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均安控股

Kwan On Holdings

KWAN ON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1559)

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

The board (the “**Board**”) of Directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 September 2020 (the “**Reporting Period**”), together with comparative figures for the corresponding preceding period, as follows:

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

For the six months ended 30 September 2020

		Six months ended 30 September	
	<i>Notes</i>	2020	2019
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	5	264,570	243,032
Cost of services		(245,018)	(218,413)
Gross profit		19,552	24,619
Other income		10,455	7,304
Other gains and losses		(150)	5
Administrative expenses		(21,918)	(22,561)
Finance costs	6	(4,206)	(3,722)
Profit before tax		3,733	5,645
Income tax expense	7	(181)	(611)

		Six months ended	
		30 September	
	<i>Notes</i>	2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit for the period	8	3,552	5,034
Other comprehensive income/(expense)			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income		<u>14,361</u>	<u>(9,401)</u>
		<u>14,361</u>	<u>(9,401)</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>5,799</u>	793
		<u>5,799</u>	793
Other comprehensive income/(expense) for the period		<u>20,160</u>	<u>(8,608)</u>
Total comprehensive income/(expense) for the period		<u><u>23,712</u></u>	<u><u>(3,574)</u></u>
Profit for the period attributable to:			
Owners of the Company		3,832	4,821
Non-controlling interests		<u>(280)</u>	<u>213</u>
		<u><u>3,552</u></u>	<u><u>5,034</u></u>
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		24,001	(3,787)
Non-controlling interests		<u>(289)</u>	<u>213</u>
		<u><u>23,712</u></u>	<u><u>(3,574)</u></u>
Earnings per share			
– Basic and diluted (HK cents)	9	<u><u>0.24</u></u>	<u><u>0.40</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	47,740	45,265
Right-of-use assets	<i>11</i>	13,737	17,186
Interest in associates		36	36
Financial assets at fair value through other comprehensive income	<i>12</i>	36,453	20,578
Other receivables		<u>54,891</u>	<u>53,635</u>
		<u>152,857</u>	<u>136,700</u>
Current assets			
Inventories	<i>13</i>	171,063	161,284
Trade and other receivables	<i>14</i>	178,861	181,103
Amount due from an associate		69,304	69,306
Amounts due from other partners of joint operations		262	3,184
Contract assets		258,623	222,950
Pledged bank deposits		43,745	43,745
Bank balances and cash		<u>49,253</u>	<u>109,532</u>
		<u>771,111</u>	<u>791,104</u>
Current liabilities			
Contract liabilities		37,313	21,298
Lease liabilities		6,188	6,400
Trade and other payables	<i>15</i>	109,117	103,030
Amounts due to other partners of joint operations		4,620	11,127
Bank borrowings		145,125	185,001
Income tax payable		<u>2,272</u>	<u>3,050</u>
		<u>304,635</u>	<u>329,906</u>
Net current assets		<u>466,476</u>	<u>461,198</u>
Total assets less current liabilities		<u>619,333</u>	<u>597,898</u>

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Non-current liabilities		
Lease liabilities	8,589	11,629
Bank borrowings	67,144	66,563
Deferred tax liabilities	3,738	3,556
	<u>79,471</u>	<u>81,748</u>
NET ASSETS	<u>539,862</u>	<u>516,150</u>
Capital and Reserves		
Share capital	15,840	15,840
Reserves	524,678	500,677
	<u>540,518</u>	<u>516,517</u>
Equity attributable to owners of the Company	540,518	516,517
Non-controlling interests	(656)	(367)
	<u>539,862</u>	<u>516,150</u>
TOTAL EQUITY	<u>539,862</u>	<u>516,150</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 6 December 2012, as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands. The registered office of the Company is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is at Unit 2801, 118 Connaught Road West, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong. The Group also engaged in building works and property development in Southeast Asia.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the Reporting Period have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

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

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

The Preparation of an interim report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2020.

Application of new and amendments of HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current period:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendment to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
HKFRS 17	Insurance Contracts

The application of the new and amendment to HKFRSs in the current period has had no material effect on the amounts reported and/or the disclosures set out in the Interim Financial Statements.

4. 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 revenue and results

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

For the period ended 30 September 2020

	Construction <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>264,570</u>	<u>–</u>	<u>264,570</u>
RESULTS			
Segment results	<u>14,473</u>	<u>(436)</u>	<u>14,037</u>
Interest income			2,799
Exchange loss – net			(556)
Finance costs arisen from bank loans			(3,756)
Finance costs arisen from lease liabilities			(450)
Central administrative costs and directors' emoluments			<u>(8,341)</u>
			<u>3,733</u>

For the period ended 30 September 2019

	Construction <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>243,032</u>	<u>–</u>	<u>243,032</u>
RESULTS			
Segment results	<u>13,282</u>	<u>(214)</u>	<u>13,068</u>
Interest income			3,303
Exchange loss – net			3,865
Finance costs arisen from lease liabilities			(22)
Finance costs arisen from bank loans			(3,700)
Central administrative costs and directors' emoluments			<u>(10,869)</u>
			<u>5,645</u>

Other information

Amounts included in the measure of segment results:

For the period ended 30 September 2020

	Construction	Property	Total
	<i>HK\$'000</i>	<i>development</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment	150	–	150
Depreciation of right-of-use asset	2,904	–	2,904
Depreciation of property, plant and equipment	2,852	–	2,852
	<u>2,852</u>	<u>–</u>	<u>2,852</u>

For the period ended 30 September 2019

	Construction	Property	Total
	<i>HK\$'000</i>	<i>development</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	5	–	5
Depreciation of right-of-use assets	1,246	–	1,246
Depreciation of property, plant and equipment	1,902	–	1,902
	<u>1,902</u>	<u>–</u>	<u>1,902</u>

Segment assets and liabilities

As at 30 September 2020

	Construction <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	<u>666,590</u>	<u>183,934</u>	<u>850,524</u>
Reportable segment liabilities	<u>301,193</u>	<u>71,987</u>	<u>373,180</u>
Other segment information:			
Additions to non-current assets	<u>6,116</u>	<u>–</u>	<u>6,116</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.

As at 31 March 2020

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

	30 September	31 March
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Total reportable segment assets	850,524	818,777
Financial assets at fair value through other comprehensive income	36,453	20,578
Unallocated corporate assets – property, plant and equipment	31,094	31,643
Unallocated corporate assets – bank balances and cash	2,608	52,930
Other unallocated corporate assets	3,289	3,876
	<hr/>	<hr/>
Total assets	923,968	927,804
	<hr/> <hr/>	<hr/> <hr/>

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

	30 September	31 March
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Total reportable segment liabilities	373,180	400,032
Unallocated corporate liabilities – bank borrowings	9,935	10,182
Other unallocated corporate liabilities	991	1,440
	<hr/>	<hr/>
Total liabilities	384,106	411,654
	<hr/> <hr/>	<hr/> <hr/>

Geographical information

All of the Group's revenue was derived from Hong Kong. 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.

	Non-current Assets	
	30 September	31 March
	2020	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
– Hong Kong (city of domicile)	69,165	68,137
– Thailand	47,203	47,949
	116,368	116,086

Information about major customers

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

	30 September	30 September
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
– Customer A	109,307	80,900
– Customer B	42,390	–
– Customer C	31,967	72,879
– Customer D	31,365	–
– Customer E	31,358	–

5. REVENUE

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

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15 for the period ended 30 September 2020:		
Revenue by services lines:		
– Provision of construction and maintenance works on civil engineering contracts, recognised over time	<u>264,570</u>	<u>243,032</u>

6. FINANCE COSTS

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowing	6,827	4,199
Lease liabilities	<u>449</u>	<u>22</u>
	7,276	4,221
Less: Amount capitalised in inventories	<u>(3,070)</u>	<u>(499)</u>
	<u>4,206</u>	<u>3,722</u>

Borrowing costs capitalised are interest expenses incurred for financing the development of qualifying assets specifically. The capitalisation rate of borrowings is 7.5% (for the six months ended 30 September 2019: 7.5%).

7. INCOME TAX EXPENSES

On 21 March 2018, the Legislative Council of HK Special Administrative Region passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced 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 the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the Two-tiered Profits Tax Rates Regime will continue to be taxed at a flat rate of 16.5%. The Directors considered the amount involved upon implementation of the Two-tiered Profits Tax Rates Regime is insignificant to the condensed consolidated financial statements. HK Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

8. PROFIT FOR THE PERIOD

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	3,449	2,419
Depreciation of right-of-use assets	3,367	1,246
	<u>3,449</u>	<u>2,419</u>
	<u>3,367</u>	<u>1,246</u>

9. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings purpose	3,832	4,821
	<u>3,832</u>	<u>4,821</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,584,000	1,584,000
	<u>1,584,000</u>	<u>1,584,000</u>

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

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST						
At 1 April 2019	32,882	1,010	5,887	13,949	17,535	71,263
Additions	–	330	–	1,830	6,668	8,828
Disposals	–	–	–	(537)	(852)	(1,389)
At 31 March 2020	<u>32,882</u>	<u>1,340</u>	<u>5,887</u>	<u>15,242</u>	<u>23,351</u>	<u>78,702</u>
Additions	–	–	–	4,820	1,296	6,116
Disposal	–	–	–	(1)	(1,105)	(1,106)
At 30 September 2020	<u>32,882</u>	<u>1,340</u>	<u>5,887</u>	<u>20,061</u>	<u>23,542</u>	<u>83,712</u>
ACCUMULATED DEPRECIATION						
At 1 April 2019	1,316	320	4,770	11,406	11,916	29,728
Charge for the year	658	287	351	1,326	2,261	4,883
Eliminated on disposals	–	–	–	(537)	(637)	(1,174)
At 31 March 2020	<u>1,974</u>	<u>607</u>	<u>5,121</u>	<u>12,195</u>	<u>13,540</u>	<u>33,437</u>
Charge for the year	328	158	135	967	1,779	3,367
Eliminated on disposal	–	–	–	–	(832)	(832)
At 30 September 2020	<u>2,302</u>	<u>765</u>	<u>5,256</u>	<u>13,162</u>	<u>14,487</u>	<u>35,972</u>
CARRYING VALUES						
At 30 September 2020	<u><u>30,580</u></u>	<u><u>575</u></u>	<u><u>631</u></u>	<u><u>6,899</u></u>	<u><u>9,055</u></u>	<u><u>47,740</u></u>
At 31 March 2020	<u><u>30,908</u></u>	<u><u>733</u></u>	<u><u>766</u></u>	<u><u>3,047</u></u>	<u><u>9,811</u></u>	<u><u>45,265</u></u>

The above items of property, plant and equipment, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	50 years or over the lease terms, whichever is shorter
Leasehold improvements	38% or over the lease terms, whichever is shorter
Furniture and fixtures	20% – 25%
Machinery	15% – 25%
Motor vehicles	25%

As at 30 September 2020, the Group's leasehold land and building with carrying amount amounting to approximately HK\$30,580,000 (31 March 2020: HK\$30,908,000) was pledged to secure banking facilities granted to the Group.

As at 30 September 2020, included in the property, plant and equipment is the Group's right-of-use assets, in respect of leasehold land and building under long lease located in Hong Kong of HK\$30,580,000 (31 March 2020: HK\$30,908,000) of which the Group is the registered owner of these properties interests. The Group holds commercial properties for its operations in Hong Kong, where its office premises are located. Lump sum payments were made upfront to acquire these properties interests from their previous registered owner in Hong Kong, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the government authorities. These payments vary from time to time and are payable to the government authorities.

11. RIGHT OF USE ASSETS

	Leasehold properties <i>HK\$'000</i>
COST	
At 1 April 2019	1,814
Additions	<u>20,274</u>
At 31 March 2020	<u>22,088</u>
Additions	<u>–</u>
At 30 September 2020	<u>22,088</u>
ACCUMULATED DEPRECIATION	
At 1 April 2019	–
Charge for the year	<u>4,902</u>
At 31 March 2020	<u>4,902</u>
Charge for the year	<u>3,449</u>
At 30 September 2020	<u>8,351</u>
CARRYING VALUE	
At 30 September 2020	<u><u>13,737</u></u>
At 31 March 2020	<u><u>17,186</u></u>

The Group has obtained the right to use other properties as its office premises through tenancy agreements. These leases typically run for an initial period of 2 to 5 years.

In addition to the above, the Group has right-of-use assets related to properties interests of which the Group is the registered owner. Details of which are set out in Note 10 to these consolidated financial statements.

12. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Equity investments designated at fair value through other comprehensive income		
Common shares listed on The Philippine Stock Exchange., Inc., at market value	<u>36,453</u>	<u>20,578</u>

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

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

During the year ended 31 March 2019, IRC had increased its number of issued common shares to 6,061,578,964. Accordingly the equity interest of the Group was immediately diluted. As at 30 September 2020 and 31 March 2020, the Group held the interest of IRC was approximately 3.3%.

13. 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 (six months ended 30 September 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.

As at 30 September 2020, the Group’s freehold land, amounting to approximately HK\$162,352,000 (31 March 2020: HK\$155,339,000) was pledged to secure banking facilities granted to the Group.

14. TRADE AND OTHER RECEIVABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade receivables	17,425	11,609
Performance deposit (<i>Note (a)</i>)	29,782	29,782
Receivables in respect of construction materials procurement (<i>Note (b)</i>)	–	15,589
Other receivables in relation to a transferred construction project (<i>Note (c)</i>)	72,073	69,408
Other receivables (<i>Note (d)</i>)	4,434	4,374
VAT recoverable	12,738	12,201
Receivables from subcontractors (<i>Note (e)</i>)	64,864	61,469
Less: allowance for impairment of other receivables	(2,557)	(2,557)
Net other receivables	181,334	190,266
Prepayments and deposits	34,992	32,863
Total trade and other receivables	233,751	234,738
Less: Classified under non-current assets	(54,890)	(53,635)
	178,861	181,103

Notes:

- (a) 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.
- (b) 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 the 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 during the reporting period.

- (c) On 2 April 2018, the Group entered into a subcontracting agreement with an independent overseas main contractor for a construction project in Thailand. 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**”). The certified value of works completed by the Group amounted to THB477,318,232 (equivalent to approximately HK\$116,600,000) (the “**Receivable**”). 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.

In 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 in 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.

- (d) 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 30 September 2020 (31 March 2020: HK\$1,901,000). The balance is unsecured, interest-free and repayable on demand.
- (e) The amount represented the expenses paid on behalf of the subcontractors and is expected to be settled upon completion of the related contracts.

Trade receivables

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.

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Within 30 days	17,425	11,609

As at 30 September 2020, the Group had no trade receivables that were past due nor impaired (31 March 2020: Nil).

Other receivables

The movements of loss allowance for other receivables are as follows:

	<i>HK\$'000</i>
At 1 April 2018, 31 March 2019, 1 April 2019, 31 March 2020 and 30 September 2020	<u><u>2,557</u></u>

15. TRADE AND OTHER PAYABLES

	30 September	31 March
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	48,194	45,332
Retention payables	43,580	41,075
Amount due to non-controlling interest of a subsidiary – <i>Note</i>	4,035	2,647
Other payables and accruals	13,308	13,976
	<u>109,117</u>	<u>103,030</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.

	30 September	31 March
	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	23,147	18,971
More than 30 days but within 90 days	957	1,460
More than 90 days	24,090	24,901
	<u>48,194</u>	<u>45,332</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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in construction and property development in both Hong Kong and Southeast Asia. During the period under review, all the reported revenue of the Group was contributed by the construction segment, in which civil engineering contracts in Hong Kong continued to provide a reliable source of income to the Group. Despite the challenging times with the COVID-19 pandemic worldwide and the increasing pressure on the construction cost, the Group's total revenue still rose by 8.9% compared to the same period last year and recorded a gross profit of HK\$19.6 million.

Construction

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**”).

As at 30 September 2020, the Group had 14 contracts in progress in Hong Kong including contracts awarded to the Group and to the Group's joint venture and joint operations. The estimated outstanding contract sum as at 30 September 2020 amounted to approximately HK\$1.0 billion (31 March 2020: HK\$1.2 billion).

Property development

The Group owns two contiguous parcels of land for development use. Each of the two parcels of land is located at 550 Jorge Bocobo Extension, Ermita, Manila, National Capital Region, the Philippines (the “**Property**”), which comprises a hotel offering 145 rooms and a carparking lot. The Property is planned to be redeveloped into two apartment towers. As per two Transfer Certificates of Title Nos. 234272 and 271712, the Property has a site area of approximately 3,312.00 sq.m. The proposed development of the Property has a proposed gross floor area (“**GFA**”) of approximately 128,132.00 sq.m and a proposed saleable area of approximately 104,294.00 sq.m.

According to the current plan, the Property 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 start of the construction work was delay due to quarantine and other preventive measures against the COVID-19 pandemic in the Philippines. The management are closely monitoring the situation and work to finalise the construction and building design plan that is yet to be approved by the local authority.

PROSPECTS

The second half year is expected to remain challenging amid the increasing uncertainties arising from the outbreak of COVID-19 and US-China trade tensions. Nevertheless, we remain confident in the Group's capability to response to the external challenges. In order to maximising return to our shareholders, we will continue to enhance artificial intelligence project management and participate in the civil engineering projects by Hong Kong Government, that is able to provide a stable income stream to the Group. Meanwhile, we will also make use of the advantages of the background of the Group's largest shareholder and thus explore other promising opportunities of overseas projects.

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Period rose 8.9% to HK\$264.6 million from 243.0 million, thanks to the revenue growth in LPM services contract. During the Reporting Period, LPM services contract recorded a revenue of HK\$39.1 million during the Period, representing a growth of 142.8% or HK\$23.0 million as compared with the same period last year. The increase was mainly due to the revenue contributed by the project GE201801 and HA20189123, which were commenced in the third quarter of last year and hence did not contribute any revenue in the last interim period.

During the Reporting Period, waterworks engineering services contract recorded a revenue of HK\$27.7 million, down 19.1% or HK\$6.5 million as compared with the same period last year. However, the effect was mostly offset by the growth of revenue from road works and drainage contracts of HK\$5.1 million during the Reporting period, representing an increase of 2.6% from HK\$192.7 million as compared with the same period last year.

Cost of Services

Cost of services increased to HK\$245.0 million for the Reporting Period, representing an increase of 12.2% from HK\$218.4 million as compared with the same period last year. The increase was in associate with the increase in revenue and the decrease in gross profit margin for the Reporting Period.

Gross Profit

Gross Profit for the Reporting Period was HK\$19.6 million, representing a decrease of HK\$5.1 million or 20.6% when compared with the same period last year (six months ended 30 September 2019: HK\$24.6 million).

The gross profit margin was 7.4% in the Reporting period, representing a decrease of 20.6% against the 10.1% margin in the same period last year. The decrease was mainly attributable to the drop of gross profit margin of road works and drainage contracts to 7.7% in the Reporting period from 13.2% in the same period last year.

Other income

Other income for the Reporting Period amounted to approximately HK\$10.5 million (six months ended 30 September 2019: HK\$7.3 million). The main reason for the increase was an income contributed from the HKSAR government subsidy under the employment support scheme.

Administrative expenses

Administrative expenses for the Reporting Period were approximately HK\$21.9 million (six months ended 30 September 2019: HK\$22.5 million), which is relatively stable when compared with the same period last year.

Finance costs

Finance costs for the Reporting Period to approximately HK\$4.2 million (six months ended 30 September 2019: HK\$3.7 million). The increase was mainly due to the increase of finance cost arisen from lease liabilities.

Income tax

Income tax expenses decreased to approximately HK\$0.2 million (six months ended 30 September 2019: HK\$0.6 million) for the Reporting Period. Such decrease was in line with the decrease in profit before tax for Hong Kong operation.

Profit and total comprehensive income

As a result of the foregoing, profit for the Reporting Period amounted to approximately HK\$3.5 million (six months ended 30 September 2019: HK\$5.0 million).

The Group recorded a fair value gain of financial asset through other comprehensive income of approximately HK\$14.4 million (six months ended 30 September 2019: fair value loss of HK\$9.4 million). The gain represented the changes in the quoted market price of 200,000,000 common shares in IRC Properties Inc. at the end of the Reporting Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by banks. As at 30 September 2020, the Group had bank and cash of approximately HK\$49.3 million (31 March 2020: HK\$109.5 million), while outstanding borrowings amounted to approximately HK\$212.3 million (31 March 2020: HK\$251.6 million). The change in bank and cash was mainly attributable to (i) cash outflow from purchasing plant and equipment approximately HK\$6.1 million; (ii) Cash outflow from net decrease of bank borrowing amounted to approximately HK\$42.6 million; and (iii) Cash outflow from interest and finance charges paid approximately HK\$6.8 million.

As at 30 September 2020, the Group had pledged bank deposits of approximately HK\$43.7 million (31 March 2020: HK\$43.7 million). The current ratio as at 30 September 2020 was approximately 2.53 times (31 March 2020: 2.40 times). Net current assets amounted to approximately HK\$466.5 million (31 March 2020: HK\$461.2 million). Gearing ratio, calculated based on net debt (including contract liabilities, lease liabilities, trade and other payables, amount due to other partners of joint operations, bank borrowings less bank balances and cash and pledged bank deposit) divided by total capital, was approximately 52.8% as at 30 September 2020 (31 March 2020: 48.8%).

The Group mainly operates in Hong Kong, Philippines and Thailand with most of the transactions originally denominated in the respective local currency. Foreign exchange risk arises when future commercial transactions or recognised financial assets or liabilities are denominated in a currency that is not the entity's functional currency. As at 30 September 2020, the Group is exposed to foreign exchange risk from various currencies, primarily with respect to Philippine peso (“**PHP**”) and Thai baht (“**THB**”).

Except for receivables in relation to a transferred construction project which is denominated in THB and property under development for sales and certain receivables denominated in PHP, which is approximately HK\$72 million, HK\$171 million and HK\$22.4 million respectively, the Group will not be exposed to any other significant exchange risk.

The Group manage its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. As at 30 September 2020, the Group did not enter into any foreign exchange contracts, currency swaps or other financial derivatives. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 30 September 2020, the Group did not have any capital commitments (31 March 2020: Nil). Save for any contingent liabilities which may arise from any of the litigations disclosed herein, the Group had no material contingent liabilities as at 30 September 2020 (31 March 2020: Nil).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the Reporting Period. The share capital of the Group only comprises of ordinary shares. As at 30 September 2020, the Company's issued share capital was HK\$15,840,000 and the number of its issued ordinary shares was 1,584,000,000 of HK\$0.01 each.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 September 2020, the Group had a total of 291 (31 March 2020: 358) employees, who include the Directors. Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

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

Directors’ Securities Transactions

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

Audit Committee

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

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

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

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

DIVIDENDS

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 March 2015 (the “**Scheme**”). No share option has been granted since adoption and there were no share options outstanding as at 30 September 2020.

PUBLICATION OF 2020 INTERIM REPORT

The 2020 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and will also be published on the website of the Company at <http://www.kwanonconstruction.com> and the website of the Stock Exchange at <http://www.hkexnews.hk>.

By Order of the Board
Kwan On Holdings Limited
Chen Zhenghua
Chairman

Hong Kong, 30 November 2020

As at the date of this announcement, the Executive Directors are Mr. Chen Zhenghua, Mr. Zhang Fangbing, and Mr. Cao Lei; and the Independent Non-Executive Directors are Professor Lam Sing Kwong, Simon, Mr. Lum Pak Sum and Mr. Gong Zhenzhi.