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## **KWAN ON HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1559)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2017**

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 year ended 31 March 2017 (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 2017*

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	3	<b>780,404</b>	719,770
Cost of services		<u>(716,312)</u>	<u>(662,485)</u>
Gross profit		<b>64,092</b>	57,285
Other income	3	<b>2,488</b>	3,372
Other gain and loss	3	<b>773</b>	(493)
Administrative expenses		<b>(27,830)</b>	(23,917)
Finance costs	5	<u>(2,822)</u>	<u>(4,462)</u>
Profit before tax		<b>36,701</b>	31,785
Income tax expense	6	<u>(3,165)</u>	<u>(4,006)</u>
Profit and total comprehensive income for the year	4	<u><b>33,536</b></u>	<u>27,779</u>
<b>Profit and total comprehensive income for the year attributable to:</b>			
Owners of the Company		<b>33,344</b>	27,003
Non-controlling interests		<u><b>192</b></u>	<u>776</u>
		<u><b>33,536</b></u>	<u>27,779</u>
<b>Earnings per share</b>			
Basic and diluted ( <i>HK cents</i> )	8	<u><b>3.47</b></u>	<u>2.81</u>

## Consolidated Statement of Financial Position

As at 31 March 2017

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>40,319</b>	8,817
Investments in associates		<b>3,000</b>	–
Prepayments		<b>3,429</b>	8,422
		<u><b>46,748</b></u>	<u>17,239</u>
<b>Current assets</b>			
Inventories		<b>6,715</b>	11,670
Amounts due from customers for contract work		<b>56,814</b>	1,567
Trade and other receivables	9	<b>139,462</b>	141,200
Tax recoverable		<b>420</b>	3,934
Amounts due from other partners of joint operations		<b>2</b>	484
Pledged bank deposits		<b>58,033</b>	66,729
Bank balances and cash		<b>194,368</b>	107,150
		<u><b>455,814</b></u>	<u>332,734</u>
<b>Current liabilities</b>			
Amounts due to customers for contract work		<b>60,323</b>	30,226
Trade and other payables		<b>137,357</b>	139,797
Amount due to a director		<b>95,000</b>	–
Amount due to other partner of a joint operation		–	27
Bank borrowings	10	<b>73,902</b>	72,441
Finance lease payables		–	115
Income tax payable		<b>494</b>	3,966
		<u><b>367,076</b></u>	<u>246,572</u>
<b>Net current assets</b>		<u><b>88,738</b></u>	<u>86,162</u>
<b>Total assets less current liabilities</b>		<u><b>135,486</b></u>	<u>103,401</u>

	<i>Notes</i>	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
<b>Non-current liability</b>			
Deferred tax liabilities		<u>6</u>	<u>57</u>
<b>NET ASSETS</b>		<b><u>135,480</u></b>	<b><u>103,344</u></b>
<b>Capital and reserves</b>			
Share capital	11	<b>9,600</b>	9,600
Reserves		<b><u>122,429</u></b>	<u>89,085</u>
Equity attributable to owners of the Company		<b>132,029</b>	98,685
Non-controlling interests		<b><u>3,451</u></b>	<u>4,659</u>
<b>TOTAL EQUITY</b>		<b><u>135,480</u></b>	<b><u>103,344</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2017*

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

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.

The Company is an investment holding company and its subsidiaries (together referred to as the “**Group**”) 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. SEGMENT INFORMATION

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 executive officer, being the 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**

All of the Group’s revenue was derived from Hong Kong, based on the location of the customers, and all of its non-current assets were located in Hong Kong, based on the location of assets.

### Information about major customers

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The Government of the Hong Kong Special Administrative Region		
– Water Supplies Department	115,593	215,830
– Civil Engineering and Development Department	452,825	365,770
	<u>                    </u>	<u>                    </u>

### 3. REVENUE, OTHER INCOME AND OTHER GAIN AND LOSS

#### Revenue

During the year, the Group's revenue represents amount received and receivable from contract work performed, which is also the Group's turnover.

#### Other income and other gain and loss

An analysis of the Group's other income and other gain and loss recognised during the years are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Other income</b>		
Bank interest income	169	91
Imputed interest on non-current retention receivables	–	823
Ex-gratia payment from the government for retirement of motor vehicles	977	974
Consultancy fee income	300	798
Sundry income	1,042	686
	<u>                    </u>	<u>                    </u>
	<u>2,488</u>	<u>3,372</u>
<b>Other gain and loss</b>		
Gain (loss) on disposal of property, plant and equipment	773	(493)
	<u>                    </u>	<u>                    </u>

#### 4. PROFIT FOR THE YEAR

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

	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Auditor's remuneration	<b>880</b>	600
Depreciation	<b>4,769</b>	4,991
Operating lease rentals in respect of		
– Land and buildings	<b>4,048</b>	4,346
– Plant and equipment	<b>633</b>	1,124
Emoluments of directors and chief executive	<b>4,751</b>	4,445
Salaries, wages and other benefits (excluding directors' emoluments)	<b>86,804</b>	93,690
Retirement benefits scheme contributions (excluding directors)	<b>3,399</b>	3,640
	<hr/> <b>94,954</b> <hr/>	<hr/> 101,775 <hr/>

#### 5. FINANCE COSTS

	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interests on:		
– finance lease	<b>1</b>	6
– bank loans	<b>2,629</b>	3,140
Imputed interest expense on non-current retention payables	<b>192</b>	1,316
	<hr/> <b>2,822</b> <hr/>	<hr/> 4,462 <hr/>

## 6. INCOME TAX EXPENSE

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Hong Kong	<b>3,216</b>	4,484
Overprovision in prior years	<u>—</u>	<u>(102)</u>
	<b>3,216</b>	4,382
Deferred tax		
Current year	<u>(51)</u>	<u>(376)</u>
Income tax expense for the year	<u><b>3,165</b></u>	<u>4,006</u>

Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%) of the estimated assessable profits during the year.

## 7. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

## 8. EARNINGS PER SHARE

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

### Earnings

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u><b>33,344</b></u>	<u>27,003</u>

### Number of shares

	<b>2017</b> <i>'000</i>	2016 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u><b>960,000</b></u>	<u>960,000</u>

Since there were no potential dilutive shares in issue during the years ended 31 March 2017 and 2016, basic and diluted earnings per share are the same for both years.



## 9. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	<u>61,662</u>	<u>72,601</u>
Retention money receivables	27,895	21,770
Less: allowance for impairment of retention money receivables	<u>(20)</u>	<u>(20)</u>
Net retention money receivables	27,875	21,750
Other receivables	41,762	36,991
Less: allowance for impairment of other receivables	<u>(1,095)</u>	<u>(1,095)</u>
Other receivables, net	40,667	35,896
Prepayments and deposits	<u>12,687</u>	<u>19,375</u>
Total trade and other receivables	142,891	149,622
Less: Prepayments classified under non-current assets	<u>(3,429)</u>	<u>(8,422)</u>
	<u><u>139,462</u></u>	<u><u>141,200</u></u>

Included in other receivables of the Group is amount due from a minority venturer of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,766,000 as at 31 March 2017 (2016: HK\$1,517,000). The balance is unsecured, interest free and repayable on demand.

The Group allows an average credit period of 21 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on the invoice date at the end of the reporting period. The Group does not hold any collateral over its trade and other receivables. As at 31 March 2017, retention money receivables of nil (2016: approximately HK\$16,610,000) are expected to be collected in more than one year after the reporting period.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	50,997	65,073
More than 30 days but within 90 days	10,388	7,443
More than 90 days but within 180 days	30	44
More than 180 days but within 365 days	<u>247</u>	<u>41</u>
	<u><u>61,662</u></u>	<u><u>72,601</u></u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$10,665,000 (2016: HK\$7,528,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss because they are mainly government departments of which the credit risk is minimal.

The aged analysis of trade receivables which are past due but not impaired is set out below:

	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within 30 days	<b>10,388</b>	7,443
More than 30 days but within 90 days	<b>30</b>	44
More than 90 days	<b>247</b>	41
	<b>10,665</b>	7,528

Movement in the impairment on trade and other receivables:

	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
At 1 April and 31 March	<b>1,115</b>	1,115

Included in the allowance for impairment of trade and other receivables are individually impaired trade and other receivables with an aggregate balance of approximately HK\$1,115,000 (2016: HK\$1,115,000) which had been long outstanding. The individually impaired trade and other receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions.

## 10. BANK BORROWINGS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Secured bank borrowings, repayable on demand or within one year	<u>73,902</u>	<u>72,441</u>
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Carrying amount of bank borrowings repayable within one year or on demand*	62,302	72,441
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	<u>11,600</u>	<u>–</u>
	<u>73,902</u>	<u>72,441</u>

\* The amount due are based on scheduled repayment dates set out in the loan agreements.

During the year ended 31 March 2017, secured bank borrowings bore floating interest rates of 4% to 6.75% (2016: 4% to 6.75%) per annum.

As at 31 March 2017 and 2016, the Group's bank borrowings and other banking facilities are secured by:

- (a) bank deposits amounting to approximately HK\$58,033,000 (2016: HK\$66,729,000) as at 31 March 2017;
- (b) personal guarantees executed by Mr. Wong and corporate guarantees given by certain entities within the Group;
- (c) corporate guarantee executed by Win Vision Holdings Limited ("Win Vision"), a wholly-owned subsidiary of the Company and corporate guarantees given by certain entities within the Group; and
- (c) land and building amounting to approximately HK\$32,882,000 (2016: nil) as at 31 March 2017.

The unutilised banking facilities as at 31 March 2017 amounted to approximately HK\$50,000,000 (2016: HK\$56,560,000).

## 11. SHARE CAPITAL

	Number	Amount <i>HK\$'000</i>
<b>Authorised:</b>		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 April 2015 and 31 March 2016 and 1 April 2016 and 31 March 2017	<b>2,000,000,000</b>	20,000
	<u><u>2,000,000,000</u></u>	<u><u>20,000</u></u>
<b>Issued and fully paid</b>		
<i>Ordinary shares of HK\$0.01 each</i>		
At 1 April 2015 and 31 March 2016 and 1 April 2016 and 31 March 2017	<b>960,000,000</b>	9,600
	<u><u>960,000,000</u></u>	<u><u>9,600</u></u>

## BUSINESS REVIEW AND OUTLOOK

The Group is engaged 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 as a contractor in Hong Kong.

Kwan On Construction, 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 Government of Hong Kong.

Set out below are the list of contracts on hand as at 31 March 2017:

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum <i>HK\$ million</i>	Cumulative revenue recognised <i>HK\$ million</i>	Further revenue expected to be recognised <i>HK\$ million</i>
<b>Tendered by Kwan On Construction</b>						
15/WSD/11	Water Supplies Department ("WSD")	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 2 – Mains on Outlying Islands	5/4/2016(1)	164.5	153.8	10.7
DC/2012/05	Drainage Service Department	Sewerage at Yuen Long Kau Hui and Shap Pat Heung	14/1/2017(2)	160.9	147.7	13.2
KL/2012/03	Civil Engineering and Development Department ("CEDD")	Kai Tak Dvelopment – Stage 4 infrastructure at former north apron area	2/9/2017	794.1	620.5	173.6
GE/2012/11	CEDD	Landslip Prevention and Mitigation Programme, 2009, Package C, Landslip Prevention and Mitigation Works in Lantau and Hei Ling Chau	16/3/2016(2)	96.7	96.7	–
GE/2013/06	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package J, Landslip Prevention and Mitigation Works in New Territories	23/4/2016(2)	121.3	120.7	0.6
GE/2013/17	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package M, Landslip Prevention and Mitigation Works in Lantau North	19/1/2016(2)	78.8	78.8	–
20130375	Housing Authority	Main Engineering Infrastructure in Association with The Proposed Developments at Area 56 in Tung Chung	29/2/2016(1)	45.2	45.2	–

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum HK\$ million	Cumulative revenue recognised HK\$ million	Further revenue expected to be recognised HK\$ million
GE/2013/16	CEDD	Landslip Prevention and Mitigation Programme, 2008, Package N, Landslip Prevention and Mitigation Works in Sham Wat, Tai O East, Upper Keung Shan, and Keung Shan Road East in West Lantau	18/6/2017	255.3	186.4	68.9
CV/2015/01	CEDD	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	8/11/2019	254.1	63.1	191.0
CDO2015034	The Chinese University of Hong Kong	Slope Stability Improvement Works – Package JJ Natural Terrain Hazard Mitigation Works for Slope above Campus Circuit East (Natural Terrain Ref. No. NT01)	17/9/2016(1)	15.2	10.2	5.0
GW/2015/05/038	West Kowloon Cultural District Authority	Public Infrastructure Works for Phase 1 Development of West Kowloon Cultural District (Package 1)	9/1/2018	128.9	62.3	66.6
NE/2016/04	CEDD	Site Formation and Associated Infrastructure Works for Purpose-built Complex of Residential Care Homes for the Elderly in Area 29 of Kwu Tung North New Development Area	4/11/2017	13.4	1.6	11.8
CDO2016061	The Chinese University of Hong Kong	Excavation and Lateral Support Works and Manhole Provision Campus Circuit North near Dangerous Goods Store	1/7/2017	1.8	1.0	0.8
NE/2016/05	CEDD	Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1	30/3/2020	299.0	-	299.0
Total					<u>1,588.0</u>	<u>841.2</u>

Note (1): The extended completion date was the date previously agreed with the customer. We had applied to the customer for a further extension of time and such application was being considered by the customer as at the date of this Reporting Year.

(2): Date of substantial completion

## Tendered by the Group's joint venture or joint operations

Contract number	Customer	Particular of contract	Original/ extended date for completion	Estimated Contract sum HK\$ million	Estimated Total revenue to be received by our Group HK\$ million	Cumulative Amount of revenue recognised by our Group HK\$ million	Revenue expected to be recognised by Our Group HK\$ million
10/WSD/10	WSD	Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 – Mains in Shatin and Sai Kung	17/2/2016 (Note)	409.6	409.6	403.5	6.1
4/WSD/11	WSD	Construction of Butterfly Valley Fresh Water Primary Service Reservoir Extension and Associated Mainlaying	18/7/2017	336.4	171.6	170.5	1.1
9/WSD/13	WSD	Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2	5/12/2016	78.4	39.2	32.3	6.9
HY/2014/12	Highways Department (“HyD”)	Provision of Barrier-free Access Facilities for Highways Structures – Phase 3 Contract 6	15/7/2019	215.2	109.8	48.1	61.7
NE/2014/03	CEDD	Liantang/Heung Yuen Wai Boundary Control Point Site Formation and Infrastructure Works – Contract 7	10/9/2019	462.0	5.0	3.3	1.7
HY/2013/19	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section	27/12/2019	585.0	298.4	103.9	194.5
HY/2014/14	HyD	Retrfitting of Noise Barriers on Tuen Mun Road – Fu Tei Section	27/6/2020	462.8	236.0	25.6	210.4
CV/2015/08	CEDD	Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3	28/1/2020	158.5	103.0	17.5	85.5
Total					1,372.6	804.7	567.9

*Note:* The extended completion date of 17 February 2016 was the date previously agreed with the customer. We had applied to customer for a further extension of time and such application was being considered by the customer as at the customer as the date of this Reporting Year.

## Comparison of Business Objectives with Actual Business Progress

### **Business objectives up to 31 March 2017 as stated in our prospectus dated 23 March 2015 (the “Prospectus”)**

Monitoring the tender notice published by the relevant government departments for public works and identify prospective projects

Forming the project management team and compile master programs for any projects obtained by Kwan On Construction successfully with terms of around 24 months and estimated contract sum of HK\$450 million from the government of Hong Kong (the “**Relevant Projects**”)

Implementation of works in accordance with the contract under the Relevant Projects.

Submitting tenders, in particular, for roads and drainage services and/or waterworks engineering contracts

Purchasing equipment and machinery

Recruiting the project management and technical personnel required for implementation of the Relevant Projects

Implementing the Relevant Projects in progress

### **Actual business progress up to 31 March 2017**

The Group continued to monitor the tender notices published by the relevant government departments for public works and identify prospective projects for tendering and the Group has submitted 57 tenders during the Reporting Year.

The Group has been awarded a total of five contracts with the total awarded sum of approximately HK\$314.2 million during the Reporting Year. The Group has also been awarded two contracts jointly with joint venture partners with estimated total revenue to be received by the Group amounted to approximately HK\$339.0 million during the Reporting Year.

The Group has implemented the works in accordance with the contracts under the Relevant Projects.

The Group has submitted 41 tenders for roads and drainage services and/or waterworks engineering contracts during the Reporting Year.

The Group has purchased five motor vehicles, one crane, four generators and three air compressors during the Reporting Year.

The Group has recruited two project managers, two site agents and one quantity surveyor and two safety officers during the Reporting Year.

The Group continued the implementation of the Relevant Projects in progress during the Reporting Year.



**Business objectives up to 31 March 2017 as stated in our Prospectus**

Maintaining ongoing quality assurance and safety review on the works performed

Strengthening of safety team

Recruiting additional safety officer for quality assurance

Reviewing the safety policy to address the risk areas and potential hazards and formulate improvement steps and procedures

Implementing contracts with contract numbers KL/2012/03, GE/2012/11, GE/2013/06, GE/2013/17, 9/WSD/13, 15/WSD/11, 20130375 and GE/2013/16, each of which has the percentage of works certified below 50% as at the latest practicable date of the Prospectus and will be completed after 30 September 2015 (the “**Ongoing Contracts**”) and the Relevant Projects as programmed

Monitoring the progress of implementation by the subcontractors for the Ongoing Contracts and the Relevant Projects

**Actual business progress up to 31 March 2017**

The Group continued to maintain ongoing quality assurance and safety review on the works performed during the Reporting Year.

The Group continued to strengthen the safety team by recruitment of new safety officers during the Reporting Year.

The Group has recruited two new safety officers during the Reporting Year.

The Group continued to review the safety policy and conducted 17 safety audits for various projects to address the risk areas and potential hazards and formulate improvements steps and procedures during the Reporting Year.

The Group continued the implementation of the Ongoing Contracts and the Relevant Projects as programmed during the Reporting Year. The Group has substantially completed contract GE/2012/11, GE/2013/06 and GE/2013/17 during the Reporting Year.

The Group continued the monitoring the progress of implementation by the subcontractors for the Ongoing Contracts and the Relevant Projects during the Reporting Year.

## FINANCIAL REVIEW

### Revenue

Revenue for the Reporting Year amounted to approximately HK\$780.4 million (2016: approximately HK\$719.8 million), represented an increase of approximately 8.4% or approximately HK\$60.6 million as compared to the year ended 31 March 2016.

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Waterworks	115,593	215,830
Road works and drainage and site formation works	504,850	335,523
LPM Services	159,961	164,704
Building works	–	3,713
	<u>780,404</u>	<u>719,770</u>

The revenue in the waterworks engineering services decreased by approximately 46.4% to approximately HK\$115.6 million (2016: approximately HK\$215.8 million). Such decrease was due to project completion or nearing completions for the Reporting Year.

The increase in revenue in the road works and drainage category by approximately 50.5% to approximately HK\$504.9 million (2016: approximately HK\$335.5 million) during the year ended 31 March 2017 was mainly due to revenue contributed from contracts KL/2012/03, CV/2015/01 and GW/2015/05/038. The contracts have recognised approximately HK\$356.2 million to revenue for the year ended 31 March 2017 (2016: approximately HK\$209.4 million).

The decrease in revenue in the LPM works during the Reporting Year was mainly due to the completion of the project GE/2010/21 during the Reporting Year. As such, the revenue in LPM services decreased by approximately 2.9% to approximately HK\$160.0 million for the Reporting Year (2016: approximately HK\$164.7 million).

The Group has no revenue generated from the building works category for the Reporting Year (2016: approximately HK\$3.7 million). This was mainly due to the completion of contract SDB807 in the prior year and the Group did not have any building works projects during the Reporting Year.

## Cost of services

Cost of services increased from approximately HK\$662.5 million for the year ended 31 March 2016 to approximately HK\$716.3 million for the Reporting Year, representing an increase of approximately 8.1%. The increase was mainly attributable to the increase in subcontracting charges by approximately HK\$72.4 million, which was mainly due to the commencement of several site formation works projects during the Reporting Year.

## Gross profit and gross profit margin

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

	Year ended 31 March	
	2017	2016
Waterworks	7.6%	2.7%
Road works and drainage and site formation works	5.2%	12.2%
LPM Services	32.5%	8.6%
Building works	–	0.9%

The gross profit margin for waterworks engineering service increased to approximately 7.6% for the Reporting Year (2016: approximately 2.7%). Such increase was mainly due to the completion of the maintenance period and the receipt of final payment of two completed contracts 11/WSD/08 and 24/WSD/09 in the Reporting Year, which contributed to the Group a comparatively high gross profit margin for the year ended 31 March 2017.

Gross profit margin for road works and drainage and site formation works service decreased to approximately 5.2% for the Reporting Year (2016: approximately 12.2%). Such decrease was mainly due to the decrease in the percentage of turnover generated from project KL/2012/03 together with the costs incurred and recognised from new contract HY/2014/14 is greater than the increase in revenue recognised during the Reporting Year.

Gross profit margin for LPM Service increased significantly to approximately 32.5% for the Reporting Year (2016: approximately 8.6%). Such increase was mainly due to the increase in revenue recognition from contract GE/2011/03 was completed during the Reporting Year and the favourable margin from projects, namely GE/2012/11, GE/2013/06 and GE/2013/17, generated at the maintenance stage of the contracts in the Reporting Year.

No gross profit generated for building works during the Reporting Year (2016: 0.9%) because the Group did not have any building work projects in progress during the Reporting Year.

**Other income**

Other income and other gain and loss for the Reporting Year amounted to approximately HK\$3.3 million (2016: approximately HK\$2.9 million). The increase was mainly due to the increase in gain on disposal of motor vehicles of approximately HK\$0.8 million (2016: loss on disposal of approximately HK\$0.5 million) during the Reporting Year.

**Administrative expenses**

Administrative expenses for the Reporting Year amounted to approximately HK\$27.8 million (2016: approximately HK\$23.9 million). The increase was mainly due to the increase in donation expenses of approximately HK\$1.0 million to the Community Chest of Hong Kong; and the increase in professional service expenses of approximately HK\$1.0 million upon the successful listing of the shares of the Company on the Main Board of the Stock Exchange on 15 August 2016.

**Finance costs**

Finance costs for the Reporting Year amounted to approximately HK\$2.8 million (2016: approximately HK\$4.5 million). The decrease was mainly due to the decrease in bank interest expenses of approximately HK\$1.2 million as a result of the decrease in average outstanding borrowings for the Reporting Year as compared to that of the year ended 31 March 2016.

**Income tax expense**

Income tax expense for the Reporting Year amounted to approximately HK\$3.2 million (2016: approximately HK\$4.0 million). The decrease was mainly due to the utilisation of tax loss generated by certain subsidiaries of the Group for the Reporting Year.

**Profit and total comprehensive income**

Profit and total comprehensive income for the Reporting Year amounted to approximately HK\$33.5 million (2016: approximately HK\$27.8 million). The increase was mainly attributable to the increase in gross profit generated from the Group projects in LPM Services.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2017, the Group had net current assets of approximately HK\$88.7 million (2016: approximately HK\$86.2 million), increase of approximately HK\$2.5 million, representing an increase of approximately 2.9% as compared with the prior year.

The current ratio of the Group as at 31 March 2017 was approximately 1.24 times (2016: approximately 1.35 times). The decrease was mainly due to cash used in the purchase of the office premises which was classified as non-current assets.

The cash and cash equivalents for the Reporting Year amounted to approximately HK\$194.4 million (2016: approximately HK\$107.2 million). The increase was mainly resulted from the proceeds collected from settlement of trade and other receivables and advances from a Director amounted to approximately HK\$95.0 million.

The gearing ratio, calculated based on the total debt (including borrowings and finance lease payables) divided by total equity, was approximately 54.5% as at 31 March 2017 (2016: approximately 70.2%). The decrease was mainly due to our significant increase in equity as at 31 March 2016 of approximately HK\$135.5 million (2016: approximately HK\$103.4 million) as a result of the profitable operation of the Group.

## **CAPITAL STRUCTURE**

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 15 August 2016. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2017, 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.

## **COMMITMENTS**

The Group was committed to make future minimum lease payments in respect of properties under non-cancellable operating leases. The Group's operating lease commitments amounted to approximately HK\$1.2 million as at 31 March 2017 (2016: approximately HK\$3.8 million). As at 31 March 2017, the Group did not have any significant capital commitments (2016: Nil).

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

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

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

During the Reporting Year, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

## **SIGNIFICANT INVESTMENTS**

Save as the investments in associates of approximately HK\$3,000,000 (2016: Nil), the Group did not have any significant investments as at 31 March 2017 (2016: Nil).

## **CONTINGENT LIABILITIES**

Save for certain litigations involved, the Group did not have any material contingent liabilities as at 31 March 2017 (2016: Nil).

## **FOREIGN EXCHANGE EXPOSURE**

The Group was not exposed to foreign exchange risk during the Reporting Year (2016: Nil).

## **TREASURY POLICIES**

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade and retention receivables and deposits with banks. The credit risk of the Group's trade and retention receivables is concentrated since approximately 91% of which was derived from two major customers as at 31 March 2017 (2016: approximately 75%). As the customers of the Group are mainly government departments/organisation, the credit risk is considered to be low. The Group's major bank balances are deposited with banks with good reputation and hence the management does not expect any losses from nonperformance 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.

## **CHARGE OF GROUP'S ASSETS AND SECURITIES FOR BANKING FACILITIES**

As at 31 March 2017, the Group pledged bank deposits amounted to approximately HK\$58.0 million (2016: approximately HK\$66.7 million) as securities for banking facilities.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 March 2017, the Group employed a total of 373 employees, comprising 249 staff employed on a full-time basis and 124 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$95.0 million for the Reporting Year (2016: approximately HK\$101.8 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.

## **SHARE OPTION SCHEME**

The Group has adopted a share option scheme pursuant to which the Company may grant options to individuals including employees, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company and any subsidiary to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre employees.

## **LITIGATIONS**

As at 31 March 2017, the Group was involved in certain litigations. In the opinion of the Directors, 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, and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

## **PROSPECT**

With the increasing government budget for infrastructure, the outlook for the construction industry in Hong Kong remains optimistic. Going forward, the Group will continue to identify and tender for more rewarding contracts in Hong Kong and to identify opportunities for joint ventures to capture more potential business opportunities.

Looking ahead, the Group will endeavor to strengthen the development of its existing businesses and to provide steady return as well as growth prospects for the Company's shareholders.

## **OTHER INFORMATION**

### **Corporate Governance Practice**

The shares of the Company have been successfully listed (the “**Listing**”) on the GEM of the Stock Exchange on 27 March 2015 (the “**Listing Date**”) and transferred to the Main Board of the Stock Exchange on 15 August 2016. 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 provisions of the CG Code for the year ended 31 March 2017.

### **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.



Each of Mr. Wong Yee Tung Tony, Mr. Kwong Wing Kie, Ms. Chiu Gar Man, Mr. Wong Juen Gar Newton, Mr. Wong Ming San Andy, Decade Success Investments Limited, Fortune Decade Investments Limited, Success Ally Investments Limited and Twilight Treasure Limited (the “**Covenantors**”) has provided annual confirmations in respect of the compliance with non-competition undertaking (the “**Undertaking**”) given by them.

The independent non-executive Directors have also reviewed the compliance by each of the Covenantors 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 Covenantors of the Undertaking given by them.

### **Interests of the Compliance Adviser**

As notified by the Company’s compliance advisor, 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 (the “**Compliance Adviser’s Agreement**”), 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.

### **Subsequent Events**

There is no significant event after the Reporting Year of the Group.

### **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.

### **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 year ended 31 March 2017.

## **Publication of 2017 Annual Report**

The 2017 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, 26 June 2017

*As at the date of this announcement, the Executive Directors are Mr. Chen Zhenghua, Mr. Wong Yee Tung, Tony, Mr. Wong Wa and Mr. Zhang Fangbing; and the Independent Non-executive Directors are Professor Ho Ho Ming, Professor Lam Sing Kwong, Simon and Mr. Lum Pak Sum.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the “Latest Company Announcements” page of the website of the Stock Exchange at [www.hkexnews.hk](http://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](http://www.kwanonconstruction.com).*