inflow from net increase of bank borrowing amounted to approximately HK\$85.9 million.

As at 30 September 2019, the Group had pledged bank deposits of approximately HK\$51.3 million (31 March 2019: HK\$43.7 million). The current ratio as at 30 September 2019 was approximately 2.60 times (31 March 2019: 2.01 times). Net current assets amounted to approximately HK\$481.8 million (31 March 2019: HK\$270.5 million). Gearing ratio, calculated based on net debt (including contract liabilities, lease liabilities, trade and other payables, bank borrowings less bank balances and cash and pledged bank deposit) divided by total capital plus net debt, was approximately 32.7% as at 30 September 2019 (31 March 2019: 22.3%).

The Group mainly operates in Hong Kong, Philippines and Thailand with most of the transactions originally denominated in the respective local currency. Foreign exchange risk arises when future commercial transactions or recognised financial assets or liabilities are denominated in a currency that is not the entity's functional currency. As at 30 September 2019, the Group is exposed to foreign exchange risk from various currencies, primarily with respect to Philippine peso (“**PHP**”) and Thai baht (“**THB**”).

Except for receivables in relation to a transferred construction project which is denominated in THB and property under development for sales and certain receivables denominated in PHP, which is approximately HK\$127.3 million, HK\$115.1 million and HK\$51.3 million respectively, the Group will not be exposed to any other significant exchange risk.

The Group manage its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. As at 30 September 2019, the Group did not enter into any foreign exchange contracts, currency swaps or other financial derivatives. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 30 September 2019, the Group did not have any capital commitments (31 March 2019: 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 2019 (31 March 2019: Nil).

CAPITAL STRUCTURE

Save for subscription of 220,000,000 new shares under general mandate on 2 July 2019 (details refer to the Company's announcement dated 2 July 2019, 4 June 2019 and 3 June 2019), there had been no change in the capital structure of the Group during the Reporting Period. As at 30 September 2019, the Company's issued share capital was HK\$13.2 million and the number of ordinary shares issued was 1,320,000,000 of HK\$0.01 each.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 September 2019, the Group had a total of 349 (31 March 2019: 397) employees, who include the 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.

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 2019.

PUBLICATION OF 2019 INTERIM REPORT

The 2019 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, 29 November 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.