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 2023

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 2023 (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 2023

	Notes	**2023** **HK$'000**	2022 *HK$'000*
Revenue	*4*	**624,187**	515,361
Cost of sales and services rendered		**(655,780)**	(551,079)
Gross loss		**(31,593)**	(35,718)
Net (impairment losses)/reversal of impairment losses on financial and contract assets		**(35,060)**	774
Other income	*4*	**12,797**	5,984
Other (loss)/gain	*4*	**(7,973)**	2,139
Administrative expenses		**(41,299)**	(37,921)
Share of profit of an associate		**–**	54
Finance costs	*5*	**(9,222)**	(6,310)
Loss before tax		**(112,350)**	(70,998)
Income tax credit	*6*	**128**	2,144
Loss for the year	*7*	**(112,222)**	(68,854)
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		**(850)**	(13,367)
		(850)	(13,367)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(15,074)**	(12,789)
		(15,074)	(12,789)
Other comprehensive expense for the year, net of nil income tax		**(15,924)**	(26,156)
Total comprehensive expense for the year		**(128,146)**	(95,010)

	Notes	**2023** *HK$'000*	2022 *HK$'000*
Loss for the year attributable to:			
Owners of the Company		**(111,719)**	(67,965)
Non-controlling interests		**(503)**	(889)
		(112,222)	(68,854)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(127,668)**	(94,174)
Non-controlling interests		**(478)**	(836)
		(128,146)	(95,010)
Loss per share			
Basic (HK cents)	*9*	**(6.44)**	(4.29)

Consolidated Statement of Financial Position

As at 31 March 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment		**39,255**	42,680
Right-of-use assets		**9,229**	13,916
Interests in associates		**68**	68
Equity instrument at fair value through other comprehensive income		**25,703**	27,600
Other receivables	*10*	**5,644**	6,676
Deferred tax asset		**3,181**	–
		83,080	90,940
Current assets			
Inventories		**164,787**	167,929
Trade and other receivables	*10*	**171,777**	184,729
Contract assets		**291,812**	133,832
Pledged bank deposits		**95,457**	82,157
Cash and cash equivalents		**47,624**	149,353
		771,457	718,000
Current liabilities			
Contract liabilities		**32,977**	15,509
Trade and other payables	*11*	**247,907**	81,958
Amount due to a related company		**29,156**	15,969
Amount due to an associate		**24**	24
Amounts due to other partners of joint operations		**4,056**	10,685
Bank borrowings		**149,150**	199,706
Provision		**8,269**	–
Lease liabilities		**8,170**	6,305
Income tax payable		**9,151**	5,588
		488,860	335,744
Net current assets		**282,597**	382,256
Total assets less current liabilities		**365,677**	473,196

	2023	2022
	HK$'000	*HK$'000*
Non-current liabilities		
Bank borrowings	**20,872**	36,136
Lease liabilities	**2,836**	8,334
Deferred tax liabilities	**2,313**	2,583
	26,021	47,053
NET ASSETS	**339,656**	426,143
Capital and Reserves		
Share capital	**18,692**	15,840
Reserves	**322,826**	411,687
Equity attributable to owners of the Company	**341,518**	427,527
Non-controlling interests	**(1,862)**	(1,384)
TOTAL EQUITY	**339,656**	426,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2023

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 3401, 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 related business, property development in Hong Kong and Southeast Asia and trading of construction and chemical materials.

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")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the Group's reporting periods beginning on or after 1 April 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these financial information.

Amendments to HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract"

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Previously, the Group included only incremental costs when determining whether a contract was onerous.

In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 April 2022, and has concluded that none of them is onerous.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 and the related Amendments	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leasebank[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 and Non-current Liabilities with Covenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after a date to be determined

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020 Amendments)" and "Non-current Liabilities with Covenants (2022 Amendments)"

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the 2020 Amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

Based on the Group's outstanding liabilities as at 31 March 2023, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty - that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 April 2023. As at 31 March 2023, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$9,229,000 and HK$11,006,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained profits/(accumulated losses) (or other component of equity, as appropriate) at the beginning of the earliest comparative period presented.

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 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 building works contracts;

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

Trading – trading of construction and chemical materials.

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/loss before income tax earned by each segment without allocation of interest income, net exchange gain, finance costs from lease liabilities, finance costs from bank borrowings and central administrative costs and directors' emoluments. Segment assets consist of all operating assets and exclude equity instrument 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 year ended 31 March 2023

	Construction *HK$'000*	**Property development** *HK$'000*	**Trading** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**529,540**	**–**	**94,647**	**624,187**
RESULTS				
Segment results	**(85,617)**	**(702)**	**99**	**(86,220)**

For the year ended 31 March 2022

	Construction *HK$'000*	Property development *HK$'000*	Trading *HK$'000*	Total *HK$'000*
REVENUE				
External sales	335,347	–	180,014	515,361
RESULTS				
Segment results	(56,844)	(415)	1,594	(55,665)

4. REVENUE, OTHER INCOME AND OTHER (LOSS)/GAIN

Revenue

The Group's revenue represents amount received and receivable from contract works performed and trading of construction and chemical materials.

(i) Disaggregation of revenue from contracts with customers

	2023 *HK$'000*	2022 *HK$'000*
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	**529,540**	335,347
– Trading of construction and chemical materials, recognised at a point in time	**94,647**	180,014
	624,187	515,361

(ii) ***Other income and other (loss)/gain***

An analysis of the Group's other income and other (loss)/gain recognised during the year is as follows:

	2023	2022
	HK$'000	*HK$'000*
Other income		
Bank interest income	**133**	17
Other interest income	**1,613**	3,454
Government grants *(Note a)*	**4,708**	–
Sundry income	**6,343**	2,513
	12,797	5,984
Other (loss)/gain		
Gain on disposal of property, plant and equipment	**406**	1,008
Gain on lease modification	**7**	21
Impairment loss for prepayments	**(6,500)**	–
Exchange (loss)/gain	**(1,886)**	1,110
	(7,973)	2,139

Note:

(a) The government grants recognised in other income represent the employment support scheme paid by the Government of the Hong Kong Special Administrative Region under the Anti-epidemic Fund. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

5. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest on bank borrowings	**11,609**	10,089
Interest on lease liabilities	**740**	754
Total interest expenses on financial liabilities not at fair value through profit or loss	**12,349**	10,843
Less: Amount capitalised in inventories	**(3,127)**	(4,533)
	9,222	6,310

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

6. INCOME TAX CREDIT

	2023	2022
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**2,509**	980
The PRC	**814**	–
	3,323	980
Over-provision in prior years:		
Hong Kong	**–**	(129)
The PRC	**–**	(275)
	–	(404)
Deferred tax	**(3,451)**	(2,720)
Income tax credit for the year	**(128)**	(2,144)

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 PRC subsidiary is subject to income tax at 25% for both years under Enterprise Income Tax Law ("**EIT law**").

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

7. LOSS FOR THE YEAR

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

	2023	2022
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**94,548**	178,605
Auditor's remuneration	**1,100**	1,050
Depreciation of property, plant and equipment	**6,735**	7,468
Depreciation of right-of-use assets	**9,097**	9,495

8. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss

	2023	2022
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	**(111,719)**	(67,965)

Number of ordinary shares:

	2023	2022
	'000	*'000*
Weighted average number of ordinary shares	**1,734,038**	1,584,000

Since there were no potential ordinary shares in issue during the years ended 31 March 2023 and 2022, no diluted loss per share is presented.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (before impairment loss) of HK$7,509,000 (2022: HK$23,770,000) with aging analysis based on the invoice date at the end of the reporting period, is as follows:

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**7,509**	23,770

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$73,526,000 (2022: HK$37,323,000) and an aging analysis based on invoice date at the end of reporting period is as follows:

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**6,897**	25,446
More than 30 days but within 90 days	**20,028**	3,890
More than 90 days	**46,601**	7,987
	73,526	37,323

BUSINESS REVIEW

The global economy is currently undergoing a gradual recovery from the adverse effects of the COVID-19 pandemic. However, the pace and extent of this recovery remain uncertain. The Group has been facing significant challenges in the civil engineering segment, primarily due to the lingering effect of the pandemic. The industry-wide challenges, including labour shortages and inflationary trends in material and labour costs, continued to significantly impact the Group's performance, placing considerable strain on our project timelines, budgets, and overall profitability.

Consequently, the estimated completion dates for our certain projects, namely NE201605, DC201810, GE201803, GE201801 and HA20170102, have been further postponed to the second or fourth quarter of 2023 due to these unforeseen challenges. Originally, these projects were projected to be completed in the third or fourth quarter of 2022, as estimated last year. The extended presence of project staff on-site has resulted in additional overhead costs for the Group, which have been further exacerbated by inflationary expenses. These factors have consistently driven down the estimated profit or increased the potential loss of the projects. Throughout the Reporting Year, the Group recorded a gross loss of HK$31.6 million. This total gross loss included an aggregated gross loss of HK$54.4 million from these prolonged projects. However, this loss was partly mitigated by the gross profit recognized in other projects.

Furthermore, the Group has encountered growing difficulties in securing new civil engineering projects under Hong Kong government contracts, primarily due to intense competition within the industry. This heightened competition had resulted in a decline in tender bidding prices and project profitability. The Group had succeeded in securing only one new government contract in the civil engineering segment in the Reporting Year. The management foresees that the civil engineering industry in Hong Kong will continue to be challenging in the year 2023. To navigate these obstacles, the Group is capitalizing on the support of our major shareholder's extensive business network and harnessing the expertise of our project management team. By leveraging these resources, the Group is actively exploring business opportunities in the mainland China and overseas construction markets, which offering a potential avenue for growth and expansion.

In the current financial year, the Group successfully secured construction contracts with two independent property developers in mainland China for private construction projects in commercial and residential buildings. The total value of these contracts awarded to the Group in Mainland China amounted to approximately HK$309.9 million. The Group also successfully secured engineering and pipework work contracts with Samsung Engineering (Malaysia) Sendirian Berhad in Malaysia. The total value of these contracts awarded to the Group in Malaysia amounted to approximately HK$202.0 million. Throughout the Reporting Year, these contracts in Mainland China and Malaysia have generated a revenue of HK$216.5 million and a profit of HK$4.3 million. These projects have proven to be a crucial stepping stone in the Group's efforts to expand our presence in the mainland China and overseas market. The management fully acknowledges the long-term potential and strategic importance of establishing a foothold in the new markets.

In the property development segment, the Group possesses two adjoining parcels of land located at 550 Jorge Bocobo Extension, Ermita, Manila, National Capital Region, the Philippines (referred to as the "Property"). The planned development for these parcels includes a gross floor area of approximately 128,132.00 sq.m and a saleable area of approximately 104,294.00 sq. m. The global epidemic had a significant economic impact and caused market changes. However, the local project teams continued with ongoing design work and pre-construction preparations without interruption. The management had been closely monitoring market conditions, conducting updated market studies, and adjusting design plans accordingly. The Group was also exploring collaboration with a reputable international hotel brand to develop executive apartments and residences. Ongoing discussions are being held to finalize the plan and meet the brand's quality requirements. The management intends to finalize the design and construction plan in the near future to maximize the Property's development potential.

FINANCIAL REVIEW

Construction related business

The segment reported a revenue of approximately HK$529.5 million for the Reporting Year, which reflected a substantial increase of 57.9% compared to the previous year's revenue of approximately HK$335.3 million. This significant increase was primarily attributed to the revenue of approximately HK$216.5 million generated from newly awarded contracts in Mainland China and Malaysia. However, for the Hong Kong contracts, the Group experienced a decrease in revenue of 6.3% from HK$334.2 million to HK$313.0 million year-on-year.

The revenue analysis by category is shown as follows:

	Year ended 31 March	
	2023	2022
	HK$000	*HK$000*
Waterworks	32,644	5,256
Road works and drainage and site formation work ("**Road Work**")	234,759	257,502
Landslip preventive and mitigation works to slopes and retaining walls services ("**LPM Services**")	30,841	60,920
Private sector in Hong Kong	14,763	10,536
Mainland China sector	197,410	–
Malaysia sector	19,123	1,133
	529,540	335,347

The revenue in the waterworks contracts for the Reporting Year significantly increased to HK$32.6 million from approximately HK$5.3 million in the previous year. This substantial increase in revenue was primarily driven by the revenue of approximately HK$31.2 million (2022: approximately HK$4.7 million) contributed by the contract 2WSD21. The 2WSD21 contract commenced in the third quarter of the previous Reporting Year and has yet to generate substantial income for the Group in the previous financial year.

Despite experiencing an 8.8% decline in revenue compared to the previous year, revenue from Road Works contracts remained the largest source of revenue for the Group in the Reporting Year, accounting for 44.3% of the total segment revenue. This decrease was mainly attributed to the substantial completion of contracts HY201319, HY201414, CV201808, and CV201501. Furthermore, the contract DC201810 was in its final stages after completing the peak contract works period. The combined revenue decrease from these contracts amounted to approximately HK$80.6 million. However, this decline was partially offset by an increase in revenue from contracts ED201902 and NE201605, which advanced to the main contract work stage and actively pursued the project deadline respectively. These two contracts contributed to an increase in revenue of HK$44.0 million compared to the previous Reporting Year. Additionally, the contract KL201203 recorded an increase in revenue of HK$12.4 million compared to the previous Reporting Year, primarily due to the recognition of an amount expected to be recovered through contractual claims during the finalization of the project's accounts with the government representative.

Revenue in the LPM works for the Reporting Year experienced a significant decrease of 49.4%, amounting to approximately HK$30.8 million compared to approximately HK$60.9 million in the previous year. This decline was mainly attributed to the contracts GE201803 and HA20189126 reaching their final stages. These contracts had already passed the peak contract works period in previous Reporting Years, resulting in a combined revenue decrease of approximately HK$29.4 million.

The Group recorded a significant increase in revenue of approximately HK$215.4 million from contracts in Mainland China and Malaysia. This growth was achieved by leveraging the support of our major shareholder's business network, which enabled us to successfully secure multiple construction contracts in both mainland China and Malaysia.

The gross profit margins by categories of work performed are set out below:

	Year ended 31 March	
	2023	2022
Waterworks	–18.4%	–127.5%
Road Work	–3.8%	–12.1%
LPM Services	–50.9%	–0.4%
Private sector in Hong Kong	20.5%	9.5%
Mainland China sector	1.7%	0.0%
Malaysia sector	5.0%	7.9%

During the Reporting Year, the Group reported a gross loss of approximately HK$31.7 million (2022: gross loss of approximately HK$34.2 million) for the construction related business. The Group's performance in the Hong Kong civil engineering segment was significantly affected by labor shortages and inflationary trends in material and labor costs. These challenges continued to have a notable impact on the project timeline and estimated project profitability.

Due to the additional time required to complete the projects and the inflated costs for the contract works, our project team has taken a cautious approach and adjusted down the estimated profit or increased the potential loss of the projects. Consequently, contracts NE201605, DC201810, GE201803, GE201801 and HA20170102 have reported gross losses of approximately HK$16.1 million, HK$17.6 million, HK$7.4 million, HK$7.5 million and HK$5.8 million, respectively. As a result, the Group has observed negative gross profit margins of 3.8% and 50.9% in Road Work and LPM services contracts. However, the gross losses were partially offset by an additional gross profit of HK$27.2 million recognized for estimated contractual claims during the finalization of contract KL201203 with the government representative.

In the waterwork contracts, the Group reported a gross loss of approximately HK$7.6 million, leading to negative gross profit margins of 18.4%. This loss was primarily attributed to the additional overhead costs incurred due to the extended time in concluding the final account for contract 1WSD17 with the government representative, despite all the contract works having been completed in the previous financial year.

Private sector contracts in Hong Kong include contracts with Hong Kong Tramways Ltd for tram track renewal and tram pole erection. These contracts generated a revenue of approximately HK$12.4 million, with a gross profit of approximately HK$4.4 million.

In addition, contracts awarded in mainland China and Malaysia contributed revenue of approximately HK$197.4 million and HK$19.1 million, respectively. The gross profit from the mainland China contract was approximately HK$3.3 million, while the Malaysia contract yielded a gross profit of approximately HK$1.0 million.

Trading business

The Group is involved in the trading of construction and chemical materials. During the Reporting Year, the Group recorded a revenue of approximately HK$94.6 million (2022: approximately HK$180.0 million) and a profit of approximately HK$0.1 million (2022: loss of approximately HK$1.5 million). This decline in trading revenue and profit can be attributed to a decrease in transaction volume. The management made a strategic decision to allocate more resources to the construction-related segment in mainland China, leading to a shift in focus.

Other income

Other income for the Reporting Year amounted to approximately HK$12.8 million, representing a notable increase compared to approximately HK$6.0 million in 2022. This significant rise in income can be primarily attributed to two one-off sources of income received during the year. Firstly, the Group received a government grant of HK$4.7 million as part of the employment support scheme. Additionally, the Group generated a one-time profit of HK$3.8 million by selling excess construction materials following the completion of a project. These one-off income sources contributed to the overall increase in other income for the Reporting Year. However, this increase in other income was partly offset by a decrease in other interest income. The decline in other interest income amounted to HK$1.8 million and was a result of fully receiving the interest-bearing receivable associated with a project transfer in the current Reporting Year.

Impairment losses on financial and contract assets

Impairment loss on financial and contract assets for the Reporting Year was approximately HK$ 35.1 million, whereas a reversal of impairment loss on financial and contract assets of approximately HK$ 0.8 million was recorded. According to the expected credit loss model, the Group is required to consider current conditions and forward-looking information when estimating expected credit losses. In the current Reporting Year, there was a significant increase in the proportion of private sector receivables, mainly due to newly awarded projects in mainland China and Malaysia. Consequently, the management has concluded that the credit risk associated with these receivables has considerably increased compared to the majority of receivables or contract assets associated with the HKSAR government in the previous year. Furthermore, an impairment loss provision of approximately HK$22.7 million was made for prepayments to subcontractors. This provision was provided after considering factors such as the discontinuation of subcontractors in ongoing contract works and the credit assessment of the subcontractors.

Other loss or gain

Other loss for the Reporting Year was approximately HK$8.0 million, whereas a gain of approximately HK$2.1 million was recorded in the previous Reporting Year. This increase in other loss can be attributed in part to the provision of impairment loss for prepaid expense of approximately HK$6.5 million (2022: Nil) and net exchange loss of approximately HK$1.9 million (2022: exchange gain of HK$1.1 million).

Administrative expenses

Administrative expenses for the Reporting Year slightly increased approximately HK$3.4 million to approximately HK$41.3 million (2022: approximately HK$37.9 million). Such increase can mainly be attributed to an increase of professional fee of approximately HK$1.1 million, an increase of traveling expense of approximately HK$0.9 million and an increase of entertainment expense of approximately HK$0.8 million.

Finance costs

The finance costs for the Reporting Year amounted to approximately HK$9.2 million, compared to approximately HK$6.3 million in 2022. This increase can be primarily attributed to the rise in the average borrowing cost of the Group. The average interest rate increased from 4.4% to 7.5% during the Reporting Year. This indicates that the group had to pay higher interest on its borrowings, resulting in increased finance costs.

Loss for the year

The loss for the year amounted to approximately HK$112.2 million, compared to approximately HK$68.9 million in 2022, representing a significant increase of 62.8% compared to the previous year. The primary factor contributing to this increase was the substantial rise in impairment losses on financial and contract assets, which amounted to HK$35.1 million in the current year, in contrast to a reversal of impairment losses on financial and contract assets of approximately HK$0.8 million recorded in the previous Reporting Year.

Other comprehensive (expense)/income

Other comprehensive expense for the Reporting Year amounted to approximately HK$15.9 million (2022: approximately HK$26.2 million). This change primarily resulted from a fair value loss of the investment in common shares of a company listed on the Philippine Stock Exchange, Inc. A loss of approximately HK$13.4 million was reported in the previous Reporting Year, contrasting with a loss of HK$0.9 million in the current Reporting Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2023, the Group had net current assets of approximately HK$282.6 million (2022: approximately HK$382.3 million). Current ratio of the Group as at 31 March 2023 was approximately 1.58 times (2022: approximately 2.14 times).

As at 31 March 2023, the gearing ratio, calculated based on the net debt (including trade and other payables, amounts due to other partners of joint operations, amount due to an associate, amount due to a related company, bank borrowings and lease liabilities, less bank balances and cash and pledged bank deposits) divided by total equity, was approximately 93.9% (2022: approximately 29.9%).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the Reporting Year.

COMMITMENTS

As at 31 March 2023, the Group did not have any significant capital commitments (2022: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures during the Reporting Year.

CONTINGENT LIABILITIES

Save for certain litigations involved, the Group did not have any material contingent liabilities as at 31 March 2023 (2022: 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. During the Reporting Year, the Group has received all remaining receivable and interest. The credit risk of the Group's trade and retention receivables is concentrated since 79% of which was derived from three major customers as at 31 March 2023 (2022: 63%). The Group's major bank balances are deposited with banks with good reputation and hence the management does not expect any losses from non-performance 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.

SIGNIFICANT INVESTMENTS HELD

As at 31 March 2023, the Group did not hold any significant investment with a value of 5 per cent. or more of the Group's total assets.

CHARGE OF GROUP'S ASSETS AND SECURITIES FOR BANKING FACILITIES

As at 31 March 2023, the Group's bank borrowings and other banking facilities are pledged by bank deposits amounting to approximately HK$95.5 million (2022: HK$82.2 million); leasehold land and building with an carrying value of approximately HK$28.9 million (2022: HK$29.6 million) ;and freehold land included in inventories with an carrying value of approximately HK$164.8 million (2022: HK$167.9 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2023, the Group employed a total of 284 employees, comprising 191 staff employed on a full-time basis and 93 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK$90.0 million for the Reporting Year (2022: approximately HK$80.9 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.

LITIGATIONS

As at 31 March 2023, the Group was involved in certain litigations. 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. Furthermore, a substantial and controlling shareholder has provided an undertaking to the Group, committing to covering all potential losses arising from the litigations. In the opinion of the Directors, the financial position and results of the Group would not be materially adversely affected by the ultimate liability under these claims.

PRIOR YEAR ADJUSTMENT

There is no prior year adjustment made in the consolidated financial statements of the Group for the Reporting Year.

SUBSEQUENT EVENTS

There is no subsequent event after the Reporting Year which has a material impact to 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 code provisions of the CG Code for the Reporting Year except for the following deviation.

CG Code Provision C.5.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 March 2023, only two regular board meetings were convened. However, the management have regularly updated the Board for the Group's business development with performance review through electronic means of communication. All the Board members are encouraged to express their opinions on the Company's matters. The Board was consulted for every crucial decision and the written resolutions were also circulated to all the Directors to obtain the board consents. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code. However, the Company will consider to hold regularly board meetings at approximately quarterly intervals in the future.

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 covenators 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 covenators 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.

Scope of Work of the External Auditor

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Reporting Year as set out in the preliminary announcement have been agreed by the Group's auditor, Crowe (HK) CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Crowe (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe (HK) CPA Limited on the preliminary announcement.

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 Reporting Year.

Publication of 2023 Annual Report

The 2023 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 2023

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.

This announcement will remain on the "Latest Listed 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.