



KWAN ON HOLDINGS

均安控股

Kwan On Holdings Limited

均安控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1559

Interim Report

2016

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MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**” or “**Kwan On**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2016 (the “**Reporting Period**”).

BUSINESS REVIEW AND OUTLOOK AND PROSPECT

Kwan On Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) are engaged as main contractor in the provision of (i) waterworks engineering services; (ii) road works and drainage services and site formation works; (iii) landslip preventive and mitigation works to slopes and retaining walls services (“**LPM Services**”); and (iv) building works in Hong Kong.

Kwan On Construction Company Limited (“**Kwan On**”), an operating subsidiary of the Group, is one of the Group C contractors (confirmed) for waterworks engineering services, Group C contractors (confirmed) for roads and drainage services, Group B contractors (confirmed) for site formation services, and Group A contractors (probationary) for buildings services on the list of approved contractors for public works maintained by the Works Branch of the Development Bureau of the Hong Kong Special Administrative Region Government.

As at 30 September 2016, the Group had 16 contracts in progress, and 9 of them are expected to be substantially completed within the next 12 months. Accordingly the Group may experience a drop in number of ongoing projects on hand if the Group cannot secure new contracts from existing customers.

Despite the increase in government spending for infrastructure and construction works, there had been delay in the commencement of public projects caused by factors such as political disagreements in relation to such projects, delay in approval of the funding proposals for public works due to filibustering by law-makers and objections, protests or legal actions by affected residents or entities. Any large-scale protests or occupation activity may also delay the construction works to be carried out in the affected areas. The Group’s engagement in public projects depend on the timing of the funding approval by the committees of the Legislative Council of Hong Kong, where filibustering by the members thereof has often led to delays in the passing of public works funding proposals in recent years. Any change of the political environment in Hong Kong may affect the economy and construction industry in the region, which may adversely affect the operations and results of operations of the Group.

Further, there had been an upward trend in construction costs, in particular wages. In the event that there is a significant increase in the costs and demand for labour, the Group's staff costs and/or subcontracting costs will increase and thus resulting an adverse impact to the Group's profitability.

The management of the Group will cautiously monitor the overall construction costs and market conditions and consider diversifying the customer base to increase business opportunities.

FINANCIAL REVIEW

Revenue

Revenue for the Reporting Period amounted to approximately HK\$419.8 million, representing an increase of approximately 19.1% as compared to the six months ended 30 September 2015 ("2015 Interim") of approximately HK\$352.6 million. The increase in revenue was mainly attributable to the seven newly awarded projects namely, CV/2015/01, CDO2015034, GW/2015/05/038, CV/2015/08, HY/2014/12, HY/2013/09 and NE/2014/03, which were commenced since December 2015 and had contributed approximately HK\$92.7 million to the revenue for the Reporting Period, net of decrease in the revenue for completed projects, namely GE/2010/21, 6/WSD/11 and DC/2012/05, which contributed approximately HK\$8.0 million to the revenue for the Reporting Period (2015 Interim: approximately HK\$32.4 million).

Cost of services

Due to an increase in subcontracting fees, cost of services increased to approximately HK\$390.3 million for the Reporting Period (2015 Interim: approximately HK\$319.4 million), representing an increase of approximately 22.2%.

Gross profit

Gross profit for the Reporting Period was approximately HK\$29.5 million (2015 Interim: approximately HK\$33.2 million) while gross profit margin for the Reporting Period was approximately 7.0% (2015 Interim: approximately 9.4%). The decrease in gross profit margin was the result of recovery of additional costs incurred for performance of variation orders while negotiation for valuation with customers had not been finalised during the Reporting Period.

Other income

Other income for the Reporting Period amounted to approximately HK\$0.7 million (2015 Interim: approximately HK\$1.1 million), represented a decrease of approximately 36.4%. The decrease was the result of a decrease in government grant received from the Transport Department for ex-gratia payment for retirement of vehicles.

Other gains and losses

The Group recorded a gain of approximately HK\$0.4 million during the Reporting Period (2015 Interim: approximately HK\$0.5 million loss), arisen from the disposal of defective motor vehicles.

Administrative expenses

Administrative expenses for the Reporting Period were approximately HK\$13.9 million (2015 Interim: approximately HK\$12.8 million), representing an increase by 8.6%. The increase was mainly attributable to salaries increment to administrative staff and donation made to the Community Chest of Hong Kong of approximately HK\$1.0 million during the Reporting Period.

Finance costs

Finance costs for the Reporting Period amounted to approximately HK\$1.4 million (2015 Interim: approximately HK\$1.6 million). The decrease was mainly due to net repayment of borrowings of approximately HK\$35.2 million during the Reporting Period.

Income tax expense

Income tax expense increased to approximately HK\$2.4 million for the Reporting Period and the effective tax rate increased to approximately 16.0% (2015 Interim: approximately 9.75%). The increase in the effective tax rate was mainly due to the decrease in tax losses brought forward available for set-off against taxable profits generated during the Reporting Period.

Profit and total comprehensive income

Profit and total comprehensive income for the Reporting Period amounted to approximately HK\$12.8 million (2015 Interim: approximately HK\$17.5 million). The decrease was mainly attributable to decrease in gross profit margin as discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by banks. As at 30 September 2016, the Group had bank and cash of approximately HK\$205.4 million (31 March 2016: approximately HK\$107.2 million), while outstanding borrowings amounted to approximately HK\$37.2 million (31 March 2016: approximately HK\$72.4 million).

As at 30 September 2016, the Group had pledged bank deposits of approximately HK\$48.0 million (31 March 2016: approximately HK\$66.7 million). Further details for securities held for borrowings and banking facilities granted by banks to the Group as at 30 September 2016 are set out in Note 9 to this condensed consolidated financial statements.

The current ratio as at 30 September 2016 was approximately 1.32 times (31 March 2016: approximately 1.35 times). Net current assets amounted to approximately HK\$106.5 million (31 March 2016: approximately HK\$86.2 million).

Gearing ratio, calculated based on the total debt (including borrowings and finance lease payables) divided by total equity, was approximately 32.1% as at 30 September 2016 (31 March 2016: approximately 70.2%).

The Group was not exposed to foreign exchange risk during the Reporting Period.

As at 30 September 2016, the Group did not have any capital commitments (31 March 2016: 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 2016 (31 March 2016: Nil).

CAPITAL STRUCTURE

There had been no change in the capital structure of the Group during the Reporting Period. As at 30 September 2016, the Company's issued share capital was HK\$9.6 million and the number of ordinary shares issued was 960,000,000 of HK\$0.01 each.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 September 2016, the Group had a total of 541 (31 March 2016: 444) employees, including 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.

USE OF PROCEEDS

The net proceeds from the listing of the Company (after deducting related expenses) amounted to approximately HK\$26.7 million. Up to 30 September 2016, the Group has used up approximately HK\$25.2 million of the net proceeds in accordance with the proposed usage set out in the section headed “Statement of business objectives and use of proceeds – Reasons for the Placing and use of proceeds” of the Prospectus.

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. Ho Ho Ming and Prof. Lam Sing Kwong Simon. Mr. Lum Pak Sum is the chairman of the Audit Committee and has appropriate professional qualifications and experience in accounting matters.

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

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

Long Position in shares of the Company

Name	Capacity and nature of interests	Number of shares held (Note 1)	Approximate percentage of shareholding effectively held
Mr. Wong Yee Tung, Tony ("Mr. Tony Wong") (Notes 1 to 3 and 5)	Interest of controlled corporation	590,000,000	61.46%
Mr. Kwong Wing Kie ("Mr. Kwong") (Notes 2 to 5)	Interest of controlled corporation	202,028,000	21.05%

Notes:

1. The issued share capital of the Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade Investments Limited ("**Fortune Decade**"), as to approximately 10.59% by Twilight Treasure Limited ("**Twilight Treasure**") and as to approximately 10.46% by Variety Rich Limited ("**Variety Rich**").
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally Investments Limited ("**Success Ally**") and as to 12.5% by Decade Success Investments Limited ("**Decade Success**").
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Decade Success is legally and beneficially owned by Mr. Kwong.
5. The entire issued share capital of Variety Rich is legally and beneficially owned as to 87.5% by Mr. Tony Wong and as to 12.5% by Mr. Kwong.

Saved as disclosed above, none of the Directors and chief executive of the Company had any other interests or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2016, the interest and short positions of the person (other than the Directors or chief executive of the Company) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Ordinary Shares in the Company

Name	Capacity and nature of interests	Number of shares held	Approximate percentage of shareholding effectively held
Twilight Treasure (Notes 1, 2 and 8)	Beneficial owner	101,653,000 (L)	10.59%
Success Ally (Notes 2 and 3)	Interest of controlled corporation	101,653,000 (L)	10.59%
Decade Success (Note 5)	Interest of controlled corporation	101,653,000 (L)	10.59%
Fortune Decade (Notes 1, 4 and 8)	Beneficial owner	387,972,000 (L)	40.41%
Variety Rich (Note 6)	Beneficial owner	100,375,000 (L)	10.46%
Ms. Chiu Gar Man ("Ms. Chiu") (Note 7)	Interests of spouse	590,000,000 (L)	61.46%
Zhongtai Securities Company Limited	Person having a security interest in shares	489,625,000 (L)	51.00%

L: Long positions

Notes:

1. The issued share capital of the Company is legally and beneficially owned as to approximately 40.41% by Fortune Decade, as to approximately 10.59% by Twilight Treasure and as to approximately 10.46% by Variety Rich.
2. The entire issued share capital of Twilight Treasure is legally and beneficially owned as to 87.5% by Success Ally and as to 12.5% by Decade Success.
3. The entire issued share capital of Success Ally is legally and beneficially owned by Mr. Tony Wong.
4. The entire issued share capital of Fortune Decade is legally and beneficially owned by Mr. Tony Wong.
5. The entire issued share capital of Decade Success is legally and beneficially owned by Mr. Kwong.
6. The entire issued share capital of Variety Rich is legally and beneficially owned as to 87.5% by Mr. Tony Wong and as to 12.5% by Mr. Kwong.
7. Ms. Chiu is deemed to be interested in the 590,000,000 Shares held by Mr. Tony Wong pursuant to the SFO by virtue of her being the spouse of Mr. Tony Wong.
8. On 23 September 2016, Fortune Decade and Twilight Treasure has pledged the Shares in favour of an independent third party as security for a note issued by Fortune Decade in an aggregate amount of HK\$215,000,000.

Save as disclosed above, the Directors are not aware of any other persons, other than Directors or the chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company as at 30 September 2016 which required to be recorded pursuant to Section 336 of SFO.

INTEREST OF COMPLIANCE ADVISER

As at 30 September 2016, as notified by the Company's compliance adviser, Dakin Capital Limited (the "**Compliance Adviser**"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 1 February 2016, neither the Compliance Adviser nor its directors, employees or associates had any interest in the securities to the Company which is required to be notified to the Group.

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 2016.

CHANGE OF DIRECTORS

Changes in Directors during the Reporting Period are summarised as follows:

- i) On 26 August 2016, Mr. Wong Wa was appointed as an Executive Director and Mr. Lum Pak Sum was appointed as an Independent Non-executive Director and member of Audit Committee, Remuneration Committee and Risk Management Committee of the Company.
- ii) On 13 September 2016, Mr. Chan Chung Kik Lewis resigned as Independent Non-executive Director, chairman of the Audit Committee, member of the Remuneration Committee and chairman of the Risk Management Committee and Mr. Lum Pak Sum was appointed as both the chairman of the Audit Committee and the Risk Management Committee of the Company.
- iii) On 20 September 2016, Mr. Chung Chi Ngong resigned as Executive Director of the Company.

For more details, please refer to the Company’s announcements dated 26 August 2016, 13 September 2016 and 20 September 2016.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders, customers, suppliers, business partners, banks, professional parties and employees of the Group for their continuous support.

By order of the Board
Kwan On Holdings Limited
Wong Yee Tung Tony
Managing Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		Six months ended 30 September	
	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	419,838	352,592
Cost of services		(390,329)	(319,440)
Gross profit		29,509	33,152
Other income		704	1,116
Other gains and losses		388	(474)
Administrative expenses		(13,863)	(12,784)
Operating profit		16,738	21,010
Finance costs		(1,443)	(1,590)
Profit before income tax expense		15,295	19,420
Income tax expense		(2,446)	(1,894)
Profit and total comprehensive income for the period		12,849	17,526
Attributable to:			
Owners of the Company		11,767	17,629
Non-controlling interests		1,082	(103)
		12,849	17,526
Earnings per share			
– Basic and diluted (HK cents)	5	1.23	1.84

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Notes	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	6	7,505	8,817
Prepayments	7	2,275	8,422
		9,780	17,239
Current assets			
Inventories		10,693	11,670
Amounts due from customers for contract work		9,479	1,567
Trade and other receivables	7	159,357	141,200
Tax recoverable		3,934	3,934
Amounts due from other partners of joint operations		4	484
Pledged bank deposits		48,020	66,729
Cash and cash equivalents		205,361	107,150
		436,848	332,734
Total assets		446,628	349,973
Current liabilities			
Amounts due to customers for contract work		49,673	30,226
Trade and other payables	8	142,584	139,797
Amount due to a related company	11	95,000	-
Amount due to other partner of a joint operation		67	27
Borrowings	9	37,218	72,441
Finance lease payables		52	115
Current tax liabilities		5,784	3,966
		330,378	246,572
Net current assets		106,470	86,162
Total assets less current liabilities		116,250	103,401

	30	31
	September	March
	2016	2016
<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Deferred tax liabilities	57	57
Total liabilities	330,435	246,629
NET ASSETS	116,193	103,344
Capital and reserves		
Share capital	9,600	9,600
Reserves	100,852	89,085
	110,452	98,685
Non-controlling interests	5,741	4,659
TOTAL EQUITY	116,193	103,344

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company							Non- controlling interests	Total
	Share capital	Share premium	Merger reserve	Contributed surplus	Capital Reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2015	9,600	23,811	9,755	22,968	12,544	(6,996)	71,682	5,683	77,365
Profit and total comprehensive income for the period	-	-	-	-	-	17,629	17,629	(103)	17,526
As at 30 September 2015 (unaudited)	9,600	23,811	9,755	22,968	12,544	10,633	89,311	5,580	94,891
As at 1 April 2016	9,600	23,811	9,755	22,968	12,544	20,007	98,685	4,659	103,344
Profit and total comprehensive income for the period	-	-	-	-	-	11,767	11,767	1,082	12,849
As at 30 September 2016 (unaudited)	9,600	23,811	9,755	22,968	12,544	31,774	110,452	5,741	116,193

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	21,911	80,538
Net cash generated from/(used in) investing activities	18,028	(9,942)
Net cash generated from/(used in) financing activities	58,272	(68,803)
Net increase in cash and cash equivalents	98,211	1,793
Cash and cash equivalents at beginning of the period	107,150	78,781
Cash and cash equivalents at end of the period	205,361	80,574
Represented by:		
Cash and bank balances and short-term deposits	253,381	142,282
Less: Pledged bank deposits	(48,020)	(61,708)
	205,361	80,574

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 5/F., So Hong Commercial Building, 41, 43, 45 and 47 Jervois Street, 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.

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 the Listing Rules. Intra-group balances and transactions, if any, have been fully and properly eliminated. The accounting policies and basis of preparation adopted in the preparation of the financial statements for the Reporting Period are consistent with those adopted in the Group’s consolidated financial statements for the year ended 31 March 2016.

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.

3. SEGMENT INFORMATION

Operating segments

The Group was 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. Information reported to the Group’s chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group’s resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group's revenue was derived from Hong Kong, as the location of its customers and non-current assets were in Hong Kong. Therefore, no geographical information is presented.

4. REVENUE

The Group's revenue represents amount received and receivable from contract work performed and recognised during the Reporting Period, which is also the Group's turnover, being revenue generated from its principal activities.

5. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company	11,767	17,629
<hr/>		
	Number of shares	
Number of shares	'000	'000
Weighted average number of ordinary shares	960,000	960,000
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Diluted earnings per share were the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the six months ended 30 September 2016 and 2015.

6. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment amounting to approximately HK\$1,128,000 (2015 Interim: approximately HK\$2,216,000).

7. TRADE AND OTHER RECEIVABLES

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade receivables (Note (a))	68,415	72,601
Retention receivables (Note (b))	24,490	21,750
Other receivables	54,064	35,896
Prepayments and deposits	14,663	19,375
	161,632	149,622
Less: Prepayments classified under non-current assets	(2,275)	(8,422)
	159,357	141,200

- (a) Trade receivables were mainly derived from provision of construction work on civil engineering contracts, and non-interest bearing. The Group does not hold any collateral or other credit enhancements over these balances. The Group grants an average credit period of 21 days to its trade customers of contract works. Application for progress payments of contract works is made on a regular basis.

The following is an analysis of trade receivables by age, presented based on the invoice dates:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within 30 days	63,340	65,073
More than 30 days but within 90 days	3,484	7,443
More than 90 days but within 180 days	1,333	44
More than 180 days but within 365 days	258	41
	68,415	72,601

- (b) Retention monies withheld by customers of contract works are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.

8. TRADE AND OTHER PAYABLES

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade payables (Note (a))	78,576	77,674
Retention payables (Note (b))	39,955	37,806
Other payables and accruals	24,053	24,317
	142,584	139,797

- (a) An ageing analysis of trade payables as at the end of each of the reporting period, based on the invoice dates, is as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Current or less than 1 month	69,079	62,073
1 to 3 months	6,793	9,515
More than 3 months but less than one year	2,704	6,086
	78,576	77,674

The Group's trade payables are non-interest bearing and generally have payment terms of 30 to 45 days.

- (b) Retention monies withheld from sub-contractors of contract works are released by the Group after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.

9. BORROWINGS

Movement in borrowings during the Reporting Period is analysed as follows:

	HK\$'000 (Unaudited)
Opening amount as at 1 April 2016	72,441
Proceeds from drawdowns	201,956
Repayments of borrowings	(237,179)
Closing amount as at 30 September 2016	37,218

Borrowings and banking facilities as at 30 September 2016 and 31 March 2016 are secured by:

- (a) bank deposits amounting to approximately HK\$48,020,000 (31 March 2016: approximately HK\$66,729,000);
- (b) personal guarantees executed by Mr. Wong Yee Tung, Tony (“**Mr. Tony Wong**”), the Managing Director and controlling shareholder (as defined in the Listing Rules) of the Company and corporate guarantees given by certain entities within the Group;
- (c) proceeds on insurance policy of a civil engineering contract undertaken by the Group; and
- (d) proceeds on certain civil engineering contracts undertaken by the Group.

10. SHARE CAPITAL

	The Company	
	Number	Amount
		<i>HK\$'000</i>
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 31 March 2016 and 1 April 2016 and 30 September 2016	2,000,000,000	20,000
<hr/>		
Issued and fully paid:		
<i>Ordinary shares of HK\$0.01 each</i>		
At 31 March 2016 and 1 April 2016 and 30 September 2016	960,000,000	9,600
<hr/>		

11. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transactions during the Reporting Period:

Name of related parties	Nature of transactions	Six months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Ms. Chiu Gar Man (“ Ms. Chiu ”) (a)	Rental expense (d)	141	140
Shiu Mau Development Limited (b)	Rental expense (d)	495	450
U-Tech Engineering Company Limited (c)	Subcontracting fee (d)	742	30,333

Notes:

- (a) Ms. Chiu is the spouse of Mr. Tony Wong.
- (b) The company is partially and beneficially owned by Mr. Tony Wong.
- (c) U-Tech Engineering Company Limited is a minority partner of the Company's subsidiary, Kwan On – U-Tech Joint Venture.
- (d) The transactions were conducted on terms and conditions mutually agreed between the relevant parties. The Directors are of the opinion that these related party transactions were conducted in the ordinary course of business of the Group.

Key management compensation amounted to approximately HK\$3,676,000 for the Reporting Period (2015 Interim: approximately HK\$2,133,000).

The amount due to a related company is unsecured, interest free and repayable on demand.

12. LITIGATIONS

At the end of the Reporting Period, there were a number of labour claims and prosecutions being lodged against the Group. In the opinion of the Directors, the possibility of any outflow of resources in settling these claims and prosecutions was remote and/or sufficient insurance policies are maintained to cover the loss, if any, arising from these claims and therefore the ultimate liability under these litigations would not have a material adverse impact on the financial position or results of the Group.

- a. In about February 2014, an employee of a subcontractor of the Group sued against such subcontractor and the Group for personal injury. The applicant and the Group had reached an agreement whereby the Group paid the applicant a total of approximately HK\$1,231,000 for settlement of the claim.
- b. In about April 2014, an employee of a subcontractor of the Group sued against such subcontractor and the Group in respect of a claim for personal injury sustained by him in an accident happened on 28 June 2012. Approximately HK\$2.7 million plus interest is claimed under this action. Based on the further advice from the Group's legal counsel, the claim amount is excessive and the quantum was assessed to be approximately HK\$703,000 which had been provided for in the prior year.
- c. In about May 2014, an employee of the Group sued against the Group for employees' compensation under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "ECO") for personal injury in an accident happened on or about 13 July 2012. According to the Certificate of Assessment of the Employees' Compensation (Ordinary Assessment) Board ("**Certificate of Assessment**") dated 12 March 2014, the loss of earning capacity permanently caused by the injury is 3.5% and the then compensation payable was estimated to be approximately HK\$59,000. In about April 2015, the employee further sued to the High Court in relation to the aforesaid accident. In the opinion of the Directors, the Group has taken out the necessary insurance policy to cover its liability.

- d. In about December 2014, a District Court Action was commenced by an employee of the Group against the Group for employees' compensation under the ECO for personal injury in an accident happened on or about 9 December 2012. According to the Certificate of Assessment dated 27 October 2014, the loss of earning capacity permanently caused by the injury is 2% and thus the estimated compensation will amount to approximately HK\$37,000. The employee further filed an action on 4 December 2015 to the High Court to claim for amount of approximately HK\$4.1 million. In the opinion of the Directors, with advice from legal counsel, the claim amount is excessive and no provision had been made for this claim.
- e. In about June 2015, an employee of a subcontractor of the Group commenced an action against the Group under the ECO for personal injury for the amount of approximately HK\$964,000 plus interest. In the opinion of the Directors, the Group has taken out necessary insurance policy to cover its liability.
- f. In about August 2015, an employee of a subcontractor of Kwan On-U-Tech Joint Venture ("**KOUT JV**") commenced a District Court Action against a subcontractor of KOUT JV and KOUT JV in respect of a claim under the ECO for personal injury for the amount of approximately HK\$964,000 plus interest. In the opinion of the Directors, the Group has taken out necessary insurance policy to cover its liability.
- g. In about February 2015, a District Court Action was commenced by an employee of the Group under the ECO for personal injury sustained by the employee in an accident happened on or about March 2013. According to the Certificate of Assessment dated 3 November 2015, the loss of earning capacity permanently caused by the injury is 0.3%. In the opinion of the Directors, the Group has taken out necessary insurance policy to cover its liability.
- h. In about October 2015, an employee of subcontractor of the Group sued against the Group for employees' compensation under the ECO for personal injury. According to the Certificate of Assessment dated 24 March 2016, the loss of earning capacity permanently caused by the injury is 3%. In the opinion of the Directors, the Group has taken out the necessary insurance policy to cover its liability.
- i. The Group is claimed for an amount of approximately HK\$9.5 million by a subcontractor of the Group for breach of certain oral agreement. The action has been put in abeyance since September 2009. In the opinion of the Directors, based on the advice from the legal counsel, the Group has a valid defence against the claim and accordingly no provision has been made for this claim.
- j. A series of prosecutions were made to the Group where the Group was in contrary of certain sections under Chapter 59 of the Factories and Industrial Undertaking Ordinance. No judgement has been made against the Group and the hearing of these prosecutions have been adjourned. In the opinion of the Directors, based on the advice from the legal counsel, the Group has valid defence against the prosecutions and accordingly no provision has been made for these prosecutions.

Fortune Decade and Twilight Treasure have undertaken to jointly and severally indemnify and at all times keep the Group indemnified against all the costs and liabilities incurred by them in relation to those outstanding or unsettled legal and arbitration proceedings, investigations, prosecutions and/or claims, to the extent that such costs and liabilities are resulting from or by reference to any event or circumstances occurred on or before the date on which the trading of the shares first commence on Growth Enterprise Market of the Stock Exchange (the "**Listing Date**") (which, for the avoidance of doubts, include any claims filed after the Listing Date) that exceed the relevant amounts of provisions made in the consolidated financial statements of the Company set out in the Appendix I to the Prospectus issued by the Company dated 23 March 2015 and are not otherwise indemnified by any other parties under any contractual obligations.

13. SUBSEQUENT EVENTS

There are no significant events which have taken place subsequent to 30 September 2016.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Yee Tung, Tony
(*Managing Director*)
Mr. Kwong Wing Kie
Mr. Wong Wa

Independent Non-Executive Directors

Prof. Ho Ho Ming
Prof. Lam Sing Kwong, Simon
Mr. Lum Pak Sum

COMPANY SECRETARY

Mr. Ng Sai Cheong

COMPLIANCE OFFICER

Mr. Kwong Wing Kie

COMPLIANCE ADVISOR

Dakin Capital Limited

AUTHORISED REPRESENTATIVES

Mr. Wong Yee Tung, Tony
Mr. Ng Sai Cheong

AUDIT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
Prof. Lam Sing Kwong, Simon
Prof. Ho Ho Ming

REMUNERATION COMMITTEE

Prof. Lam Sing Kwong, Simon (*Chairman*)
Mr. Lum Pak Sum
Mr. Wong Yee Tung, Tony

NOMINATION COMMITTEE

Prof. Ho Ho Ming (*Chairman*)
Prof. Lam Sing Kwong, Simon
Mr. Kwong Wing Kie

RISK MANAGEMENT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
Mr. Kwong Wing Kie
Prof. Ho Ho Ming
Prof. Lam Sing Kwong, Simon

AUDITORS

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681,
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, So Hong Commercial Building
41, 43, 45 & 47 Jervois Street, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchin Drive
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Industrial Bank of Taiwan Co., Ltd.
Chong Hing Bank Limited

WEBSITE ADDRESS

www.kwanonconstruction.com

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