

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2021**

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 2021 (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 2021

		Six months ended 30 September	
	<i>Notes</i>	2021	2020
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	5	287,639	264,570
Cost of services		(310,919)	(245,018)
Gross (loss)/profit		(23,280)	19,552
Other income		5,688	10,455
Other gains and losses		564	(150)
Administrative expenses		(17,210)	(21,918)
Finance costs	6	(2,917)	(4,206)
(Loss)/profit before tax		(37,155)	3,733
Income tax expense	7	–	(181)

		Six months ended	
		30 September	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(Loss)/profit for the period	8	<u>(37,155)</u>	<u>3,552</u>
Other comprehensive (expense)/income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income		<u>(6,955)</u>	<u>14,361</u>
		<u>(6,955)</u>	<u>14,361</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(8,204)</u>	<u>5,799</u>
		<u>(8,204)</u>	<u>5,799</u>
Other comprehensive (expense)/income for the period		<u>(15,159)</u>	<u>20,160</u>
Total comprehensive (expense)/income for the period		<u><u>(52,314)</u></u>	<u><u>23,712</u></u>
(Loss)/profit for the period attributable to:			
Owners of the Company		<u>(36,568)</u>	<u>3,832</u>
Non-controlling interests		<u>(587)</u>	<u>(280)</u>
		<u><u>(37,155)</u></u>	<u><u>3,552</u></u>
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		<u>(51,765)</u>	<u>24,001</u>
Non-controlling interests		<u>(549)</u>	<u>(289)</u>
		<u><u>(52,314)</u></u>	<u><u>23,712</u></u>
(Loss)/Earnings per share			
– Basic and diluted (HK cents)	9	<u><u>(2.31)</u></u>	<u><u>0.24</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	<i>Notes</i>	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	45,651	48,378
Right-of-use assets	<i>11</i>	10,392	14,560
Financial assets at fair value through other comprehensive income	<i>12</i>	34,352	43,240
Other receivables	<i>14</i>	20,998	28,531
		<u>111,393</u>	<u>134,709</u>
Current assets			
Inventories	<i>13</i>	168,018	174,078
Trade and other receivables	<i>14</i>	222,850	166,836
Contract assets		201,190	223,103
Amount due from an associate		27,878	27,878
Amount due from a related company		–	1,211
Amounts due from other partners of joint operations		–	209
Pledged bank deposits		72,610	58,612
Bank balances and cash		40,982	172,429
		<u>733,528</u>	<u>824,356</u>
Current liabilities			
Contract liabilities		36,192	79,409
Trade and other payables	<i>15</i>	104,024	103,129
Amounts due to other partners of joint operations		12,940	4,369
Bank borrowings		142,775	173,764
Lease liabilities		6,750	8,655
Income tax payable		5,014	2,320
		<u>307,695</u>	<u>371,646</u>
Net current assets		<u>425,833</u>	<u>452,710</u>
Total assets less current liabilities		<u>537,226</u>	<u>587,419</u>

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Non-current liabilities		
Bank borrowings	58,589	54,013
Lease liabilities	4,495	6,950
Deferred tax liabilities	5,303	5,303
	<u>68,387</u>	<u>66,266</u>
NET ASSETS	<u>468,839</u>	<u>521,153</u>
Capital and Reserves		
Share capital	15,840	15,840
Reserves	454,096	505,861
	<u>469,936</u>	<u>521,701</u>
Equity attributable to owners of the Company	469,936	521,701
Non-controlling interests	(1,097)	(548)
	<u>468,839</u>	<u>521,153</u>
TOTAL EQUITY	<u>468,839</u>	<u>521,153</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

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

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 also the 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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2021.

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:

Amendment to HKFRS 9, HKAS 39, Interest Rate Benchmark Reform – Phase 2
HKFRS 4, HKFRS 7 and HKFRS 16

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 unaudited condensed consolidated 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 three 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 building works contracts;

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

Trading – trading of 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 (loss)/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 borrowings 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 2021

	Construction	Property development	Trading	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	<u>175,871</u>	<u>–</u>	<u>111,768</u>	<u>287,639</u>
RESULTS				
Segment results	<u>(30,404)</u>	<u>(195)</u>	<u>1,422</u>	<u>(29,177)</u>
Interest income				1,764
Exchange loss – net				(150)
Finance costs arisen from lease liabilities				(340)
Finance costs arisen from bank borrowings				(2,577)
Central administrative costs and directors' emoluments				<u>(6,675)</u>
				<u>(37,155)</u>

For the period ended 30 September 2020

	Construction	Property development	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<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>	14,037
Interest income			2,799
Exchange loss – net			(556)
Finance costs arisen from lease liabilities			(449)
Finance costs arisen from bank borrowings			(3,757)
Central administrative costs and directors' emoluments			<u>(8,341)</u>
			<u>3,733</u>

Other information

Amounts included in the measure of segment results:

For the period ended 30 September 2021

	Construction	Property development	Trading	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	(564)	–	–	(564)
Depreciation of right-of-use assets	2,864	–	–	2,864
Depreciation of property, plant and equipment	3,394	–	–	3,394
	<u>3,394</u>	<u>–</u>	<u>–</u>	<u>3,394</u>

For the period ended 30 September 2020

	Construction	Property development	Total
	<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 assets	2,904	–	2,904
Depreciation of property, plant and equipment	2,852	–	2,852
	<u>2,852</u>	<u>–</u>	<u>2,852</u>

Segment assets and liabilities**As at 30 September 2021**

	Construction	Property development	Trading	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	<u>586,151</u>	<u>180,189</u>	<u>3,014</u>	<u>769,354</u>
Reportable segment liabilities	<u>301,902</u>	<u>63,161</u>	<u>552</u>	<u>365,615</u>
Other segment information:				
Additions to non-current assets	<u>1,288</u>	<u>–</u>	<u>–</u>	<u>1,288</u>

Segment assets consist primarily of property, plant and equipment, right-of-use assets, inventories, trade and other receivables, contract assets, amount due from an associate, pledged bank deposits and bank balances and cash.

Segment liabilities consist primarily of contract liabilities, trade and other payables, amounts due to other partners of joint operations, bank borrowings, lease liabilities, income tax payable and deferred tax liabilities.

As at 31 March 2021

	Construction	Property development	Trading	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	<u>598,575</u>	<u>186,870</u>	<u>48,045</u>	<u>833,490</u>
Reportable segment liabilities	<u>321,006</u>	<u>58,925</u>	<u>47,223</u>	<u>427,154</u>
Other segment information:				
Additions to non-current assets	<u>16,182</u>	<u>–</u>	<u>–</u>	<u>16,182</u>

Segment assets consist primarily of property, plant and equipment, right-of-use assets, inventories, trade and other receivables, contract assets, amount due from a related company, amount due from an associate, amounts due from other partners of joint operations, pledged bank deposits and bank balances and cash.

Segment liabilities consist primarily of contract liabilities, trade and other payables, amounts due to other partners of joint operations, bank borrowings, lease liabilities, income tax payable and deferred tax liabilities.

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

	30 September	31 March
	2021	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Total reportable segment assets	769,354	833,490
Financial assets at fair value through other comprehensive income	34,352	43,240
Unallocated corporate assets – property, plant and equipment	30,075	30,577
Unallocated corporate assets – bank balances and cash	8,110	2,509
Other unallocated corporate assets	3,030	49,249
	<hr/>	<hr/>
Total assets	844,921	959,065
	<hr/> <hr/>	<hr/> <hr/>

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

	30 September	31 March
	2021	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Total reportable segment liabilities	365,615	427,154
Unallocated corporate liabilities – bank borrowings	9,432	9,684
Other unallocated corporate liabilities	1,035	1,074
	<hr/>	<hr/>
Total liabilities	376,082	437,912
	<hr/> <hr/>	<hr/> <hr/>

Geographical information

All of the Group's revenue was derived from Hong Kong and the People's Republic of China (the "PRC"). Information about the Group's non-current assets other than financial assets at fair value through other comprehensive income, interests in associates and other receivables is presented based on the geographical location of the assets.

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(unaudited)
Revenue from external customers		
– Hong Kong (city of domicile)	222,671	264,570
– The PRC	64,968	–
	<u>287,639</u>	<u>264,570</u>

	Non-current Assets	
	30 September	31 March
	2021	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
– Hong Kong (city of domicile)	56,043	62,938
– The PRC	–	–
	<u>56,043</u>	<u>62,938</u>

Information about major customers

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
– Customer A	69,035	88,951
– Customer B	46,800	–
– Customer C	35,366	40,734
– Customer D	35,275	50,717
	<u>186,476</u>	<u>180,402</u>

5. REVENUE

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
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	175,871	264,570
– Trading of chemical materials, recognised at a point in time	111,768	–
	<u>287,639</u>	<u>264,570</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings	5,045	6,827
Lease liabilities	340	449
	<u>5,385</u>	<u>7,276</u>
Less: Amount capitalised in inventories	<u>(2,468)</u>	<u>(3,070)</u>
	<u>2,917</u>	<u>4,206</u>

Specific borrowing costs are capitalised for the development of qualifying assets. The capitalisation rate of borrowings is 7.5% (for the six months ended 30 September 2020: 7.5%).

7. INCOME TAX EXPENSES

No Profits Tax was provided for the six months ended 30 September 2021 as the Group sustained a loss for the period (six months ended 30 September 2020: \$181,000).

8. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	3,921	3,449
Depreciation of right-of-use assets	4,168	3,367
	<u> </u>	<u> </u>

9. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings for the purpose of calculation of basic (loss)/earnings per share	<u>(36,568)</u>	<u>3,832</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>1,584,000</u>	<u>1,584,000</u>

Since there were no potential dilutive ordinary shares in issue during both period, basic and diluted (loss)/earnings per share are the same for 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 2020	32,882	1,340	5,887	15,242	23,351	78,702
Additions	–	–	–	6,614	4,163	10,777
Disposals	–	–	–	–	(5,134)	(5,134)
At 31 March 2021	32,882	1,340	5,887	21,856	22,380	84,345
Additions	–	–	176	960	153	1,289
Disposals	–	–	–	(1,715)	(2,353)	(4,068)
At 30 September 2021	32,882	1,340	6,063	21,101	20,180	81,566
ACCUMULATED DEPRECIATION						
At 1 April 2020	1,974	607	5,121	12,195	13,540	33,437
Charge for the year	658	315	271	2,287	3,639	7,170
Eliminated on disposals	–	–	–	–	(4,640)	(4,640)
At 31 March 2021	2,632	922	5,392	14,482	12,539	35,967
Charge for the period	329	156	152	1,373	1,911	3,921
Eliminated on disposals	–	–	–	(1,715)	(2,258)	(3,973)
At 30 September 2021	2,961	1,078	5,544	14,140	12,192	35,915
CARRYING VALUES						
At 30 September 2021	29,921	262	519	6,961	7,988	45,651
At 31 March 2021	30,250	418	495	7,374	9,841	48,378

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 2021, the Group's leasehold land and building with carrying amount amounting to approximately HK\$29,921,000 (31 March 2021: HK\$30,250,000) was pledged to secure banking facilities granted to the Group.

As at 30 September 2021, included in the property, plant and equipment is the Group's leasehold land and building under long lease located in Hong Kong of HK\$29,921,000 (31 March 2021: HK\$30,250,000) of which the Group is the registered owner of this properties interest, including the underlying leasehold land. Lump sum payments were made upfront to acquire the properties interest. The leasehold land component of this property interest is presented separately only if the payments made can be allocated reliably.

11. RIGHT OF USE ASSETS

	Leasehold properties <i>HK\$'000</i>
COST	
At 1 April 2020	22,088
Additions	5,405
Termination of lease	<u>(1,814)</u>
At 31 March 2021 and 30 September 2021	<u>25,679</u>
ACCUMULATED DEPRECIATION	
At 1 April 2020	4,902
Charge for the year	8,031
Termination of lease	<u>(1,814)</u>
At 31 March 2021	11,119
Charge for the period	<u>4,168</u>
At 30 September 2021	<u>15,287</u>
CARRYING VALUES	
At 30 September 2021	<u><u>10,392</u></u>
At 31 March 2021	<u><u>14,560</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.

As at 30 September 2021 and 31 March 2021, the Group had no lease with variable lease payment. The lease agreements do not impose any extension and termination options which are exercisable only by the Group and not by the respective lessors.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <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>34,352</u>	<u>43,240</u>

On 9 May 2018 (after trading hours), Jovial Elm Limited, a wholly-owned subsidiary of the Company, entered into a share sale agreement to acquire 200,000,000 common shares in Philippine Infradev Holdings, 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\$42,351,000), represented approximately 13.3% equity interest in IRC at the acquisition date.

Further details are set out in 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 IRC held by the Group was immediately diluted. As at 30 September 2021 and 31 March 2021, the Group held the equity 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 period (six months ended 30 September 2020: Nil).

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

As at 30 September 2021, the Group’s freehold land, amounting to approximately HK\$154,347,000 (31 March 2021: HK\$162,067,000) was pledged to secure banking facilities granted to the Group.

14. TRADE AND OTHER RECEIVABLES

	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <i>HK\$'000</i> (Audited)
Trade receivables	<u>15,708</u>	<u>14,485</u>
Performance deposit (<i>Note (a)</i>)	31,797	31,797
Other receivables in relation to a transferred construction project (<i>Note (b)</i>)	48,660	46,906
Other receivables (<i>Note (c)</i>)	37,840	3,512
VAT recoverable	12,184	12,770
Receivables from subcontractors (<i>Note (d)</i>)	66,234	56,299
Less: impairment loss recognised of other receivables under expected credit loss model	<u>(4,389)</u>	<u>(4,389)</u>
Net other receivables	<u>192,326</u>	<u>146,895</u>
Prepayments and deposits	<u>35,814</u>	<u>33,987</u>
Total trade and other receivables	243,848	195,367
Less: Classified under non-current assets	<u>(20,998)</u>	<u>(28,531)</u>
	<u><u>222,850</u></u>	<u><u>166,836</u></u>

Notes:

- (a) The amount represented the performance deposit amounted to PHP198,545,576 (equivalent to approximately HK\$31,797,000) 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, 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 2019, the Group entered into a subcontracting agreement with an independent overseas main contractor for a construction project in Thailand and the certified value of works completed by the Group amounted to THB477,318,232 (equivalent to approximately HK\$116,600,000) (the “**Receivable**”). Following certain changes in the development progress, the Group, after completing partial works, transferred the subcontracting agreement to an independent third party company registered in Thailand (the “**Successor**”). Pursuant to the tripartite agreement entered between the Group, the main contractor and the Successor, all the Group’s obligations and liabilities under the subcontracting agreement were transferred to the Successor on 29 November 2018. As stipulated in the tripartite agreement, the main contractor would return the Receivable together with an interest at 5% per annum to the Group on completion of the project.

During the year ended 31 March 2020, the main contractor 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 should 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 would be repaid in 3 equal installments in 31 March 2021, 31 March 2022 and 31 March 2023 respectively. The amount for each installment should be THB90,565,983 (equivalent to approximately HK\$23,136,000).

During the year ended 31 March 2020, the first repayment of THB205,620,283 (equivalent to approximately HK\$48,721,000) had been received by the Group. During the year ended 31 March 2021, the first installment of THB90,565,983 (equivalent to approximately HK\$22,501,000) and underlying interest of THB21,735,836 (equivalent to approximately HK\$5,429,000) had been received by the Group. As at 30 September 2021, the remaining Receivable amounted to THB181,131,966 (equivalent to approximately HK\$46,907,000) and the underlying interest amounted to THB7,245,278 (equivalent to approximately HK\$1,753,000) were guaranteed by a substantial shareholder of the Company, who was also the beneficial owner of the project.

- (c) Included in other receivables of the Group was prepayment for construction materials of HK\$31,590,000 in overseas construction project.
- (d) The amount represented the expenses paid on behalf of the subcontractors and was 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 2021	31 March 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	15,708	14,485

As at 30 September 2021, the Group had no trade receivables that were past due nor impaired (31 March 2021: Nil).

15. TRADE AND OTHER PAYABLES

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade payables	44,011	42,301
Retention payables	44,606	44,092
Amount due to non-controlling interest of a subsidiary – <i>Note</i>	4,102	4,321
Other payables and accruals	11,305	12,415
	<u>104,024</u>	<u>103,129</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 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Within 30 days	23,721	20,809
More than 30 days but within 90 days	7,737	3,816
More than 90 days	12,553	17,676
	<u>44,011</u>	<u>42,301</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 the construction related business, property development in Hong Kong and Southeast Asia and trading of chemical materials in Mainland China. During the Reporting Period, the construction industry, particularly the civil engineering works in Hong Kong, was full of challenges.

The widespread of global pandemic has caused unprecedented disruptions in business operations and the Hong Kong economy as a whole, which resulted in delays in the work schedule of construction projects of the Group. The prolonged retention of the workforce on-site and implement of a strict preventive measure for COVID-19 increased the cost for direct labours and subcontractors. As a result, the Group recorded a gross loss of approximately HK\$23.3 million, as compared with a gross profit of approximately HK\$19.6 million reported for the corresponding period last year.

The management had been actively monitoring the situation and had taken appropriate measures to reduce costs and improve efficiency by enhancing artificial intelligence project management. Despite of the efforts, the Directors are still in the view that the civil engineering industry will continue to be tough in the year of 2021. In 2021, the Group has therefore expanded into a new business of trading of chemical materials in Mainland China, which had contributed approximately HK\$111.8 million of revenue and approximately HK\$1.4 million of profit to the Group during the Reporting Period.

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

While the management anticipates increasing competition in the civil engineering industry in the future, the Group will continue to leverage on its competent professional team and extensive experience in the construction industry to reduce costs and improve efficiency, thereby strengthening our competitive edge in the market. Meanwhile, we will continue to explore opportunities in overseas markets to provide a stable source of income for the Group.

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Period increased to approximately HK\$287.6 million from approximately HK\$264.6 million, which was mainly due to the growth in the trading business. During the Reporting Period, revenue from the trading business was approximately HK\$111.8 million, while there was no such revenue from the trading business in the corresponding period last year. The Group commenced a new business of trading of chemical materials in Mainland China in the third quarter of 2020 in response to the impact of COVID-19 outbreak on the construction-related businesses.

In terms of construction-related revenue, the Group's revenue decreased to approximately HK\$175.9 million from approximately HK\$264.6 million in the corresponding period last year, which was mainly due to substantial completion of contract works under contract GE2018/03 and waterworks category in the Reporting Period.

Cost of services

Cost of services for the Reporting Period increased to approximately HK\$310.9 million from approximately HK\$245.0 million. In respect of the trading business, cost of approximately HK\$110.3 million was incurred, while there was no cost for trading business incurred during the corresponding period last year.

In terms of construction cost, the Group incurred approximately HK\$200.6 million (six months ended 30 September 2020: approximately HK\$245.0 million) during the Reporting Period. The decrease in cost was mainly due to the substantial completion of contract works under contract GE2018/03 and waterworks category during the Reporting Period.

Gross loss

Gross loss for the Reporting Period was approximately HK\$23.3 million (six months ended 30 September 2020: gross profit of approximately HK\$19.6 million). Although the Group's construction cost for the Reporting Period was 18% lower than that of the corresponding period last year, COVID-19 outbreak had delayed our construction progress and the Group had to maintain the daily operating expenses of our sites and continue to retain qualified employees for the Group. During the Reporting Period, the Group incurred approximately HK\$29.4 million of staff cost (as compared to

approximately HK\$36.1 million for the corresponding period last year) and HK\$146.8 million of subcontracting cost (as compared to approximately HK\$174.4 million for the corresponding period last year) respectively. Although these expenses had decreased by 18.6% and 15.8% respectively as compared to the corresponding period last year, the Group recorded a gross loss for the Reporting Period as construction revenue for the Reporting Period declined by 33.5% as compared to the corresponding period last year and the decline in construction revenue was much higher than the decline in construction cost.

Other income

Other income for the Reporting Period amounted to approximately HK\$5.7 million (six months ended 30 September 2020: approximately HK\$10.5 million). The main reason for the decrease was an income contributed from the HKSAR government subsidy under the employment support scheme last year.

Administrative expenses

The Group implemented further cost reduction measures due to tough operating environment. Administrative expenses for the Reporting Period were approximately HK\$17.2 million (six months ended 30 September 2020: approximately HK\$21.9 million).

Finance costs

Finance costs were reduced to approximately HK\$2.9 million (six months ended 30 September 2020: approximately HK\$4.2 million) following a reduction in the level of bank borrowings during the Reporting Period.

Income tax

No provision for Hong Kong Profits Tax was made in the interim financial statements as the Group did not generate any assessable profits in Hong Kong during the Reporting Period (six months ended 30 September 2020: approximately HK\$0.2 million).

Loss and total comprehensive expense

As a result of the foregoing, loss for the Reporting Period amounted to approximately HK\$37.2 million (six months ended 30 September 2020: profit of approximately HK\$3.6 million).

Other comprehensive expense for the Reporting Period amounted to approximately HK\$15.2 million (six months ended 30 September 2020: income of approximately HK\$20.2 million). The Group recorded a fair value loss on financial assets at fair value through other comprehensive income of approximately HK\$7.0 million (six months ended 30 September 2020: gain of approximately HK\$14.4 million). The fair value loss represented the changes in the quoted market price of 200,000,000 common shares in Philippine Infradev Holdings, 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 2021, the Group had bank balance and cash of approximately HK\$41.0 million (31 March 2021: approximately HK\$172.4 million), while outstanding borrowings amounted to approximately HK\$201.4 million (31 March 2021: approximately HK\$227.8 million). Among such borrowings, approximately HK\$142.8 million (31 March 2021: approximately HK\$173.8 million) shall be repaid within one year; and approximately HK\$58.6 million (31 March 2021: HK\$54.0 million) shall be repaid after one year. The change in bank balance and cash was mainly attributable to (i) cash outflow from purchasing plant and equipment of approximately HK\$1.3 million; (ii) cash outflow from net decrease of bank borrowings amounted to approximately HK\$26.4 million; and (iii) cash outflow from increase in pledged bank deposits of approximately HK\$14.0 million; (iv) cash outflow from increase in prepayment for construction materials in overseas project of approximately HK\$31.6 million; and (v) net cash outflow from operating activities approximately of HK\$55.0 million.

As at 30 September 2021, the Group had pledged bank deposits of approximately HK\$72.6 million (31 March 2021: approximately HK\$58.6 million). The current ratio as at 30 September 2021 was approximately 2.38 times (31 March 2021: approximately 2.22 times). 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 deposits) divided by total equity, was approximately 53.8% as at 30 September 2021 (31 March 2021: approximately 38.2%).

The Group mainly operates in Hong Kong, Philippines, Mainland China 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 2021, 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\$48.7 million, HK\$168.0 million and HK\$31.8 million respectively, the Group would not be exposed to any other significant exchange risk.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. As at 30 September 2021, 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 2021, the Group did not have any capital commitments (31 March 2021: Nil). As at 30 September 2021, the Group had no material contingent liabilities (31 March 2021: 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 2021, 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 2021, the Group had a total of 226 (31 March 2021: 270) 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 2021.

PUBLICATION OF 2021 INTERIM REPORT

The 2021 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 2021

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.