

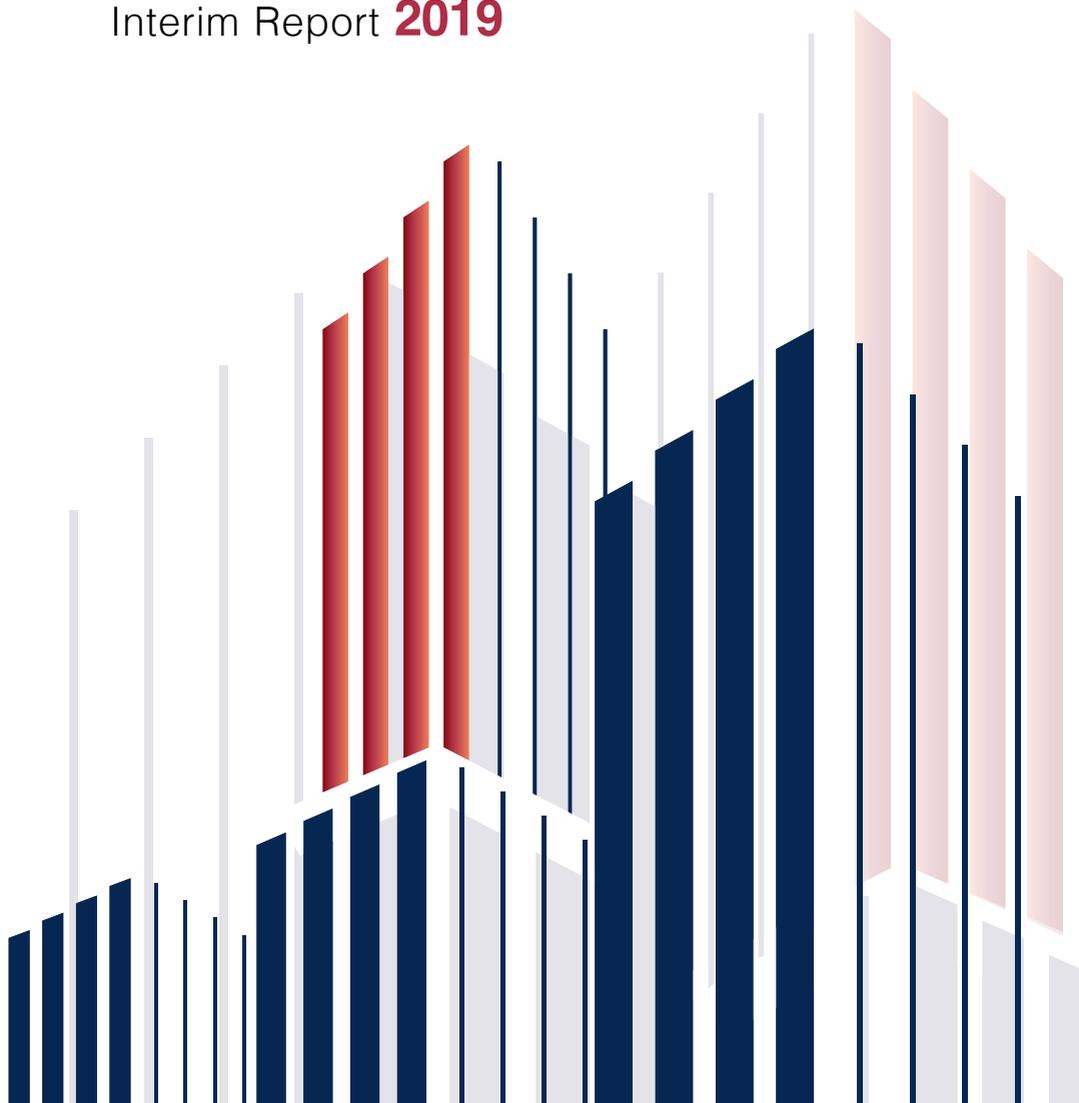
Kwan Yong Holdings Limited

光榮建築控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9998

Interim Report **2019**



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kwan Mei Kam
(Chairman and Chief Executive Officer)
Ms. Tay Yen Hua
Mr. Jacob Wong San Ta
Ms. Kwan Shu Ming

Non-executive Director

Mr. Lim Ah Lay

Independent Non-executive Directors

Mr. Koh Lian Huat
Dr. Wu Dongqing
Mr. Chou Sean Yu

BOARD COMMITTEES

Audit Committee

Mr. Koh Lian Huat *(Chairman)*
Dr. Wu Dongqing
Mr. Chou Sean Yu
Mr. Lim Ah Lay

Remuneration Committee

Mr. Chou Sean Yu *(Chairman)*
Mr. Kwan Mei Kam
Mr. Lim Ah Lay
Dr. Wu Dongqing
Mr. Koh Lian Huat

Nomination Committee

Mr. Kwan Mei Kam *(Chairman)*
Ms. Kwan Shu Ming
Mr. Koh Lian Huat
Dr. Wu Dongqing
Mr. Chou Sean Yu

COMPANY SECRETARY

Ms. Ng Hoi Ying

AUTHORISED REPRESENTATIVES

Ms. Kwan Shu Ming
Ms. Ng Hoi Ying

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

11 Joo Koon Crescent
Singapore 629022

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 502
Tai Tung Building
8 Fleming Road
Wan Chai
Hong Kong

COMPLIANCE ADVISER

SPDB International Capital Limited
33/F, SPD Bank Tower, One Hennessy
1 Hennessy Road, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

TC & Co.
Units 2201-2203, 22/F
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Boardroom Share Registrars (HK) Limited
2103B, 21/F
148 Electric Road
North Point
Hong Kong

PRINCIPAL BANKS

DBS Bank Ltd
Overseas-Chinese Banking Corporation Limited

COMPANY'S WEBSITE

www.kwanyong.com.sg

STOCK CODE

9998

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

For the six months ended 31 December 2019

		Six months ended 31 December	
	Notes	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
Revenue	6	101,278	37,368
Costs of sales		(93,941)	(31,132)
Gross profit		7,337	6,236
Other income and loss, net	7	368	313
Administrative expenses		(3,486)	(4,352)
Finance costs	8	(54)	(16)
Profit before tax	9	4,165	2,181
Income tax expense	10	(791)	(562)
Profit and total comprehensive income for the period		3,374	1,619
Profit and total comprehensive income attributable to:			
Owners of the Company		3,374	1,619
Basic and diluted earnings per share (cents)	12	0.42	0.20

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 SGD'000 (unaudited)	30 June 2019 SGD'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	17,304	17,043
Investment properties		1,918	1,934
Right of use assets		1,325	–
Total non-current assets		20,547	18,977
Current assets			
Trade receivables	14	33,020	22,888
Contract assets	15	36,335	27,064
Prepayments, deposits and other receivables		1,378	1,413
Pledged deposits		6,000	7,000
Cash and cash equivalents		9,451	3,044
Total current assets		86,184	61,409
Current liabilities			
Trade payables	16	51,800	33,066
Contract liabilities	15	4,617	590
Other payables and accruals	17	1,683	750
Provision for defect liabilities		375	375
Deferred capital grants		44	47
Income tax payable		1,095	1,294
Bank borrowings		1,813	3,856
Obligations under leases		229	78
Total current liabilities		61,656	40,056
Net current assets		24,528	21,353
Total assets less current liabilities		45,075	40,330

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 SGD'000 (unaudited)	30 June 2019 SGD'000 (audited)
Non-current liabilities			
Bank Borrowings		447	454
Obligations under leases		1,516	118
Deferred capital grants		24	44
Deferred tax liabilities		261	261
Total non-current liabilities		2,248	877
Net assets		42,827	39,453
EQUITY			
Equity attributable to the sole shareholder of the company			
Issued capital	18	– [#]	– [#]
Reserves		42,827	39,453
Total equity		42,827	39,453

[#] Less than SGD500

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

	Issued capital SGD'000	Merger reserve SGD'000	Retained profits SGD'000	Total equity SGD'000
At 1 July 2019 (audited)	– [#]	15,000	24,453	39,453
Profit and total comprehensive income for the period	–	–	3,374	3,374
At 31 December 2019 (unaudited)	– [#]	15,000*	27,827*	42,827

For the six months ended 31 December 2018

	Issued capital SGD'000	Merger reserve SGD'000	Retained profits SGD'000	Total equity SGD'000
At 1 July 2018 (audited)	– [#]	15,000	22,535	37,535
Profit and total comprehensive income for the period	–	–	1,619	1,619
At 31 December 2018 (unaudited)	– [#]	15,000*	24,154*	39,154

* These reserves accounts comprise the combined reserves of approximately SGD39,154,000 and approximately SGD42,827,000 in the interim condensed consolidated statement of financial position as at 31 December 2018 and 2019, respectively.

[#] Less than SGD500

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	Six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4,165	2,181
Adjustments for:		
Bank interest income	(91)	(46)
Amortisation of deferred capital grants	(24)	(24)
Finance costs	54	16
Depreciation of property, plant and equipment and right of use assets	885	883
Depreciation of investment properties	15	15
Operating cash flows before changes in working capital	5,004	3,025
Changes in working capital:		
Increase in contract assets	(9,271)	(4,048)
Increase in contract liabilities	4,027	–
Increase in trade receivables	(10,132)	(10,451)
Decrease in prepayments, deposits and other receivables	35	3,141
Increase in trade payables	14,118	7,213
Increase in other payables and accruals	5,549	1,152
Decrease in provisions for defect liabilities	–	(172)
Cash flows generated from/(used in) operations	9,330	(140)
Income tax paid	(986)	(1,973)
Interest paid	(35)	–
Net cash flows from/(used in) operating activities	8,309	(2,113)
CASH FLOWS FROM INVESTING ACTIVITIES		
Placement of time deposits with original maturity of more than three months when acquired	(3,000)	(18,000)
Withdrawal of time deposits with original maturity of more than three months when acquired	4,000	19,000
Interest received	91	46
Purchase of items of property, plant and equipment	(856)	(789)
Net cash flows from investing activities	235	257

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	Six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(19)	(16)
Repayment of bank borrowings	(11)	(58)
Payment of principal portion of lease liabilities	(68)	(6)
Net cash flows used in financing activities	(98)	(80)
Net increase/(decrease) in cash and cash equivalents	8,446	(1,936)
Cash and cash equivalents at beginning of the period	(792)*	3,412*
Cash and cash equivalents at end of the period	7,654	1,476
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances other than time deposits	9,451	1,476
Time deposits	6,000	12,000
Less: Pledged deposits	(6,000)	(12,000)
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	9,451	1,476
Less: Bank overdrafts	(1,797)	-
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	7,654	1,476

* Cash and cash equivalents at beginning of the period includes bank overdraft of approximately SGD3,836,000 (1 July 2018: approximately SGD2,708,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1. CORPORATE INFORMATION

Kwan Yong Holdings Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands on 7 September 2018. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands, and the headquarters and principal place of business in Singapore of the Company is located at 11 Joo Koon Crescent, Singapore 629022.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 January 2020 (the “**Listing**”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the provision of general building and construction services in Singapore.

In the opinion of the directors of the Company, Ideal Smart Ventures Limited (“**Ideal Smart**”), a company incorporated in the British Virgin Islands (the “**BVI**”), is the immediate holding company and the ultimate holding company of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Pursuant to the reorganisation of the Company as more fully explained in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in the prospectus of the Company dated 24 December 2019 (the “**Prospectus**”), the Company became the holding company of the companies now comprising the Group on 13 December 2019 (the “**Reorganisation**”). The Reorganisation only involved inserting new holding companies of an existing company and has not resulted in any change of economic substances. Accordingly, for the purpose of this interim report, the interim condensed consolidated financial statements have been presented by applying the principles of merger accounting.

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 30 June 2019, as included in Appendix I to the Prospectus.

The unaudited interim condensed consolidated financial information is presented in Singapore Dollars (“**SGD**”) and all value are rounded to the nearest thousand (“**SGD’000**”), unless otherwise stated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 30 June 2019 as included in Appendix I to the Prospectus, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases* using the modified retrospective method of adoption without restating previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

a) *Nature of the effect of adoption of IFRS 16*

The Group is required to pay annual land rent to Jurong Town Corporation for its leasehold property. The annual land rent is based on market rent for the relevant year and the land lease has a remaining tenure of 35 years. Before the adoption of IFRS 16, the Group classified this lease as operating leases.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 16 Leases (Continued)

a) Nature of the effect of adoption of IFRS 16 (Continued)

Upon the adoption of IFRS 16, the Group will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) for the lease previously classified as operating lease. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. The Group will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Group will be also required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. The Group will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from the current accounting policy under IAS 17. The Group will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group adopts IFRS 16 using the modified retrospective method with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with any cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits as at 1 July 2019, and the comparative information will not be restated and continues to be reported under IAS 17.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 16 Leases (Continued)

a) Nature of the effect of adoption of IFRS 16 (Continued)

The Group used the following practical expedients when applying IFRS 16 as at 1 July 2019:

- Applying short term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Based on the foregoing, as at 1 July 2019:

- Right-of-use assets of approximately SGD1,344,000 were recognised and presented separately in the statement of financial position.
- Lease liabilities of approximately SGD1,344,000 were recognised.

The lease liabilities as of 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	SGD'000
Operating lease commitments as at 30 June 2019	3,688
Less:	
Commitments relating to short term leases	(771)
<hr/>	
Weighted average incremental borrowing rate as at 1 July 2019	5.25%
<hr/>	
Discounted operating lease commitments at 1 July 2019	1,344
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 16 Leases (Continued)

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

– Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

– Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate.

The lease payments also include payment of penalties for terminating the lease, if the lease reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 16 Leases (Continued)

b) Summary of new accounting policies (Continued)

– Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

c) Amount recognised in the interim condensed consolidated statements of financial position and profit or loss

Set out below are the carrying amounts of movement during the period:

	Right-of-use assets	Lease liabilities
	SGD'000	SGD'000
As at 1 July 2019	1,344	1,344
Depreciation	(19)	–
Interest expense	–	35
Payments	–	(42)
Balance at end of the period	1,325	1,337

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the unaudited interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each of the period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

In preparing this unaudited interim condensed consolidated financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2019, as included in Appendix I to the Prospectus.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to credit risk and liquidity risk.

The unaudited interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 30 June 2019, as included in Appendix I to the Prospectus.

There have been no changes in the financial risk management policies of the Group since the financial year ended 30 June 2019.

5. SEGMENT INFORMATION

Operating segment information

No operating segment information is presented as the Group's revenue and reported results during the periods, and the Group's total assets as at the end of the periods were derived from one single operating segment, i.e., provision of general building and construction services.

Geographical information

The Group's revenue during the periods were all derived from external customers based in Singapore, and the Group's non-current assets, excluding financial assets, as at the end of the periods were all located in Singapore.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

6. REVENUE

Revenue represents an appropriate proportion of contract revenue of construction contracts for the provision of general building and construction services.

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
By geographical market		
Singapore	101,278	37,368
By revenue stream		
General building and construction	101,278	37,368
By timing of revenue recognitions		
Over time	101,278	37,368

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

7. OTHER INCOME AND LOSS, NET

	For the six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
Government grants (Note)	10	5
Bank interest income	91	46
Amortisation of deferred capital grants	24	24
Rental income	242	238
Sundry income	3	–
	370	313
Loss arising on disposal of property, plant and equipment	(2)	–
	(2)	–
Other income and loss, net	368	313

Note: Subsidies were received by a subsidiary from various government authorities in Singapore for employment incentives and productivity improvement. There are no unfulfilled conditions or contingencies attaching to government grants that have been recognised.

8. FINANCE COSTS

	For the six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
Interest on:		
Bank overdraft	1	–
Term loan	11	15
Lease liabilities	42	1
	54	16

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

9. PROFIT BEFORE TAX

Profit for the period has been arrived at after charging:

	For the six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
Cost of construction work	93,941	31,132
Depreciation (note a)	885	883
Less: Amount included in cost of construction work	(482)	(564)
	403	319
Depreciation of investment properties	15	15
Expenses relating to short-term leases and leases of low value assets (note b)	274	136
Less: Amount included in cost of construction work	242	(56)
	32	80
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	4	25
Employee benefit expense (excluding directors' remuneration):		
Salaries, allowances and benefits in kind	5,395	3,423
Pension scheme contributions	276	219
	5,671	3,642
Less: Amount included in cost of construction work	(4,590)	(2,668)
	1,081	974
Listing expenses	602	2,147

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

9. PROFIT BEFORE TAX (Continued)

Notes:

- (a) Depreciation for the six months ended 31 December 2019 comprise depreciation of property, plant and equipment of approximately SGD866,000 (six months ended 31 December 2018: approximately SGD883,000) and depreciation of right-of-use assets of approximately SGD19,000 (six months ended 31 December 2018: Nil).
- (b) The Group leases certain of its leasehold properties, warehouse premises and workers' quarters with either lease terms of 12 months or less or with low value. The Group applied the "short-term lease" and "lease of low value assets" recognition exemption for these leases.

10. INCOME TAX EXPENSE

	For the six months ended 31 December	
	2019 SGD'000 (unaudited)	2018 SGD'000 (unaudited)
Tax expense comprises:		
Current tax		
– Singapore corporate income tax	791	562

Notes:

No Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during each of the financial period.

Singapore corporate income tax has been provided at the rate of 17% on the estimated assessable profits arising in Singapore during each of the financial period.

11. DIVIDENDS

No dividend was paid or declared by the Company during the six months ended 31 December 2019 (six months ended 31 December 2018: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the unaudited profit for the period attributable to shareholders of the Company of approximately SGD3,374,000 (six months ended 31 December 2018: approximately SGD1,619,000), and the weighted average number of ordinary shares in issue of 800,000,000 (six months ended 31 December 2018: 800,000,000) during the six months ended 31 December 2019 as if the change in issued number of ordinary shares of the Company as disclosed in the consolidation financial statements of the Group for the year ended 30 June 2019 has been completed on 1 July 2018.

No adjustment has been made to the basic earnings per share presented for the six months ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during each these periods.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2019, the Group acquired assets with a cost of approximately SGD1,128,000 (30 June 2019: approximately SGD1,091,000).

14. TRADE RECEIVABLES

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Trade receivables	26,503	8,389
Unbilled receivables (Note)	6,517	14,499
	33,020	22,888

Note: Unbilled revenue are those accrued revenue which the construction certification is issued by the customers before year end but no billing has been raised to customers. The Group's rights of the unbilled revenue are unconditional.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

14. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Within one month	23,246	6,959
1 to 2 months	2,513	1,329
2 to 3 months	29	–
Over 3 months	715	101
	26,503	8,389
Unbilled receivables	6,517	14,499
	33,020	22,888

Trade receivables are non-interest bearing and are generally on a 30-day term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group assesses at the end of each reporting period whether there is objective evidence that any trade receivables are impaired. The Group seeks to maintain strict control over all its outstanding receivables and has a credit control in place to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The Group applies the simplified approach to provide for expected credit losses (“ECL”) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group has assessed the impairment of its trade receivables on an individual basis based on internal credit rating and ageing of these balances which, in the opinion of the directors of the Company, have no significant increase in credit risk during the periods. ECL is estimated based on historical observed default rates over the expected life of debtors and are adjusted for forward-looking information that is available without undue cost or effort. Considering the good credit history of debtors and loss on collection is not material, no ECL was made for trade receivables as at 31 December 2019 and 30 June 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

15. CONTRACT BALANCES

Information relating to contract balances arising from contracts with customers is disclosed as follows:

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Contract assets:		
Retention receivables (note a)	610	174
Other contract assets (note b)	35,725	26,890
Total contract assets	36,335	27,064
Contract liabilities	(4,617)	(590)

Notes:

- (a) Retention receivable held by contract customers arise from the Group's consideration work business and are settled a period ranging from one year to two years after the completion of the construction work and after the relevant construction work is accepted by the contract customers, as stipulated in the construction contracts.
- (b) Other contract assets primarily relate to the Group's right to consideration work completed but yet to be certified by surveyors appointed by the customers as at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.
- (c) The Group applies the simplified approach to provide for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all contract assets. The Group has assessed the impairment of its contract assets on an individual basis based on internal credit rating and ageing of these balances which, in the opinion of the directors of the Company, have no significant increase in credit risk during the periods. ECL is estimated based on historical observed default rates over the expected life of debtors and are adjusted for forward-looking information that is available without undue cost or effort. Considering the good credit history of debtors and insignificant loss on collection incurred in the past history, no ECL was made for contract assets as at 31 December 2019 and 30 June 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

15. CONTRACT BALANCES (Continued)

Notes: (Continued)

- (d) Contract liabilities are the Group's obligations to transfer goods and services to customers for which the Group has received consideration from customers. Contract liabilities are recognised as revenue when the Group performs under contract.
- (e) As at 31 December 2019 and 30 June 2019, performance bonds amounting to approximately SGD20,351,000 and approximately SGD18,246,000, respectively, were issued by an insurance company as security deposits in lieu of cash to customers of the Group for the due performance and observance of the Group's obligations under the contracts entered into between the Group and the customers. If the Group fails to provide satisfactory performance to its customers to whom performance bonds have been given, such customers may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then be liable to compensate the insurance company accordingly. The performance bonds will be released upon completion of the contract work. The performance bonds are secured by way of personal guarantees given by two directors of the Company.

16. TRADE PAYABLES

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Trade payables	42,199	25,280
Retention payables	9,601	7,786
	51,800	33,066

The Group's trade payables are unsecured, non-interest bearing and are normally settled on average terms of 30 to 60 days.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

16. TRADE PAYABLES (Continued)

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date is as follows:

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Within one month	3,336	3,933
1 to 2 months	3,284	1,419
2 to 3 months	395	73
Over 3 months	789	175
	7,804	5,600
Unbilled payables*	34,395	19,680
	42,199	25,280

* Unbilled payables are accrued subcontractor costs but related invoices have not been received as at the end of the reporting period.

17. OTHER PAYABLES AND ACCRUALS

	As at 31 December 2019 SGD'000 (unaudited)	As at 30 June 2019 SGD'000 (audited)
Accruals	347	655
Deposits received and other payables	95	95
GST payable	1,241	-
	1,683	750

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

18. SHARE CAPITAL

	As at 31 December 2019 (unaudited) HKD'000	As at 30 June 2019 (audited) HKD'000
Authorised:		
15,000,000,000 (30 June 2019: 38,000,000) ordinary shares of HK\$0.01 each	150,000	380

	As at 31 December 2019 (unaudited) SGD'000	As at 30 June 2019 (audited) SGD'000
Issued and fully paid:		
3 (30 June 2019: 1) ordinary share of HK\$0.01 each	—#	—#

A summary of movements in the Company's issued capital from its date of incorporation of 7 September 2018 to 31 December 2019 is as follows:

	Number of shares in issue	Issued capital SGD'000	Total SGD'000
Issue of new shares upon incorporation on 7 September 2018 (note a)	1	—#	—#
As at 30 June 2019	1	—#	—#
Issue of new shares for acquisition of subsidiaries pursuant to the Reorganisation (note b)	2	—#	—#
As at 31 December 2019	3	—#	—#

Less than SGD500

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

18. SHARE CAPITAL (Continued)

Notes:

- (a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 September 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one share was allotted and issued at par value on the same date.
- (b) On 13 December 2019, pursuant to a reorganisation agreement entered into between the Company and two directors of the Company, as part of the Reorganisation, the Company issued a total of 2 ordinary shares of HK\$0.01 each as consideration for the acquisition of the entire equity interests in Kwan Yong Construction Pte Ltd from its then sole shareholder.

19. EVENTS AFTER THE REPORTING PERIOD

On 8 January 2020, the Company allotted and issued 599,999,997 shares of HK\$0.01 each credited as fully paid to Ideal Smart by way of capitalizing an amount in the share premium account of the Company.

On 7 January 2020, in connection with the Listing, 200,000,000 shares of HK\$0.01 each were issued at a price of HK\$0.65 each for a total consideration, before expenses, of approximately HK\$130,000,000. The 200,000,000 shares comprised 60,000,000 shares issued under the Hong Kong Public Offering and 140,000,000 shares issued under the International Offering. On 8 January 2020 (the "Listing Date"), the shares of the Company were listed on the Main Board of the Stock Exchange.

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information was approved and authorised for issue by the board of directors (the "Board") of the Company on 25 February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group acts as a main contractor in the provision of building construction works in Singapore, including new construction and alteration and addition (“A&A”) works. The Group is known for quality of work, especially in building construction works for the public sector. The Group has more than 30 years of experience in building construction works for various types of buildings which include institutional buildings (such as education institutions, hospitals and nursing homes), commercial buildings (such as office buildings and restaurants), as well as industrial and residential buildings.

As at 31 December 2019, the Group had 11 construction projects on hand (including projects in progress and projects that are yet to commence) with a total contract value of approximately SGD446.9 million.

OUTLOOK

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 January 2020 by way of public offer and placing. The directors of the Company (the “**Directors**”) believe that the Listing enables the Group to (i) gain direct access to the capital market in Hong Kong for cost effective capital raising for future expansion and corporate finance exercises; and (ii) enhance the Group’s corporate profile, recognition and corporate status and reinforce the Group’s market awareness and image which in turn strengthen the Group’s competitiveness in the building construction industry. The Directors recognised that the Group’s presence in the Hong Kong capital market could create a higher level of visibility for the Group among international investors, and hence gain better access to international funding. More importantly, the Directors believe that access to international funding will underpin the Group’s future sustainable growth by providing diversified means to fund future expansion plans. The sole reliance on internal funding will, in the view of the Directors, impose constraints on the business strategies, and therefore, the future expansion and potential growth of the business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 31 December 2019 was approximately SGD101.3 million, representing an increase of approximately 170.9% as compared to that of approximately SGD37.4 million for the six months ended 31 December 2018. The increase in revenue was mainly driven by the increase in revenue from the Group's new construction projects for both public and private sectors, partially offset by the slight decrease in revenue from the Group's A&A projects for the public sector.

Cost of sales

Cost of sales increased by approximately SGD62.8 million or approximately 201.9%, from approximately SGD31.1 million for the six months ended 31 December 2018 to approximately SGD93.9 million for the six months ended 31 December 2019. Such increase was mainly driven by the corresponding increase in revenue.

Gross profit and gross profit margin

Gross profit for the six months ended 31 December 2019 increased by approximately 17.7% to approximately SGD7.3 million (six months ended 31 December 2018: approximately SGD6.2 million), and the gross profit margin decreased by approximately 9.5 percentage points to approximately 7.2% (six months ended 31 December 2018: approximately 16.6%). The increase of the gross profit was mainly due to the increase of revenue recognised for the six months ended 31 December 2019 by approximately SGD63.9 million to approximately SGD101.3 million (six months ended 31 December 2018: approximately SGD37.4 million) despite the decrease in gross profit margin. The lower gross profit margin for the six months period ended 31 December 2019 was a result of the lower gross profit margin for certain A&A projects which will be completed in the financial year ended 30 June 2020 and the lower gross profit margin for new construction projects in the private sector.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other operating expenses

Administrative expenses decreased by approximately SGD0.9 million from approximately SGD4.4 million for the six months ended 31 December 2018 to approximately SGD3.5 million for the six months ended 31 December 2019. The decrease was mainly attributable to the decrease in the listing expense from approximately SGD2.1 million for the six months ended 31 December 2018 to approximately SGD0.6 million for the six months ended 31 December 2019.

Income tax expense

The Group's income tax expense increased by approximately SGD0.2 million from approximately SGD0.6 million for the six months ended 31 December 2018 to approximately SGD0.8 million for the six months ended 31 December 2019. The increase was primarily due to the increase in profit before taxation.

Profit for the period

As a result of the above factors, the Group recorded a profit of approximately SGD3.4 million for the six months ended 31 December 2019 (six months ended 31 December 2018: approximately SGD1.6 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 8 January 2020. There has been no change in the capital structure of the Group since then. The capital of the Group only comprised of ordinary shares and the capital structure of the Company comprised mainly issued share capital and reserves.

The Group's cash and cash equivalents balances as at 31 December 2019 amounted to approximately SGD9.5 million (30 June 2019: approximately SGD3.0 million).

As at 31 December 2019, the Group's indebtedness comprised bank borrowings and obligations under leases of approximately SGD4.0 million (30 June 2019: approximately SGD4.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded total current assets of approximately SGD86.2 million as at 31 December 2019 (30 June 2019: approximately SGD61.4 million) and total current liabilities of approximately SGD61.7 million as at 31 December 2019 (30 June 2019: approximately SGD40.1 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.4 as at 31 December 2019 (30 June 2019: approximately 1.5).

The Group's total equity attributable to owners of the Company increased to approximately SGD42.8 million as at 31 December 2019 from that of approximately SGD39.5 million as at 30 June 2019, which was attributable to the profit recorded for the six months ended 31 December 2019.

The Group's operations are financed principally by cash generated from its business operations as well as bank borrowings.

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio which was calculated by dividing the total debts (being sum of bank borrowings and obligations under leases) by total equity was approximately 9.4% (30 June 2019: approximately 11.4%).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (30 June 2019: Nil).

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the six months ended 31 December 2019, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures save for those related to the pre-listing corporate Reorganisation as disclosed in the Prospectus. Save as disclosed herein, the Group did not have other plans for material investments or acquisition of capital assets as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately SGD1.3 million in respect of an acquisition of plant and equipment (30 June 2019: approximately SGD1.6 million).

The Group is the lessee in respect of certain of its leasehold properties, warehouse premises and workers' quarters under operating leases. As at 31 December 2019, the Group's total future minimum lease payments under non-cancellable operating leases were approximately SGD3.4 million (30 June 2019: approximately SGD3.7 million).

The Group is the lessor in respect of certain portion of the office and warehouse premise leased to independent third parties under non-cancellable operating lease arrangements, which were approximately SGD0.5 million as at 31 December 2019 (30 June 2019: approximately SGD0.8 million).

TREASURY POLICIES

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

FOREIGN CURRENCY RISK

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As most of the Group's monetary assets and liabilities are denominated in Singapore Dollars, the Directors are of the view that the Group does not have significant exposure to foreign exchange risk. The Group currently does not have a foreign currency hedging policy.

PROSPECTS

The Group will continue to focus on expanding its market position for the building environment sector in Singapore. The Building Construction Authority of Singapore expects approximately SGD17.5 billion to approximately SGD20.5 billion worth of public sector contracts will be awarded in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The first half of 2020 is marked by the partial trade deal and de-escalation of tension between the United States and the People's Republic of China. As the global trade economy and the outbreak of the COVID-19 may have an effect on the construction industry in Singapore, the Group is closely monitoring the changing market landscape.

The Company will:

- (a) expand the Group's business and strengthen the Group's market position in the construction industry in Singapore;
- (b) upgrade and replace existing machinery and equipment to enhance the Group's productivity and quality;
- (c) strengthen the Group's technical capability and productivity through investment in new technology; and
- (d) enhance and expand the Group's workforce to keep up with the Group's business expansion.

INTERIM DIVIDEND

No dividend was paid, declared or proposed during the six months ended 31 December 2019 and 31 December 2018.

EVENTS AFTER THE END OF REPORTING PERIOD

On 8 January 2020, the Company allotted and issued 599,999,997 shares of HK\$0.01 each credited as fully paid to Ideal Smart by way of capitalizing an amount in the share premium account of the Company.

On 7 January 2020, in connection with the Listing, 200,000,000 shares of HK\$0.01 each were issued at a price of HK\$0.65 each for a total consideration, before expenses, of approximately HK\$130,000,000. The 200,000,000 shares comprised 60,000,000 shares issued under the Hong Kong Public Offering and 140,000,000 shares issued under the International Offering. On 8 January 2020, the shares of the Company were listed on the Main Board of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 571 employees (31 December 2018: 349 employees). Total staff costs for the six months ended 31 December 2019 amounted to approximately SGD6.0 million (six months ended 31 December 2018: approximately SGD4.1 million). Salaries and benefits of the Group's employees have been kept at a market level and employees were rewarded on a performance-related basis. Remuneration package is reviewed annually. Staff benefits included contribution to mandatory contribution fund, allowance and performance-based bonus.

SEGMENT INFORMATION

No operating segment information is presented as the Group's revenue and results and the Group's total assets were derived from or attributable to one single operating segment, i.e., provision of general building and construction services.

CHARGES ON GROUP ASSETS

The borrowings as at 31 December 2019 was secured against the leasehold property with net carrying amount of approximately SGD13.1 million (30 June 2019: approximately SGD13.3 million).

As at 31 December 2019, the Group has pledged time deposits of approximately SGD6.0 million (30 June 2019: approximately SGD7.0 million) to the banks as a security for the Group's bank overdraft facilities.

USE OF PROCEEDS FROM LISTING

As the shares of the Company were not yet listed on the Main Board of the Stock Exchange until 8 January 2020, the proceeds were not yet available for use during the six months ended 31 December 2019. Net proceeds from the Listing will be used in the manner consistent with that mentioned in the Prospectus.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The shares of the Company were listed on the Stock Exchange on 8 January 2020 and therefore, Division 7 and 8 of Part XV of the Securities and Future Ordinance (the "SFO"), Section 352 of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were not applicable as at 31 December 2019.

As at the date of this interim report, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Name	Capacity/ Nature of interest	Number of Shares held/ interested	Percentage of shareholding
Mr. Kwan Mei Kam (Note)	Interest of a controlled corporation	600,000,000	75%
Ms. Tay Yen Hua (Note)	Interest of a controlled corporation	600,000,000	75%

Note: Ideal Smart is 100% owned by Mr. Kwan Mei Kam and Ms. Tay Yen Hua in equal shares. Therefore, Mr. Kwan Mei Kam and Ms. Tay Yen Hua are deemed to be, or taken to be, interested in all the shares of the Company held by Ideal Smart for the purpose of the SFO.

Save as disclosed above, as at the date of this interim report, none of the Directors or chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provision of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDER'S INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the shares of the Company were not listed on the Stock Exchange, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable.

So far as known to the Directors, as at the date of this interim report, the following entity was deemed to have interest or short position in the shares, the underlying shares and debentures of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of Shares held/ interested	Percentage of shareholding
Ideal Smart	Beneficial owner	600,000,000	75%

Save as disclosed above, as at the date of this interim report, none of the substantial or significant shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had any interests or short position in the shares or the underlying shares of the Company as recorded in the register of the Company remained to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the Reorganisation as disclosed in the Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2019.

OTHER INFORMATION

COMPETING BUSINESS

During the six months ended 31 December 2019, none of the Directors or the controlling shareholders of the Company (the “**Controlling Shareholders**”) and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

Non-Competition Undertaking

In order to avoid any potential competition arising between the Group and the Controlling Shareholders, Mr. Kwan Mei Kam, Ms. Tay Yen Hua and Ideal Smart (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the deed of non-competition with the Company (for itself and for and on behalf of its subsidiaries) on 17 December 2019 (the “**Deed of Non-competition**”). Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for and on behalf of its subsidiaries) that, during the period the Deed of Non-competition remains effective, he/she/it shall not, and shall procure that his/her/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/she/it or his/her/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/she/it shall (and he/she/it shall procure his/her/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

OTHER INFORMATION

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regulating securities transactions of Directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code and its code of conduct from the Listing Date up to the date of this interim report.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted on 17 December 2019. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to it. The Directors consider that the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. Further details of the Share Option Scheme are set forth in the section headed "Statutory and General Information – D. Share Option Scheme" in Appendix V to the Prospectus.

From the adoption date of the Share Option Scheme up to 31 December 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving and maintaining high standards of corporate governance, as the Board believes that good and effective corporate governance practices are key to obtain and maintain the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company. The Company has adopted the principles and code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules. The Company has fully complied with the CG Code from the Listing Date up to the date of this interim report.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Kwan Mei Kam is the chairman of the Board and the chief executive officer of the Company. In view of the fact that Mr. Kwan Mei Kam is the founder of the Group and has been operating and managing the Group since the establishment of the Group, the Board believes that it is in the best interest of the Group to have Mr. Kwan Mei Kam taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

Ms. Ng Hoi Ying, the company secretary of the Company, is an external service provider. Pursuant to Code F.1.1 of the CG Code, an issuer can engage an external service provider to provide company secretarial services, provided that the issuer should disclose the identity of a person with sufficient seniority at the issuer whom the external provider can contact. In this respect, the Company has nominated Mr. Kwan Mei Kam as its contact point for Ms. Ng Hoi Ying.

OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) was established on 17 December 2019. The chairman of the Audit Committee is Mr. Koh Lian Huat, the independent non-executive Director, and other members include Mr. Chou Sean Yu and Dr. Wu Dongqing, the independent non-executive Directors and Mr. Lim Ah Lay, the non-executive Director. The written terms of reference of the Audit Committee are posted on the Stock Exchange’s website and on the Company’s website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 3.21 of the Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Group’s interim condensed consolidated financial statements for the six months ended 31 December 2019 have not been audited by the Company’s independent auditors, but have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the interim condensed consolidated financial statements of the Group for the six months ended 31 December 2019 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

By order of the Board
Kwan Yong Holdings Limited
Kwan Mei Kam
Chairman and Executive Director

Hong Kong, 25 February 2020