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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2020**

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 2020 (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 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	4	599,912	731,839
Cost of sales		<u>(533,905)</u>	<u>(662,046)</u>
Gross profit		66,007	69,793
Other income	4	7,494	3,304
Other (loss)/gain	4	(15)	47
Administrative expenses		(46,787)	(36,575)
Share of profit of an associate		12	–
Finance costs	5	<u>(8,922)</u>	<u>(3,888)</u>
Profit before tax		17,789	32,681
Income tax expenses	6	<u>(3,218)</u>	<u>(6,577)</u>
Profit for the year	7	<u>14,571</u>	<u>26,104</u>
Other comprehensive 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>(30,776)</u>	<u>8,009</u>
		<u>(30,776)</u>	<u>8,009</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>3,036</u>	<u>204</u>
		<u>3,036</u>	<u>204</u>
Other comprehensive (expense)/income for the year		<u>(27,740)</u>	<u>8,213</u>
Total comprehensive (expense)/income for the year		<u>(13,169)</u>	<u>34,317</u>

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Profit for the year attributable to:			
Owners of the Company		16,223	24,271
Non-controlling interests		(1,652)	1,833
		<u>14,571</u>	<u>26,104</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(11,516)	32,484
Non-controlling interests		(1,653)	1,833
		<u>(13,169)</u>	<u>34,317</u>
Earnings per share			
Basic and diluted (HK cents)	9	<u>1.28</u>	<u>2.21</u>

Consolidated Statement of Financial Position

As at 31 March 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		45,265	41,535
Right-of-use assets		17,186	–
Interests in associates		36	–
Financial assets at fair value through other comprehensive income		20,578	50,360
Trade and other receivables	<i>10</i>	53,635	10,806
		136,700	102,701
Current assets			
Inventories	<i>11</i>	161,284	–
Trade and other receivables	<i>10</i>	181,103	229,613
Amount due from an associate		69,306	–
Amounts due from other partners of joint operations		3,184	15,576
Contract assets		222,950	136,160
Pledged bank deposits		43,745	43,745
Bank balances and cash		109,532	112,742
		791,104	537,836
Current liabilities			
Contract liabilities		21,298	11,537
Trade and other payables	<i>12</i>	103,030	125,129
Amounts due to other partners of joint operations		11,127	–
Bank borrowings		185,001	126,482
Lease liabilities		6,400	–
Income tax payable		3,050	4,238
		329,906	267,386
Net current assets		461,198	270,450
Total assets less current liabilities		597,898	373,151

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities		
Bank borrowings	66,563	–
Lease liabilities	11,629	–
Deferred tax liabilities	3,556	464
	<u>81,748</u>	<u>464</u>
NET ASSETS	<u>516,150</u>	<u>372,687</u>
Capital and Reserves		
Share capital	15,840	11,000
Reserves	500,677	360,401
	<u>516,517</u>	<u>371,401</u>
Equity attributable to owners of the Company	(367)	1,286
Non-controlling interests	516,150	372,687
TOTAL EQUITY	<u>516,150</u>	<u>372,687</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

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 construction business and property development in Hong Kong and 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 Hong Kong Institute of Certified Public Accountants.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty Over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements (2015-2017)	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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 16 Leases

2.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Comparative information has not been restated and continues to be reported under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or modified on or after 1 April 2019.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.36%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

	Carrying amount previously reported at 31 March 2019 <i>HK\$'000</i>	Impact on adoption of HKFRS 16 <i>HK\$'000</i>	Carrying amount as restated at 1 April 2019 <i>HK\$'000</i>
Non-current Assets			
Right-of-use assets	–	1,814	1,814
Current Liabilities			
Lease liabilities	–	1,108	1,108
Non-current Liabilities			
Lease liabilities	–	706	706

Starting from 1 April 2019, in the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

Differences between operating lease commitments as at 31 March 2019, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 April 2019 are as follow:

	<i>HK\$'000</i>
Operating lease commitment disclosed as at 31 March 2019	2,361
Less: short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(461)
	<u>1,900</u>
Discounted using the incremental borrowing rate and lease liabilities recognised as at 1 April 2019	<u>1,814</u>
Analysed as	
Current portion	1,108
Non-current portion	706
	<u>1,814</u>

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ⁴

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective date not yet been determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2022.

The directors of the Company anticipate that the application of new and amendments to HKFRSs will have no material impact on the consolidated results and the consolidated financial position of the Group.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Company that makes strategic decisions.

The Group has two reportable segments. The following summary describes the operations in each of the Group’s reportable segments:

Construction – the provision of construction and maintenance works on civil engineering contracts and commercial building works; and

Property development – Property development for sales of residential units, commercial units and car parking spaces

The accounting policies of the operating segments are the same as the Group’s accounting policies. The Chief Executive Officer assesses the performance of the operating segments based on the segment results, which represent the profit before income tax earned by each segment without allocation of interest income, net exchange gain/loss, finance costs from lease liabilities, finance costs from bank loan and central administrative costs and directors’ emoluments. Segment assets consist of all operating assets and exclude financial assets at fair value through other comprehensive income and other corporate assets, which are managed on a central basis.

Segment revenues and results

The information of segment revenue and segment results are as follows:

For the year ended 31 March 2020

	Construction <i>HK\$000</i>	Property development <i>HK\$000</i>	Total <i>HK\$000</i>
REVENUE			
External sales	<u>599,912</u>	<u>–</u>	<u>599,912</u>
RESULTS			
Segment results	<u>43,824</u>	<u>(98)</u>	<u>43,726</u>
Interest income			6,163
Exchange loss – net			(827)
Finance costs arisen from lease liabilities			(621)
Finance costs arisen from bank loans			(8,301)
Central administrative costs and directors’ emoluments			<u>(22,351)</u>
			<u>17,789</u>

For the year ended 31 March 2019

	Construction <i>HK\$000</i>	Property development <i>HK\$000</i>	Total <i>HK\$000</i>
REVENUE			
External sales	<u>731,839</u>	<u>–</u>	<u>731,839</u>
RESULTS			
Segment results	<u>53,057</u>	<u>–</u>	<u>53,057</u>
Interest income			2,238
Exchange loss – net			(1,509)
Finance costs arisen from bank loans			(3,888)
Central administrative costs and directors’ emoluments			<u>(17,217)</u>
			<u>32,681</u>

Other information

Amounts included in the measure of segment results:

	Construction	Property	Total
	<i>HK\$000</i>	<i>development</i>	<i>Total</i>
		<i>HK\$000</i>	<i>HK\$000</i>
For the year ended 31 March 2020			
Loss on disposal of property, plant and equipment	15	–	15
Depreciation of right-of-use assets	4,902	–	4,902
Depreciation of property, plant and equipment	3,850	–	3,850
	<u> </u>	<u> </u>	<u> </u>

For the year ended 31 March 2019

Gain on disposal of property, plant and equipment	(47)	–	(47)
Depreciation of property, plant and equipment	3,766	–	3,766
	<u> </u>	<u> </u>	<u> </u>

Segment assets and liabilities

	Construction	Property	Total
	<i>HK\$000</i>	<i>development</i>	<i>Total</i>
		<i>HK\$000</i>	<i>HK\$000</i>
As at 31 March 2020			
Reportable segment assets	644,578	174,199	818,777
	<u> </u>	<u> </u>	<u> </u>
Reportable segment liabilities	315,523	84,509	400,032
	<u> </u>	<u> </u>	<u> </u>
Other segment information:			
Additions to non-current assets	29,102	–	29,102
	<u> </u>	<u> </u>	<u> </u>

Segment assets consist primarily of property, plant and equipment, trade and other receivables, contract assets, inventories, right-of-use assets and cash and cash equivalents.

Segment liabilities consist primarily of trade and other payables, bank borrowings, contract liabilities and finance lease liabilities.

	Construction <i>HK\$000</i>	Property development <i>HK\$000</i>	Total <i>HK\$000</i>
As at 31 March 2019			
Reportable segment assets	<u>546,759</u>	<u>–</u>	<u>546,759</u>
Reportable segment liabilities	<u>257,187</u>	<u>–</u>	<u>257,187</u>
Other segment information:			
Additions to non-current assets	<u>4,454</u>	<u>–</u>	<u>4,454</u>

Segment assets consist primarily of property, plant and equipment, trade and other receivables, contract assets and cash and cash equivalents.

Segment liabilities consist primarily of trade and other payables, bank borrowings and contract liabilities.

Reconciliation of reportable segment assets to total assets is as follows:

	2020 <i>HK\$000</i>	2019 <i>HK\$000</i>
Total segment assets	818,777	546,759
Financial assets at fair value through other comprehensive income	20,578	50,360
Unallocated corporate assets - property, plant and equipment	31,643	32,676
Unallocated corporate assets - bank balances and cash	52,930	7,365
Other unallocated corporate assets	3,876	3,377
Total assets	<u>927,804</u>	<u>640,537</u>

Reconciliation of reportable segment liabilities to total liabilities is as follows:

	2020 <i>HK\$000</i>	2019 <i>HK\$000</i>
Total segment liabilities	400,032	257,187
Unallocated corporate liabilities - bank borrowings	10,182	10,663
Other unallocated corporate liabilities	1,440	–
	<u>411,654</u>	<u>267,850</u>

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 and interests in associates is presented based on the geographical location of the assets.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers		
– Hong Kong (city of domicile)	501,692	615,239
– Thailand	98,220	116,600
	<u>599,912</u>	<u>731,839</u>
	Non-current Assets	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
– Hong Kong (city of domicile)	68,137	52,341
– Thailand	47,949	–
	<u>116,086</u>	<u>52,341</u>

Information about major customers

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
– Customer A	139,921	162,474
– Customer B	225,574	277,867
– Customer C	65,819	106,210
– Customer D	–	116,600
– Customer E	98,220	–
	<u>98,220</u>	<u>–</u>

4. REVENUE, OTHER INCOME AND OTHER GAIN

Revenue

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15:		
– Provision of construction and maintenance works on civil engineering contracts and building works contracts, recognised over time	501,692	731,839
– Supply of construction materials, recognised at a point in time	98,220	–
	<u>599,912</u>	<u>731,839</u>

Other income and other gain

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income		
Bank interest income	508	268
Other interest income	5,655	1,970
Sundry income	1,331	1,066
	<u>7,494</u>	<u>3,304</u>
Other (loss)/gain		
(Loss)/gain on disposal of property, plant and equipment	<u>(15)</u>	<u>47</u>

5. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank loans	11,911	3,888
Interest on lease liabilities	621	–
	<u>12,532</u>	<u>3,888</u>
Less: Amount capitalised in inventories	(3,610)	–
	<u>8,922</u>	<u>3,888</u>

Specific borrowing costs are capitalised for the development of qualifying assets.

6. INCOME TAX EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
Hong Kong	1,242	4,897
Thailand	2,619	1,518
	<u>3,861</u>	<u>6,415</u>
Over provision in prior years:		
Hong Kong	(3,735)	(34)
Deferred tax		
Current year	3,092	196
	<u>3,218</u>	<u>6,577</u>
Income tax expenses for the year	<u>3,218</u>	<u>6,577</u>

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%.

The Corporate Income Tax in Thailand is calculated at 20% of assessable profit for both years.

The Corporate Income Tax in the Republic of the Philippines is calculated at 30% of assessable profit for the Reporting Year.

7. PROFIT FOR THE YEAR

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contract costs	533,905	662,046
Auditor's remuneration	900	1,100
Depreciation of property, plant and equipment	4,883	4,917
Depreciation of right-of-use assets	4,902	–
Exchange loss	827	1,509
Operating lease rentals in respect of		
– Leasehold land and buildings	–	2,502
– Plant and equipment	–	141
Short-term lease expenses	5,591	–
Emoluments of directors and chief executive	3,454	3,776
Salaries, wages and other benefits (excluding directors' emoluments)	91,493	88,351
Retirement benefits scheme contributions (excluding directors)	3,325	2,709
Total staff costs	<u>98,272</u>	<u>94,836</u>

8. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2020 and 2019, 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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>16,223</u>	<u>24,271</u>

Number of shares

	2020 <i>'000</i>	2019 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,265,421</u>	<u>1,100,000</u>

Since there were no potential dilutive shares in issue during the years ended 31 March 2020 and 2019, basic and diluted earnings per share are the same for both years.

10. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	<u>11,609</u>	<u>12,857</u>
Performance deposit (<i>Note i</i>)	29,782	29,582
Receivables in respect of construction materials procurement (<i>Note ii</i>)	15,589	–
Other receivables in relation to a transferred construction project (<i>Note iii</i>)	69,408	111,043
Other receivables (<i>Note iv</i>)	4,374	7,756
VAT recoverable	12,201	–
Receivables from subcontractors (<i>Note v</i>)	61,469	62,028
Less: allowance for impairment of other receivables	<u>(2,557)</u>	<u>(2,557)</u>
Net other receivables	<u>190,266</u>	<u>207,852</u>
Prepayments and deposits	<u>32,863</u>	<u>19,710</u>
Total trade and other receivables	234,738	240,419
Less: Classified under non-current assets	<u>(53,635)</u>	<u>(10,806)</u>
	<u>181,103</u>	<u>229,613</u>

Notes:

- i. The amount represented the performance deposit amounted to PHP198,545,576 (equivalent to approximately HK\$29,782,000) paid to the land owner for construction project in the Republic of the Philippines. The balance was interest-free, repayable upon the completion of construction project which is expected to be within 2 to 3 years, secured by the pledge of entire equity interests in the land owner and guaranteed by a substantial shareholder of the Company.
- ii. During the year ended 31 March 2020, the Group has entered into a construction materials procurement agreement with a third-party supplier for the Group's civil engineering projects in Hong Kong. A prepayment of US Dollar 2 million (equivalent to approximately HK\$15,589,000) was paid to the supplier in December 2019, which represents 40% of total contract sum. The first batch of materials was expected to be delivered to the Group before March 2020. However, due to the outbreak of COVID-19 virus globally, the delivery of the materials was delayed. After negotiation with the supplier, the Group has agreed to cancel the transaction and the prepayment has been fully refunded to the Group subsequently after the year ended 31 March 2020.

- iii. 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 the certified value of works completed by the Group amounted to THB477,318,232 (equivalent to approximately HK\$116,600,000) (the “Receivable”). 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 Receivable together with an interest at 5% per annum to the Group on completion of the project.

During the year ended 31 March 2020, the main contractor has informed the Group that the expected completion date of the project was delayed. On 15 October 2019, the Group and the main contractor entered into a repayment agreement, pursuant to which, the main contractor shall repay to the Group the receivable of THB477,318,232 (equivalent to approximately HK\$118,129,000) and underlying interest in the manner of (i) THB205,620,283 (equivalent to approximately HK\$48,721,000) of the Receivable and underlying interest for the year would be repaid on or before 31 March 2020; and (ii) the remaining Receivable of THB271,697,949 (equivalent to approximately HK\$69,408,000) and underlying interest at 8% per annum will be repaid in 3 equal installments on 31 March 2021, 31 March 2022 and 31 March 2023 respectively. The amount for each installment shall be THB90,565,983 (equivalent to approximately HK\$23,136,000). As at 31 March 2020, the first repayment of THB205,620,283 (equivalent to approximately HK\$48,721,000) have been received by the Group. The remaining Receivable and the interest thereon are guaranteed by a substantial shareholder of the Company, who is also the beneficial owner of the project.

- iv. Included in other receivables of the Group is amount due from the non-controlling interest of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,901,000 as at 31 March 2020 (2019: HK\$1,901,000). The balance is unsecured, interest-free and repayable on demand.
- v. The amount represented the expenses paid on behalf of the subcontractors and is expected to be settled upon completion of the related contracts.

The Group allows an average credit period of 21 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	<u>11,609</u>	<u>12,857</u>

As at 31 March 2020, the Group had no trade receivables that were past due nor impaired (2019: Nil).

The Group does not hold any collateral over its trade receivables.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and assessment of both the current as well as the forecast direction of conditions at the reporting date.

Based on historical experience, majority of trade receivables were settled within credit term and the Group received continuous settlements from these customers, hence the expected loss rate of current trade receivables is assessed to be immaterial, the weighted average expected loss rate is close to zero and no loss allowance on trade receivables was recognised for the year ended 31 March 2020 (2019: Nil).

11. INVENTORIES

Inventories represent property under development for sale on two parcels of 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 year (2019: Nil). The Group is currently in the process of the application of the land certificates.

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 capitalised.

12. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	45,332	73,143
Retention payables	41,075	39,692
Amount due to non-controlling interest of a subsidiary (<i>Note</i>)	2,647	–
Other payables and accruals	<u>13,976</u>	<u>12,294</u>
	<u><u>103,030</u></u>	<u><u>125,129</u></u>

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

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	18,971	47,356
More than 30 days but within 90 days	1,460	5,873
More than 90 days	<u>24,901</u>	<u>19,914</u>
	<u><u>45,332</u></u>	<u><u>73,143</u></u>

The 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 principally engaged in construction related business and property development in both Hong Kong and Southeast Asia. During the year under review, civil engineering contracts in Hong Kong remained a core business of the Group, which contributed 84% of the total revenue of the Group. Looking ahead, amid the increasing uncertainties arising from the outbreak of COVID-19 and US-China trade tensions, the active participation in the infrastructure projects of the Hong Kong Government will continue to provide a reliable source of income to the Group. At the same time, the Group has committed to diversify its business portfolio by engaging in new business opportunities brought up by the Belt and Road Initiative as well as other profitable business opportunities in oversea markets.

During the year under review, the Group acquired two contiguous parcels of land with an aggregate area of approximately 3,312 square meters. Each of the two parcels of land (the “Land”) is located within Ermita in the central part of City of Manila, the Republic of the Philippines. According to the current construction plan, the Land will be developed into two 55-storey apartment towers accommodating over 2,000 residential units, with a shopping mall and over 400 carparking spaces. The management considers it was a very positive step for the Group to expand the business in foreign property development market.

For the civil engineering contracts in Hong Kong, the Group is engaged in the provision of (i) waterworks engineering services; (ii) road works and drainage services and site formation works; and (iii) landslip preventive and mitigation works to slopes and retaining walls services (“LPM Services”).

Kwan On Construction Company Limited, 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 material contracts on hand as at 31 March 2020:

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated contract sum HK\$ million	Cumulative revenue recognised HK\$ million	Further revenue expected to be recognised HK\$ million
Tendered by Kwan On Construction Company Limited						
KL/2012/03	Civil Engineering and Development Department	Kai Tak Development – Stage 4 infrastructure at former north apron area	2/9/2017 ⁽¹⁾	985.5	884.5	101.0
CV/2015/01	Civil Engineering and Development Department	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	8/11/2019 ⁽¹⁾	205.1	197.2	7.9
GW1538	West Kowloon Cultural District Authority	Public Infrastructure Works for Phase 1 Development of West Kowloon Cultural District (Package 1)	9/1/2018 ⁽¹⁾	118.7	118.7	–
NE/2016/05	Civil Engineering and Development Department	Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1	30/3/2020 ⁽¹⁾	299.0	123.4	175.6
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	46.7	67.2
DC/2018/10	Drainage Services Department	Condition Survey and Rehabilitation of Underground Sewers and Stormwater Drains – Stage 1	13/4/2022	205.5	22.0	183.5
20170102	Housing Authority	Road Improvement Works at Ma On Shan, Sha Tin	15/12/2021	190.3	34.5	155.8
GE/2018/01	Civil Engineering and Development Department	Landslip Prevention and Mitigation Programme, 2017, Package K	7/10/2022	118.8	3.3	115.5
20189126	Housing Authority	Slope Maintenance and Improvement Works for Region B	20/10/2022	45.1	0.8	44.3
HY/2018/12	Highways Department	Provision of Universal Accessibility Facilities at Footbridges, Elevated Walkways and Subways – Package 4	21/5/2024	268.9	8.8	260.1
Total					<u>1,439.9</u>	<u>1,110.9</u>

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 revenue recognised by our Group <i>HK\$ million</i>	Further revenue expected to be recognised by our Group <i>HK\$ million</i>
Tendered by the Group's joint operations							
HY/2014/12	Highways Department ("HyD")	Provision of Barrier-free Access Facilities for Highways Structures – Phase 3 Contract 6	15/7/2019 ⁽¹⁾	215.2	109.8	103.9	5.9
HY/2013/19	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section	27/12/2019 ⁽¹⁾	585.0	298.4	237.7	60.7
HY/2014/14	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Fu Tei Section	27/6/2020	462.8	236.0	207.2	28.8
CV/2015/08	Civil Engineering and Development Department	Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3	28/1/2020 ⁽¹⁾	164.1	106.7	97.7	9.0
1/WSD/17(L)	WSD	Term contract for Waterworks District L – Lantau and the Outlying Islands	31/8/2020	271.5	138.5	75.3	63.2
Total					889.4	721.8	167.6

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.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 March 2020 (the “Reporting Year”) amounted to approximately HK\$599.9 million (2019: approximately HK\$731.8 million), represented a decrease of 18.0% or approximately HK\$131.9 million as compared to the year ended 31 March 2019.

	Year ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
Waterworks	65,819	129,179
Road works and drainage and site formation works	388,849	458,197
LPM Services	47,024	27,863
Hotel construction project in Phuket, Thailand	–	116,600
Supply of construction materials in Thailand	98,220	–
	<u>599,912</u>	<u>731,839</u>

Revenue in the waterworks engineering services for the Reporting Year decreased by 49.0% to approximately HK\$65.8 million (2019: approximately HK\$129.2 million), mainly due to (1) the contract 9/WSD/13 has already completed during the last year, which has contributed a revenue of approximately HK\$29.3 million to the Group for the last year and (2) the contract 10/WSD/10 has been substantially completed during the Reporting Year. The revenue contributed by 10/WSD/10 decreased by HK\$37.6 million to HK\$11.1 million during the Reporting Year.

Revenue in the road works and drainage category decreased by 15.1% to approximately HK\$388.8 million (2019: approximately HK\$458.2 million), primarily due to the decrease in revenue contribution from the contract which have been substantially completed in the Reporting Year. The total revenue contributed by the substantially completed contracts KL/2012/03, CV/2015/01, GW1538, HY/2014/12, HY/2013/19, HY/2014/14 and CV2015/08 have been decreased by HK\$165.5 million when comparing to last year. However, the decrease was partially offset by an additional revenue contribution of approximately HK\$67.5 million from the new contract HA20130375, DC/2018/10 and HA20170112 for the Reporting Year and increase in revenue from contract NE/2016/05 by HK\$28.6 million when comparing to last year.

Revenue in the LPM works for the Reporting Year increased by 68.8% to approximately HK\$47.0 million (2019: approximately HK\$27.9 million), mainly due to additional revenue contribution of approximately HK\$30.1 million from the new contracts GE/2018/03, GE/2018/01 and HA20189126 for the Reporting Year. However, the increase in revenue was partially offset by the contract GE/2010/21 and GE/2013/16 completed in the last year, which are no longer to contribute revenue in the Reporting Year. These two contracts have contributed a revenue of approximately HK\$11.1 million to the Group for the last year.

During the Reporting Year, the Group entered into an agreement with a local customer in Thailand to supply the construction materials for building works. All materials and services have been delivered to the customer during the Reporting Year. The Group recorded a revenue of approximately HK\$98.2 million with a gross profit of approximately HK\$13.2 million.

Cost of sales

Cost of sales decreased from approximately HK\$662.0 million for the year ended 31 March 2019 to approximately HK\$533.9 million for the Reporting Year, representing a decrease of 19.4%. The decrease was in line with the decrease in revenue for 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	
	2020	2019
Waterworks	-0.7%	7.8%
Road works and drainage and site formation works	12.0%	12.0%
LPM Services	24.9%	0.1%
Hotel construction project in Phuket, Thailand	–	5%
Supply of construction materials in Thailand	13.3%	–

The gross profit margin for waterworks engineering services dropped to -0.7% for the Reporting Year (2019: 7.8%). Such decrease was mainly due to the revenue was unable to cover the overhead cost for the contract 10/WSD/10 which have been substantially completed in the Reporting Year. The overhead cost charged to the contract 10/WSD/10 was approximately HK\$7.6 million, which mainly included direct staff cost in project team. The contract is expected to be fully completed before September 2020.

The gross profit margin for road works and drainage and site formation works service remained stable for the Reporting Year.

The gross profit margin for the LPM Service increased significantly to 24.9% for the Reporting Year (2019: 0.1%). Such increase was mainly due to the profit contributed from the new contract GE/2018/03.

Other income and other gain

Other income and other gain for the Reporting Year amounted to approximately HK\$7.5 million (2019: approximately HK\$3.3 million). The significant increase was mainly attributable to the interest income from the receivable in relation a transferred construction project in Thailand of approximately HK\$5.6 million (2019: approximately HK\$1.9 million).

Administrative expenses

Administrative expenses for the Reporting Year increased by 27.9% to approximately HK\$46.8 million (2019: approximately HK\$36.6 million). The increase was mainly attributable to (1) an increase in staff costs of approximately HK\$6.0 million;(2) an increase in professional fees of approximately HK\$1.1 million for the market research in the Group's property development projects in the Republic of the Philippines during the Reporting Year; and (3) an increase in short-term lease expenses and depreciation of right-of-use assets of approximately HK\$1.7 million when comparing to the total lease expenses in last year. This represents higher office rental expenses during the Reporting Year.

Finance costs

Finance costs for the Reporting Year amounted to approximately HK\$8.9 million (2019: approximately HK\$3.9 million), which was mainly due to an increase in bank borrowings during the Reporting Year.

Income tax expenses

Income tax expenses for the Reporting Year amounted to approximately HK\$3.2 million (2019: approximately HK\$6.6 million). The decrease in income tax expenses was mainly attributable to an over-provision of approximately HK\$3.7 million in previous years.

Profit for the year

Profit for the year decreased by 44.2% to approximately HK\$14.6 million (2019: approximately HK\$26.1 million). Such decrease was mainly due to the increase of administrative expenses and finance costs in the Reporting Year, while the effect was partially offset by the additional interest income received in relation a transferred construction project in Thailand.

Other comprehensive expense

Other comprehensive expense for the Reporting Year amounted to approximately HK\$27.7 million (2019: income of approximately HK\$8.2 million). The decrease in income was mainly attributable to the fair value loss on the investment in common shares of a company listed on the Philippine Stock Exchange, Inc,. Such financial assets recognised a loss of approximately HK\$30.8 million to the Group during the Reporting Year (2019: gain of approximately HK\$8.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2020, the Group had net current assets of approximately HK\$461.2 million (2019: approximately HK\$270.5 million), representing an increase of approximately HK\$190.7 million. Such increase was mainly attributable to the Group's new property development project in the Republic of the Philippines. The Group plans to sell out all residential units of the property upon completion of the construction. The land cost and direct development cost was recognised in the inventories during the Reporting Year, which amounted to approximately HK\$161.3 million.

The current ratio of the Group as at 31 March 2020 was approximately 2.40 times (2019: approximately 2.01 times). It was because inventories and contract assets increased by HK\$248.1 million when comparing to last year's, while the bank borrowings increased by approximately HK\$58.5 million.

The gearing ratio, calculated based on the net debt (including contract liabilities, trade and other payables, bank borrowings, amounts due to other partners of joint operations, lease liabilities and less bank balances and cash and pledged bank deposits) divided by total capital, was approximately 48.8% as at 31 March 2020 (2019: approximately 28.6%). The increase was mainly due to the bank borrowings of the Group increased from approximately HK\$126.5 million to approximately HK\$251.6 million as at 31 March 2020 while the total capital of the Group also increased from approximately HK\$372.7 million to approximately HK\$516.2 million as at 31 March 2020.

CAPITAL STRUCTURE

On 2 July 2019, the Company issued 220,000,000 ordinary shares of HK\$0.01 each upon the completion of a subscription agreement dated 3 June 2019.

On 31 March 2020, the Company issued 264,000,000 ordinary shares of HK\$0.01 each upon the completion of two subscription agreements dated 6 March 2020.

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 2020, the Company's issued share capital was approximately HK\$15.8 million and the number of ordinary shares issued was 1,584,000,000 of HK\$0.01 each.

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

As at 31 March 2020, the Group did not have any significant capital commitments (2019: 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 has acquired entire issued shares of a Project Company at a consideration of PHP236,300,000 (equivalent to approximately HK\$35,400,000) in the Republic of the Philippines. Details of the transaction have been set out in the Company's announcements on 24 September 2019 and 27 September 2019. Save as aforesaid, the Group did not have any material acquisitions or disposal of subsidiaries and affiliated companies during the Reporting Year.

CONTINGENT LIABILITIES

Save for certain litigations involved, the Group did not have any material contingent liabilities as at 31 March 2020 (2019: Nil).

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to other receivables in relation to a transferred construction project, trade and retention receivables and deposits with banks. As set out in the note 10(iii) of this announcement, the Group entered into a repayment agreement during the reporting period. The first repayment have been received by the Group and the remaining receivable and the interest thereon are guaranteed by a substantial shareholder of the Company. Hence, the Directors consider the credit risk of the other receivables in relation to a transferred construction project is significantly reduced. The credit risk of the Group's trade and retention receivables is concentrated since 97% of which was derived from five (2019: three) major customers as at 31 March 2020 (2019: 92%). 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 2020, the Group pledged bank deposits amounted to approximately HK\$43.8 million (2019: approximately HK\$43.8 million) as securities for banking facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed a total of 358 employees, comprising 279 staff employed on a full-time basis and 79 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$98.3 million for the Reporting Year (2019: approximately HK\$94.8 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

SHARE OPTION SCHEME

The Group has adopted a share option scheme pursuant to which the Company may grant options to individuals including employees, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company and any subsidiary to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre employees.

LITIGATIONS

As at 31 March 2020, 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.

SUBSEQUENT EVENTS

There is no subsequent event after the reporting period which was material impact to the consolidated financial statement of the Group.

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 2020.

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 2020.

Publication of 2020 Annual Report

The 2020 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, 30 June 2020

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.