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Wecon Holdings Limited
偉工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1793)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 2.6% from approximately HK\$627.7 million for the six months ended 30 September 2019 to approximately HK\$643.8 million for the six months ended 30 September 2020.
- Gross profit decreased by approximately 22.6% from approximately HK\$44.3 million for the six months ended 30 September 2019 to approximately HK\$34.3 million for the six months ended 30 September 2020.
- Gross profit margin decreased from approximately 7.1% for the six months ended 30 September 2019 to approximately 5.3% for the six months ended 30 September 2020.
- Profit attributable to the equity holders of the Company decreased by approximately HK\$2.9 million or 13.6% from approximately HK\$21.4 million for the six months ended 30 September 2019 to approximately HK\$18.5 million for the six months ended 30 September 2020.
- Basic earnings per share was approximately HK2.3 cents for the six months ended 30 September 2020 (six months ended 30 September 2019: approximately HK2.7 cents).
- The board resolved not to declare any interim dividend to the shareholders for the six months ended 30 September 2020 (six months ended 30 September 2019: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Wecon Holdings Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated interim results (the “**Interim Results**”) of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2020, together with the comparative figures for the corresponding six months ended 30 September 2019. The Interim Results are unaudited, but have been reviewed by Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” (“**HKSRE 2410**”), issued by the Hong Kong Institute of Certified Public Accountants, whose report on review of the interim financial information is included in the interim report to be sent to the shareholders of the Company. The Interim Results have also been reviewed by the Company’s audit committee (the “**Audit Committee**”).

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

For the six months ended 30 September 2020

		Six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
REVENUE	4	643,757	627,711
Cost of sales		<u>(609,450)</u>	<u>(583,387)</u>
Gross profit		34,307	44,324
Other income and gains		8,901	3,517
Administrative and other operating expenses, net		(22,487)	(22,396)
Finance costs	5	<u>(128)</u>	<u>(144)</u>
PROFIT BEFORE TAX	6	20,593	25,301
Income tax	7	<u>(2,064)</u>	<u>(3,916)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>18,529</u>	<u>21,385</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
– Basic and diluted		<u>HK2.3 cents</u>	<u>HK2.7 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2020

		30 September	31 March
		2020	2020
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		10,688	8,726
Right-of-use assets		7,999	7,809
Investment at fair value through profit or loss		2,000	–
Prepayments, deposits and other receivables		6,572	6,331
		<u>27,259</u>	<u>22,866</u>
Total non-current assets			
CURRENT ASSETS			
Contract assets and trade receivables	<i>10</i>	337,218	334,727
Prepayments, deposits and other receivables		32,433	44,795
Pledged deposits		42,193	31,873
Time deposits		96,141	105,726
Cash and bank balances		31,893	35,047
		<u>539,878</u>	<u>552,168</u>
Total current assets			
CURRENT LIABILITIES			
Trade and retention payables	<i>11</i>	156,178	183,206
Other payables and accruals		121,968	105,574
Lease liabilities		3,202	4,994
Tax payable		2,159	369
		<u>283,507</u>	<u>294,143</u>
Total current liabilities			
NET CURRENT ASSETS		<u>256,371</u>	<u>258,025</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>283,630</u>	<u>280,891</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

30 September 2020

		30 September 2020 (Unaudited) <i>HK\$'000</i>	31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,088	814
Lease liabilities		<u>1,244</u>	<u>2,108</u>
Total non-current liabilities		<u>2,332</u>	<u>2,922</u>
Net assets		<u>281,298</u>	<u>277,969</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	12	8,000	8,000
Reserves		<u>273,298</u>	<u>269,969</u>
Total equity		<u>281,298</u>	<u>277,969</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 September 2020

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2020 has 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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2020.

The interim condensed consolidated financial information is presented in Hong Kong Dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2020, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The adoption of the revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

3. OPERATING SEGMENT INFORMATION

Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's key management personnel for the purposes of resource allocation and assessment of segment performance for the six months ended 30 September 2020 and 2019 is set out below.

Six months ended 30 September 2020

	Construction contracts (Unaudited) HK\$'000	RMAA (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue			
Revenue from external customers	<u>567,707</u>	<u>76,050</u>	<u>643,757</u>
Segment results	27,235	7,072	34,307
Interest income			1,229
Fair value gain on investment at fair value through profit or loss			200
Government grants			6,328
Sundry income			1,144
Loss on disposal of items of property, plant and equipment			(94)
Depreciation (unallocated portion)			(3,645)
Impairment of contract assets			(136)
Impairment of trade receivables			(2)
Finance costs			(128)
Unallocated head office and corporate expenses			<u>(18,610)</u>
Profit before tax			20,593
Income tax expense			<u>(2,064)</u>
Profit for the period			<u><u>18,529</u></u>
Segment assets and liabilities			
Segment assets	324,072	48,303	372,375
Unallocated			<u>194,762</u>
			<u><u>567,137</u></u>
Segment liabilities	243,784	31,868	275,652
Unallocated			<u>10,187</u>
			<u><u>285,839</u></u>

3. OPERATING SEGMENT INFORMATION *(continued)*

Segment results, assets and liabilities *(continued)*

Six months ended 30 September 2019

	Construction contracts (Unaudited) <i>HK\$'000</i>	RMAA (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue			
Revenue from external customers	<u>516,239</u>	<u>111,472</u>	<u>627,711</u>
Segment results	34,323	10,001	44,324
Interest income			2,371
Sundry income			1,146
Loss on disposal of items of property, plant and equipment			(18)
Depreciation (unallocated portion)			(2,061)
Finance costs			(144)
Unallocated head office and corporate expenses			<u>(20,317)</u>
Profit before tax			25,301
Income tax expense			<u>(3,916)</u>
Profit for the period			<u><u>21,385</u></u>

As at 31 March 2020

	Construction contracts (Audited) <i>HK\$'000</i>	RMAA (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets and liabilities			
Segment assets	304,473	78,855	383,328
Unallocated			<u>191,706</u>
			<u><u>575,034</u></u>
Segment liabilities	236,953	46,826	283,779
Unallocated			<u>13,286</u>
			<u><u>297,065</u></u>

4. REVENUE

An analysis of the Group's revenue is as follows:

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers		
Construction contracts	567,707	516,239
RMAA	<u>76,050</u>	<u>111,472</u>
	<u><u>643,757</u></u>	<u><u>627,711</u></u>

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 September 2020

Segments	Construction contracts (Unaudited) <i>HK\$'000</i>	RMAA (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Type of services			
Construction services	567,707	–	567,707
RMAA	<u>–</u>	<u>76,050</u>	<u>76,050</u>
Total revenue from contracts with customers	<u><u>567,707</u></u>	<u><u>76,050</u></u>	<u><u>643,757</u></u>
Timing of revenue recognition			
Over time	567,707	20,589	588,296
Point in time	<u>–</u>	<u>55,461</u>	<u>55,461</u>
Total revenue from contracts with customers	<u><u>567,707</u></u>	<u><u>76,050</u></u>	<u><u>643,757</u></u>

4. REVENUE (continued)

Revenue from contracts with customers (continued)

Disaggregated revenue information (continued)

For the six months ended 30 September 2019

Segments	Construction contracts (Unaudited) <i>HK\$'000</i>	RMAA (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Type of services			
Construction services	516,239	–	516,239
RMAA	–	111,472	111,472
Total revenue from contracts with customers	<u>516,239</u>	<u>111,472</u>	<u>627,711</u>
Timing of revenue recognition			
Over time	516,239	24,724	540,963
Point in time	–	86,748	86,748
Total revenue from contracts with customers	<u>516,239</u>	<u>111,472</u>	<u>627,711</u>

5. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Six months ended 30 September	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Interest on bank borrowings	32	35
Interest on lease liabilities	96	109
	<u>128</u>	<u>144</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	1,324	774
Depreciation of right-of-use assets	2,372	1,539
Employee benefit expense (excluding directors' remuneration):*		
Wages and salaries	40,517	40,833
Pension scheme contributions (defined contribution scheme)	1,709	1,667
	<u>42,226</u>	<u>42,500</u>
Minimum lease payments under operating leases	–	1,150
Lease payments not included in the measurement of lease liabilities	331	–
Other charges in respect of rental premises	147	106
Loss on disposal of items of property, plant and equipment	94	18
Impairment of contract assets	136	–
Impairment of trade receivables	2	–
Reversal of provision for legal claim**	(700)	–

Note 1: Government grants of HK\$6,328,000 (2019: nil) was included in “Other income and gains”, in which HK\$4,833,000 has been received in form of cash and the remaining HK\$1,495,000 was recognised in “Prepayment, deposits and other receivables”. There is no unfulfilled conditions or contingencies relating to the grants. Government grants received for which related expenditure has not yet been incurred are included in “Other payables and accruals” of HK\$576,000.

* The employee benefit expense included in cost of sales was HK\$31,610,000 (2019: HK\$32,634,000).

** Amounts are included in “Administrative and other operating expenses, net” on the face of interim condensed consolidation statement of profit or loss and other comprehensive income.

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2019: HK\$2,000,000) of estimated assessable profits of this subsidiary is taxed at 8.25% and the remaining estimated assessable profits are taxed at 16.5%.

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the period	1,896	3,679
Overprovision in prior years	(106)	–
Deferred	274	237
	<hr/>	<hr/>
Total tax charge for the period	<u>2,064</u>	<u>3,916</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to equity holders of the Company of HK\$18,529,000 (2019: HK\$21,385,000), and the number of ordinary shares of 800,000,000 (2019: 800,000,000).

No adjustment has been made to the basic earnings per share amount presented for each of the six months ended 30 September 2019 and 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

9. DIVIDENDS

Final dividend in respect of the financial year ended 31 March 2020 of HK1.9 cents per share, in an aggregate amount of HK\$15,200,000, was declared and paid during the six months ended 30 September 2020.

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: nil).

10. CONTRACT ASSETS AND TRADE RECEIVABLES

	30 September 2020 (Unaudited) HK\$'000	31 March 2020 (Audited) HK\$'000
Other contract assets	57,062	23,885
Retention receivables	<u>98,774</u>	<u>69,834</u>
	155,836	93,719
Impairment of contract assets	<u>(368)</u>	<u>(232)</u>
Net contract assets	<u>155,468</u>	<u>93,487</u>
Trade receivables	181,776	241,264
Impairment of trade receivables	<u>(26)</u>	<u>(24)</u>
Net trade receivables	<u>181,750</u>	<u>241,240</u>
	<u>337,218</u>	<u>334,727</u>

Trade receivables represented receivables for contract work. The Group's management generally submits interim payment applications to customers on a monthly basis containing a statement setting out the management's estimation of the valuation of the works completed in the preceding month. Upon receiving the interim payment application, the architect or the consultant of the customer will verify such valuation of work completed and issue an interim payment certificate within 30 days. Within 30 days after the issuance of the interim payment certificate, the customer will make payment to the Group based on the certified amount stipulated in such certificate, after deducting the retention moneys, if any, in accordance with the contract.

An ageing analysis of the trade receivables based on the invoice date and net of provision, is as follows:

	30 September 2020 (Unaudited) HK\$'000	31 March 2020 (Audited) HK\$'000
Trade receivables:		
Within 90 days	176,226	238,214
91 to 180 days	4,313	1,172
181 to 365 days	375	1,606
Over 365 days	<u>836</u>	<u>248</u>
	<u>181,750</u>	<u>241,240</u>

11. TRADE AND RETENTION PAYABLES

An ageing analysis of the trade and retention payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2020 (Unaudited) HK\$'000	31 March 2020 (Audited) HK\$'000
Trade payables:		
Within 3 months	78,731	120,664
Retention payables	<u>77,447</u>	<u>62,542</u>
	<u>156,178</u>	<u>183,206</u>

Retention payables were normally settled within terms ranging from one to two years.

Trade and retention payables are non-interest-bearing. The payment terms of trade payables are stipulated in the relevant contracts with credit periods of 30 days in general.

12. SHARE CAPITAL

	30 September 2020 (Unaudited) HK\$'000	31 March 2020 (Audited) HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.01 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
800,000,000 ordinary shares of HK\$0.01 each	<u>8,000</u>	<u>8,000</u>

GENERAL INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 23 March 2018. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1801-1802, 18/F., Tung Hip Commercial Building, 244-252 Des Voeux Road Central, Hong Kong. The Company's shares (the "**Share(s)**") were first listed on the Main Board of the Stock Exchange on 27 February 2019.

BUSINESS REVIEW

The Group is a long-established main contractor in Hong Kong and principally engaged in the provision of (i) building construction services; and (ii) repair, maintenance, alteration and addition ("**RMAA**") works services. The Group provides building construction services to customers in both the private and public sectors. The building construction services provided by the Group primarily consist of building works for new buildings, including residential, commercial and industrial buildings, while the Group's RMAA works services include the general upkeep, maintenance, improvement, refurbishment, alteration and addition of existing facilities and components of buildings and their surroundings.

During the six months ended 30 September 2020, the Group had 10 major projects on hand with an awarded contract sum of HK\$10.0 million or above, which include 1 new project awarded during the six months ended 30 September 2020.

During the six months ended 30 September 2020, the Group had completed 2 major projects with an awarded contract sum of HK\$10.0 million or above.

PROSPECTS

The outbreak of COVID-19 pandemic (the "**Pandemic**") at the beginning of 2020 has made the operating environment difficult and has created challenges to various industries in Hong Kong. The Group expects the negative impact brought by the Pandemic would have an adverse effect on the Group's business, and would continue to affect its business in 2021, in the form of competitive pricing and lower margins. However, the construction sites of the Group's projects have remained in operation and construction works have remained in progress during the Pandemic. The Group will continue to monitor the development of the Pandemic as well as assess the overall impact on the Group's business in both building construction and RMAA in the coming months.

During the six months ended 30 September 2020, the Group was successfully awarded a sizeable building construction contract. The Directors still remain prudently optimistic about the prospects of the building construction and RMAA industry in Hong Kong. In order to counter the anticipated concerns over competitive pricing, the Directors would place extra focus on maintaining the Group's reputation, ensure that projects are completed on time with the highest quality and implement various cost-effective measures.

PROSPECTS (continued)

In August 2020, the Group launched a new subsidiary, namely RH Studio Limited, for rendering Building Information Modeling (“**BIM**”) services. The Directors believe that the BIM services could differentiate the Group from the Group’s competitors, through providing creative technical solutions to the Group’s clients. As the world economy enters into a period of profound transformation, the Group would seek evolution through every avenue. Going forward, the Directors plan to invest in building related services that will enhance the Group’s capabilities and provide synergies to the existing business of the Group, though the core values will always remain the same.

SEGMENT INFORMATION

The Group’s reportable and operating segments are (i) building construction services; and (ii) RMAA works services.

FINANCIAL REVIEW

Revenue

The total revenue of the Group increased by approximately HK\$16.1 million or approximately 2.6% from approximately HK\$627.7 million during the six months ended 30 September 2019 to approximately HK\$643.8 million during the six months ended 30 September 2020.

Building Construction Services

The revenue generated from the building construction services increased by approximately HK\$51.5 million or approximately 10.0% from approximately HK\$516.2 million during the six months ended 30 September 2019 to approximately HK\$567.7 million during the six months ended 30 September 2020, which was mainly due to the achievement of significant progress of one sizable project during the six months ended 30 September 2020.

RMAA Works Services

The revenue generated from the RMAA works services decreased by approximately HK\$35.4 million or approximately 31.7% from approximately HK\$111.5 million during the six months ended 30 September 2019 to approximately HK\$76.1 million during the six months ended 30 September 2020, which was mainly due to one sizable project reaching the completion stage during the six months ended 30 September 2020.

FINANCIAL REVIEW (continued)

Cost of Sales

The cost of sales of the Group increased by approximately HK\$26.1 million or approximately 4.5% from approximately HK\$583.4 million during the six months ended 30 September 2019 to approximately HK\$609.5 million during the six months ended 30 September 2020. Such increase was mainly driven by the corresponding increase in revenue. The Group's cost of sales primarily consisted of subcontracting costs, material costs, direct staff costs and site overhead costs. During the six months ended 30 September 2020, the increase in subcontracting costs and direct staff costs was partially offset by the decrease in material costs and site overhead costs.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from approximately HK\$44.3 million during the six months ended 30 September 2019 to approximately HK\$34.3 million during the six months ended 30 September 2020. The Group's gross profit margin was approximately 7.1% and 5.3% during the six months ended 30 September 2019 and 2020, respectively. The gross profit margin of the Group for the six months ended 30 September 2020 decreased by approximately 1.8% by comparing that of the six months ended 30 September 2019.

Building Construction Services

The gross profit of building construction services was approximately HK\$27.2 million during the six months ended 30 September 2020, representing a decrease of approximately HK\$7.1 million from approximately HK\$34.3 million during the six months ended 30 September 2019. The gross profit margin of building construction services decreased from approximately 6.6% during the six months ended 30 September 2019 to approximately 4.8% during the six months ended 30 September 2020. Such decrease was primarily attributable to (i) the completion of one sizable project, which had a relatively higher gross profit margin; and (ii) another sizable project, which had a lower gross profit margin, achieving significant progress during six months ended 30 September 2020.

RMAA Works Services

The gross profit of RMAA works services was approximately HK\$7.1 million during the six months ended 30 September 2020, representing a decrease of approximately HK\$2.9 million from approximately HK\$10.0 million during the six months ended 30 September 2019. The gross profit margin of RMAA works services increased from approximately 9.0% during the six months ended 30 September 2019 to approximately 9.3% during the six months ended 30 September 2020, which was mainly attributable to the decrease of site overhead costs of a project which was reaching the completion stage.

FINANCIAL REVIEW (continued)

Other Income and Gains

The other income and gains of the Group increased by approximately HK\$5.4 million, from approximately HK\$3.5 million during the six months ended 30 September 2019 to approximately HK\$8.9 million during the six months ended 30 September 2020. The increase was primarily due to the recognition of a non-recurring government subsidy under the Employment Support Scheme during the six months ended 30 September 2020.

Administrative and Other Operating Expenses, Net

The administrative and other operating expenses, net slightly increased by approximately HK\$0.1 million, or representing approximately 0.4%, from approximately HK\$22.4 million during the six months ended 30 September 2019 to approximately HK\$22.5 million during the six months ended 30 September 2020. Such increase was mainly due to the increase of the impairment on contract assets and trade receivables.

Finance Costs

The finance costs decreased by approximately HK\$16,000, or representing approximately 11.1%, from approximately HK\$144,000 during the six months ended 30 September 2019 to approximately HK\$128,000 during the six months ended 30 September 2020. The decrease was mainly due to the decrease in interest expense on (i) bank borrowings; and (ii) lease liabilities.

Income Tax Expenses

The income tax expenses decreased by approximately HK\$1.8 million, or representing approximately 46.2%, from approximately HK\$3.9 million during the six months ended 30 September 2019 to approximately HK\$2.1 million during the six months ended 30 September 2020. The decrease was primarily attributable to a decrease in profit generated from both segment of building construction services and RMAA works services.

Net Profit

As a result of the foregoing, the net profit during the six months ended 30 September 2020 of the Group was approximately HK\$18.5 million, representing a decrease of approximately HK\$2.9 million, or approximately 13.6%, from approximately HK\$21.4 million during the six months ended 30 September 2019. The net profit margin during the six months ended 30 September 2019 and 2020 were approximately 3.4% and 2.9%, respectively. The decrease of approximately 0.5% was primarily attributable to the decline of gross profit margin during the six months ended 30 September 2020.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has principally funded the liquidity and capital requirements through capital contributions from the shareholders, bank borrowings and net cash generated from operating activities.

As at 30 September 2020, the Group had pledged deposits, time deposits and cash and bank balances of approximately HK\$170.2 million (as at 31 March 2020: approximately HK\$172.6 million). The gearing ratio of the Group as at 30 September 2020 (defined as the total of bank borrowings and lease liabilities divided by total equity) was approximately 1.6% (as at 31 March 2020: approximately 2.6%). As at 30 September 2020, the current ratio of the Group was approximately 1.9 times (as at 31 March 2020: approximately 1.9 times).

The Group generally finances its operation by internally generated resources and banking facilities provided by certain banks in Hong Kong. The Directors believe that the Group has sufficient working capital for its current commitments and its future requirements.

During the six month ended 30 September 2020, there has been no change in the capital structure of the Group.

GEARING RATIO

As at 30 September 2020, the gearing ratio of the Group (defined as the total of bank borrowings and lease liabilities divided by total equity) was approximately 1.6% (as at 31 March 2020: approximately 2.6%)

CAPITAL COMMITMENTS

As at 30 September 2020, the Group did not have any significant capital commitments (as at 31 March 2020: nil).

CONTINGENT LIABILITIES

The Group provided unlimited guarantees to certain banks and an insurance company in respect of performance bonds of the Group's subsidiaries with an aggregate amount of approximately HK\$129.8 million (as at 31 March 2020: approximately HK\$82.6 million) as at 30 September 2020. Certain of these performance bonds granted were secured by a time deposit amounting to approximately HK\$39.2 million (as at 31 March 2020: approximately HK\$16.4 million) as at 30 September 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2020, the Group has a total of 204 full-time employees and 1 part-time employee (as at 30 September 2019: 205 full-time employees and 2 part-time employees). The Group has developed its human resources policies and procedures to determine the individual remuneration with reference to factors such as performance, qualification, merits, responsibilities of each individual and market conditions. Remuneration packages are normally reviewed on a regular basis. Apart from salary payments, other staff benefits including provident fund contributions, medical insurance coverage, annual leave, share option and share award may be granted to eligible employees. The total staff costs (excluding directors' remuneration) incurred by the Group during the six months ended 30 September 2020 was approximately HK\$42.2 million (during the six months ended 30 September 2019: approximately HK\$42.5 million).

USE OF PROCEEDS

The Shares were successfully listed on the Stock Exchange (the “**Listing**”) on 27 February 2019 (the “**Listing Date**”). The net proceeds from the Listing (the “**Net Proceeds**”), after deducting related underwriting commission and listing expenses, of approximately HK\$93.5 million were and will be utilised in accordance with the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 January 2019 (the “**Prospectus**”).

The Net Proceeds from the Listing Date to 30 September 2020 were utilised as follows:

	Planned use of Net Proceeds from the Listing Date to 30 September 2020 <i>HK\$ million</i>	Planned use of Net Proceeds in total <i>HK\$ million</i>	Actual use of Net Proceeds from the Listing Date to 30 September 2020 <i>HK\$ million</i>	Remaining balance of Net Proceeds as at 30 September 2020 <i>HK\$ million</i>	Expected timeline for the use of the remaining balance of the Net Proceeds
Strengthen the capacity in undertaking more building construction and RMAA works projects in Hong Kong	66.7	66.7	66.7	–	N/A
Strengthen the manpower	14.4	14.4	4.8	9.6	31 March 2022
Upgrade and renovation of office	3.6	3.6	2.1	1.5	30 June 2022
Develop engineering and technological innovation	2.9	2.9	2.5	0.4	31 March 2021
General working capital	5.9	5.9	5.9	–	N/A
	<u>93.5</u>	<u>93.5</u>	<u>82.0</u>	<u>11.5</u>	

USE OF PROCEEDS *(continued)*

From the Listing Date to 30 September 2020, the Group has not yet utilised the proceeds allocated during the six months ended 30 September 2020 for (i) strengthening manpower; and (ii) developing engineering and technological innovation as planned. The delay in utilisation of the Net Proceeds in the abovementioned areas was due to (i) the difficulty in recruiting suitable candidates for the positions which were created as planned; and (ii) the delay in development of the Group's technological innovation. The Group plans to utilise the unutilised portion of the Net Proceeds allocated for the six-months period ended 30 September 2020 during the coming six months ending 31 March 2021.

The Group will continue to apply the Net Proceeds in accordance with the disclosure in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

DEBTS AND CHARGE ON ASSETS

As at 30 September 2020, the Group has no bank borrowings (as at 31 March 2020: nil). The lease liabilities of the Group amounted to approximately HK\$4.4 million as at 30 September 2020 (as at 31 March 2020: approximately HK\$7.1 million).

As at 30 September 2020, the banking facilities of the Group were secured by (i) the Group's pledged bank deposits; and (ii) corporate guarantee executed by the Group.

The Group's borrowings were denominated in Hong Kong dollar and interests on borrowings were mainly charged at floating rate. The Group currently does not have any interest rate hedging policy while the Group pays vigilant attention to and monitors interest rate risks continuously and cautiously.

FOREIGN EXCHANGE EXPOSURE

The Group has a minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in Hong Kong dollar. As such, the Directors believe that the Group's risk in foreign exchange is insignificant so the Group is not necessary to arrange any foreign currency hedging policy currently.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 September 2020, other than the shareholding in the subsidiaries of the Company, there were no significant investments held by the Company. There were no material acquisitions or disposals of subsidiaries and associated companies by the Group during the six months ended 30 September 2020.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend to the shareholders of the Company for the six months ended 30 September 2020 (six months ended 30 September 2019: nil).

SHARE OPTIONS SCHEME

The Company has adopted a share option scheme (the “**Share Option Scheme**”) on 21 January 2019. No share option has been granted, exercised, expired, cancelled or lapsed under the Share Option Scheme since its adoption date and up to 30 September 2020.

SHARE AWARD PLAN

The Board adopted a share award plan (the “**Share Award Plan**”) on 31 July 2020 (the “**Adoption Date**”), under which any employee of the Group and its invested entities who, contributes to the Group or its invested entities (the “**Eligible Participants**”) will be entitled to participate. The purposes of the Share Award Plan are:

- i. to recognise and reward the contribution of the Eligible Participants to the growth and development of the Group;
- ii. to give incentives to the Eligible Participants in order to retain them for the continual operation and development of the Group; and
- iii. to attract suitable personnel for further development of the Group.

The Group has set up a trust (the “**Share Award Plan Trust**”) for the purpose of administering the Share Award Plan. The Share Award Plan Trust will acquire the Shares from the Stock Exchange, with a maximum amount of funds to be allocated by the Board, and hold such Shares until they are vested. Unless early terminated by the Board, the Share Award Plan shall be valid and effective for a period of 10 years commencing from the Adoption Date.

The Share Award Plan shall not exceed 10% of the total number of issued Shares as at the Adoption Date (i.e. 80,000,000 Shares) to be subscribed for the purchase of the Shares to be awarded to the Eligible Participants to be selected by the Board.

No Share has been held, granted or vested under the Share Award Plan since its Adoption Date and up to 30 September 2020.

For further information in relation to the Share Award Plan, please refer to the Company’s announcement on 31 July 2020.

EVENTS AFTER THE REPORTING PERIOD

There have been no other significant events occurred after 30 September 2020 and up to the date to this announcement which require disclosure.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining the highest standard of corporate governance as the Board recognises the importance of sound corporate governance to the long term and continuing success of the Group. The corporate governance principles of the Group emphasise transparency, accountability and independence. The Board commits to continuously reviewing and enhancing the Group's corporate governance practices and procedures for the best interest of the Company's shareholders.

During the six months ended 30 September 2020 and up to the date of this announcement, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules except the deviation mentioned in the paragraph below.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer (the "**CEO**") should be separated and should not be performed by the same individual. Since the Listing Date and up to the date of this announcement, Mr. Tsang Ka Yip ("**Mr. KY Tsang**") has been the chairman of the Board and the CEO of the Company. Given the nature and extent of the Group's operations and Mr. KY Tsang's in-depth knowledge and experience in the industry in which the Group operates and his familiarity with the operations of the Group, the Board believes that it is the most beneficial to the Group and the shareholders as a whole to have Mr. KY Tsang acting as the chairman of the Board and CEO of the Company at the same time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by directors of listed issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries to each of the Directors and all Directors have confirmed that they have fully complied with the required standard set out in the Model Code during the six months ended 30 September 2020.

AUDIT COMMITTEE REVIEW

The Audit Committee was established on 21 January 2019 with specific written terms of reference which clearly deals with its authority and duties.

The Audit Committee is mainly responsible for (a) maintaining the relationship with the Company's auditor; (b) reviewing the Company's financial information; (c) overseeing the Company's financial reporting system, risk management and internal control systems; and (d) overseeing the Company's continuing connected transactions. The full version of the terms of reference of the Audit Committee is available on the Stock Exchange's website at "www.hkexnews.hk" and the Company's website at "www.wecon.com.hk".

The Audit Committee is made up of three independent non-executive Directors, namely Mr. Sze Kwok Wing Nigel (Chairman), Dr. Lau Chi Keung and Mr. Chan Tim Yiu Raymond. The composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules.

The interim condensed consolidated financial information of the Group during the six months ended 30 September 2020 has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at "www.hkexnews.hk" and on the website of the Company at "www.wecon.com.hk". The interim report of the Company for the six months ended 30 September 2020 will be despatched to the shareholders and published on the above websites according to the Listing Rules.

By order of the Board
Wecon Holdings Limited
Tsang Ka Yip
Chairman and Chief Executive Officer

Hong Kong, 26 November 2020

As at the date of this announcement, the executive Directors are Mr. Tsang Ka Yip (Chairman), Mr. Tsang Tsz Him Philip and Mr. Tsang Tsz Kit Jerry; and the independent non-executive Directors are Mr. Chan Tim Yiu Raymond, Dr. Lau Chi Keung and Mr. Sze Kwok Wing Nigel.