

ANNUAL REPORT
2020



Kwan On Holdings Limited
均安控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1559





CONTENTS

2	Corporate Information
3	Chairman's Statement
5	Biographical Details of Directors and Senior Management
11	Management Discussion and Analysis
19	Corporate Governance Report
32	Report of the Directors
49	Independent Auditor's Report
56	Consolidated Statement of Profit or Loss and Other Comprehensive Income
58	Consolidated Statement of Financial Position
60	Consolidated Statement of Changes in Equity
62	Consolidated Statement of Cash Flows
64	Notes to the Consolidated Financial Statements
158	Five Years' Financial Summary

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Zhenghua (*Chairman*)
 Mr. Zhang Fangbing
 Mr. Wong Wa
 Mr. Cao Lei

Independent Non-executive Directors

Prof. Lam Sing Kwong, Simon
 Mr. Lum Pak Sum
 Mr. Gong Zhenzhi

COMPANY SECRETARY

Mr. Fung Kwok Wai

COMPLIANCE OFFICER

Mr. Zhang Fangbing

AUTHORISED REPRESENTATIVES

Mr. Zhang Fangbing
 Mr. Fung Kwok Wai

AUDIT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
 Prof. Lam Sing Kwong, Simon
 Mr. Gong Zhenzhi

REMUNERATION COMMITTEE

Prof. Lam Sing Kwong, Simon (*Chairman*)
 Mr. Lum Pak Sum
 Mr. Zhang Fangbing

NOMINATION COMMITTEE

Mr. Gong Zhenzhi (*Chairman*)
 Prof. Lam Sing Kwong, Simon
 Mr. Chen Zhenghua

RISK MANAGEMENT COMMITTEE

Mr. Lum Pak Sum (*Chairman*)
 Prof. Lam Sing Kwong, Simon
 Mr. Gong Zhenzhi

AUDITORS

PKF Hong Kong Limited

LEGAL ADVISER

Lu, Lai & Li Solicitors

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2801
 118 Connaught Road West
 Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
 Level 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
 Bank of China (Hong Kong) Limited

COMPANY'S WEBSITE

www.kwanonconstruction.com

STOCK CODE

1559

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Kwan On Holdings Limited (the “**Company**”), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2020 (the “**Reporting Year**”).

BUSINESS REVIEW

The Group is principally engaged in construction related business and property development in both Hong Kong and Southeast Asia. During the year under review, civil engineering contracts in Hong Kong remained a core business of the Group, which contributed approximately 84% of the total revenue of the Group. Looking ahead, amid the increasing uncertainties arising from the outbreak of COVID-19 and US-China trade tensions, the active participation in the infrastructure projects of the Hong Kong Government will continue to provide a reliable source of income to the Group. At the same time, the Group has committed to diversify its business portfolio by engaging in new business opportunities brought up by the Belt and Road Initiative as well as other profitable business opportunities in overseas markets.

During the year under review, the Group acquired all the interest in two contiguous parcels of land. Each of the two parcels of land is located at 550 Jorge Bocobo Extension, Ermita, Manila, National Capital Region, the Philippines (the “**Property**”), which comprises a hotel offering 145 rooms and a carparking lot. The Property is planned to be redeveloped into two apartment towers. As per two Transfer Certificates of Title Nos. 234272 and 271712, the Property has a site area of approximately 3,312.00 sq.m. The proposed development of the Property has a proposed gross floor area (“**GFA**”) of approximately 128,132.00 sq.m and a proposed saleable area of approximately 104,294.00 sq.m. According to the current construction plan, the Property will be developed into two 55-storey apartment towers accommodating over 2,000 residential units, with a shopping mall and over 400 carparking spaces. The management considers it was a very positive step for the Group to expand the business in foreign property development market.

PROSPECTS

In the coming three years, the Group shall actively participate in the construction of infrastructure projects of the Hong Kong Government. We shall also reduce costs and improve efficiency by introducing and enhancing artificial intelligence project management and mechanised construction abilities, so as to strengthen our market competitiveness. Meanwhile, we shall grasp every development opportunities brought up by the “Belt and Road” initiative, and make use of the advantages of the background of the Group’s shareholders and the advantages of financing in the international capital markets as a listed company, with an aim of implementing the development strategy of expanding into overseas markets and eventually achieving our goal of business diversification and sustainable development.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to express my gratitude to all shareholders, customers and suppliers for their valuable support. I would also like to express our sincere appreciation to all the employees of the Group for their hard work and dedication.

Chen Zhenghua

Chairman

30 June 2020

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Zhenghua (陳正華) (“Mr. Chen”), aged 57, was appointed as an Executive Director and the Chairman of the Board on 1 June 2017. Mr. Chen was graduated with a Master of Business Administration Degree (EMBA) from the Tsinghua University. He is a senior economist and a member of the Chinese People’s Political Consultative Conference of Jiangsu Province* (江蘇省政協常委). Mr. Chen is also the managing director of the Jiangsu Provincial Construction Group* (江蘇省建築工程集團有限公司). He has been awarded the titles of “Outstanding Entrepreneur of the Building Industry of China*” (全國建築業優秀企業家), “Outstanding Entrepreneur of Construction Companies of China*” (全國施工企業優秀企業家), and the “National May 1 Labour Medal*” (全國五一勞動獎章). In addition, Mr. Chen is an executive director of the Chinese Association for International Understanding* (中國國際交流協會), a chief supervisor of the Jiangsu Overseas Chinese Entrepreneurs Association* (江蘇僑商總會), the vice chairman of the Jiangsu Construction Industry Association* (江蘇省建築行業協會), the vice chairman of the Construction Market Manage Association of Jiangsu Province* (江蘇省建築市場管理協會), the vice chairman of the Jiangsu Sushang Development Promotion Association* (江蘇省蘇商發展促進會), and the honorary president of the Nanjing Overseas Chinese Investment Enterprise Association* (南京市僑商投資企業協會).

Mr. Zhang Fangbing (張方兵) (“Mr. Zhang”), aged 42, was appointed as an Executive Director and Chief Executive Officer on 1 June 2017 and 15 January 2020 respectively. Mr. Zhang was graduated with a Bachelor Degree in Civil Engineering from the Hohai University* (河海大學). He is a senior engineer and a contractor* (全國註冊一級建造師).

Mr. Zhang is the vice president and the chairman of overseas companies (副總裁兼國際工程公司董事長) of the Jiangsu Provincial Construction Group* (江蘇省建築工程集團有限公司).

Mr. Zhang has been awarded the titles of “China Jiangsu Overseas Outstanding Project Manager*” (江蘇省境外優秀項目經理), “Review Expert of the Ministry of Commerce of the People’s Republic of China Foreign Assistance Projects*” (商務部對外援助成套項目) and “Internationalisation Expert of Jiangsu Enterprises*” (江蘇省企業國際化專家).

Mr. Wong Wa (黃華) (“Mr. Wong”), aged 59, was appointed as an Executive Director on 26 August 2016. Mr. Wong Wa is currently the chairman of the board of HK Asian International Investment Development Limited and Diamond Empire Limited. He is also a committee member of the Committee of the Chinese People’s Political Consultative Conference of Wuxi, Jiangsu, vice-chairman and deputy secretary general of Federation of HK Jiangsu Community Organisations, and vice-chairman of 江蘇旅港同鄉聯合會 (Jiangsu Residents (HK) Association).

Mr. Wong Wa graduated from Donghua University (formerly known as 上海紡織工學院 (Shanghai Textile College)). He has engaged in the property development and construction industry for over ten years. He also has extensive experience in management of manufacturing entities.

* The English name is for identification purpose only.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Cao Lei (曹累) (“Mr. Cao”), aged 45, was appointed as an Executive Director on 9 February 2018. He was graduated from the College of Economics and Management* of the Nanjing University of Aeronautics and Astronautics* (南京航空航天大學工商學院) with a professional qualification in marketing in June 1994. Mr. Cao has over 20 years’ of work experience. Mr. Cao had been appointed as the General Manager of the Nanjing Xinsida Technology Limited* (南京信思達科技有限公司) from 2000 to 2005 and as the Chairman of the Suzhou Hongyi Real Estate Limited* (蘇州鴻意地產有限公司) from 2003 to 2008. Mr. Cao was appointed as the Chairman of the Nanjing Minsheng Leasing Limited* (南京市民生租賃有限公司) from 2013 to 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Lam Sing Kwong, Simon (林誠光) (“Professor Lam”), aged 61, was appointed as an Independent Non-executive Director on 16 March 2015. Professor Lam is currently a Professor of Management and strategy at the Faculty of Business and Economics, The University of Hong Kong.

He is also Head of the Faculty’s Management and Strategy Area, Director of the Centre of Asian Entrepreneurship and Business Values and Ian Davies Endowed Professor in Ethics. Before joining the University of Hong Kong, Professor Lam had worked as a management consultant and as a regional manager for a bank. He has gained extensive experience in the area of corporate governance, strategy development and corporate finance.

Professor Lam is the independent non-executive director of Sinomax Group Limited (stock code: 01418) and Overseas Chinese Town (Asia) Holdings Limited (stock code: 03366).

Professor Lam is also the non-executive director of Jacobson Pharma Corporation Limited (stock code: 02633).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lum Pak Sum (林柏森) (“Mr. Lum”), aged 59, was appointed as an Independent Non-executive Director on 26 August 2016. Mr. Lum obtained a master’s degree in business administration from the University of Warwick UK in 1994 and a bachelor’s degree in laws from University of Wolverhampton UK in 2002. He has been currently a non practising fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, U.K. since 1996 and 1993 respectively. Mr. Lum possesses over 20 years working experience in money market and capital market.

Mr. Lum’s positions in other companies listed on the Stock Exchange in the present and in the past three years are set out below:

Name of company	Position	Period of service
China Graphene Group Limited (stock code: 63)	Independent non-executive director	September 2019 to present
Great China Properties Holdings Limited (stock code: 21)	Independent non-executive director	August 2007 to present
Beautiful China Holdings Company Limited (stock code: 706)	Independent non-executive director	January 2014 to June 2018
Yuhua Energy Holdings Limited (stock code: 2728)	Independent non-executive director	December 2014 to April 2019
i-Control Holdings Limited (stock code: 1402)	Independent non-executive director	May 2015 to present
Anxian Yuan China Holdings Limited (stock code: 922)	Independent non-executive director	May 2017 to present
S. Culture International Holdings Limited (stock code: 1255)	Independent non-executive director	June 2017 to present
Sunway International Holdings Limited (stock code: 58)	Non-executive director	May 2019 to present
Pearl Oriental Oil Limited (stock code: 632)	Independent non-executive director	December 2017 to June 2018
Asia Resources Holdings Limited (stock code: 899)	Independent non-executive director	November 2010 to January 2015
Orient Securities International Holdings Limited (stock code: 8001)	Non-executive director	April 2011 to July 2015
Roma Group Limited (stock code: 8072)	Chief executive officer	June 2017 to 1 October 2017

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Gong Zhenzhi (龔振志) (“Mr. Gong”), aged 49, was appointed as an Independent Non-executive Director on 23 April 2018. Mr. Gong was graduated from the Southeast University* (東南大學) in Nanjing, China with a Bachelor Degree in Engineering in the profession of manufacturing of machinery and equipment* (機械製造工藝與設備專業) in June 1993. In March 1999, Mr. Gong obtained a Master’s Degree in Management in the profession of management science and engineering from the Nanjing University of Aeronautics and Astronautics* (南京航空航天大學). In October 2008, Mr. Gong obtained a Doctoral Degree in Management in the profession of management science and engineering from the Southeast University* (東南大學). In June 2010, Mr Gong obtained a Master of Public Management Degree from The University of Maryland. Mr. Gong has served as the head of a High-tech Product Research and Development Department of a large scale stated-owned enterprise, a manager of a township government-owned industrial company, an assistant town mayor, a deputy commissioner and a commissioner of a county, a town mayor, a deputy secretary and the deputy head of an Administrative Committee of a National Economic Development Zone, a deputy secretary-general and a district mayor of a prefectural-level city, the secretary of a national high-tech industrial development zone, the chairman of a large scale state-owned enterprise and the president of a university’s Industrial Research Institute, details are as below:

August 1993 to August 1996	Secretary of the Communist Youth League Branch Committee and an assistant engineer of The Eleventh Factory of Nanjing Chenguang, PRC* (南京晨光集團十一分廠團支書、助理工程師)
August 1999 to April 2001	Deputy Head of the Corporate Management Office and an assistant town mayor of the Fangxiang Town, Hanjiang District, Yangzhou China* (揚州邗江區方巷鎮企管站副站長、鎮長助理)
April 2001 to March 2003	Deputy Commissioner and the Commissioner of the Merchants Bureau of the Hanjiang District, Yangzhou China* (揚州邗江區招商局副局長、局長)
March 2003 to May 2005	Deputy Director of the General Office of the Hanjiang District China* (邗江區政府辦副主任)
May 2005 to April 2006	Town Mayor of the Guazhou Town, Hanjiang District China* (邗江區廠瓜洲鎮鎮長)
April 2006 to February 2008	Vice Chairman of the Administrative Committee of the Yangzhou Economic Development Zone* (揚州經濟開發區管委會副主任)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

February 2008 to April 2011	Deputy Secretary-General of the Yangzhou municipal government* China (揚州市政府副秘書長)
April 2011 to October 2012	Deputy Secretary and the Vice Chairman of the Administrative Committee of the Yangzhou Economic Development Zone*, China (揚州經濟開發區管委會副書記、副主任)
October 2012 to November 2015	District Mayor of the Hanjiang District, Yangzhou*, China (揚州邗江區區長)
November 2015 to February 2018	Chairman, Party Secretary and the General Manager of the Yangzhou Yangzijiang Group and the Chairman and the Secretary of the Yangzhou Financial Group, China* (揚州揚子江集團董事長、黨委書記、總經理，和揚州金融集團董事長、書記)
February 2018 to Present	President of the Industrial Research Institute, and the Associate Dean of the Business School of the Yangzhou University*, China (揚州大學產業經濟研究院院長、商學院副院長)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Chief Executive Officer

Mr. Zhang Fangbing (張方兵) (“Mr. Zhang”) was appointed as Chief Executive Officer on 15 January 2020. The biographical details of Mr. Zhang are set out in this section headed with “Executive Directors” of this annual report.

Mr. Tao Ming (陶明) (“Mr. Tao”), aged 56, is an engineer. Mr. Tao left from the position of the Chief Executive Officer of the Company owing to the development needs of the Company on 15 January 2020. Mr. Tao was graduated from the Nanjing Southeast University* (南京東南大學) with a professional qualification in Civil Engineering and obtained a Master of Business Administration Degree jointly awarded by the School of Business of the Nanjing University and the Maastricht School of Management in the Netherlands in July 2005. Mr. Tao was the Director of the Nanjing Drainage Construction and Management Division* (南京市排水建設和管理處) from January 1997 to June 2003 and was the President of the Nanjing Drainage Company* (南京市給排水工程公司). In January 2001, Mr. Tao was appointed as the Chief Commander of the Nanjing Jiang Xin Zhou Sewage Treatment System and Nanjing Xianlin University City Sewage Treatment System Engineering Headquarters* (南京江心洲污水處理系統和南京仙林大學城污水處理系統工程指揮部) and as the Vice Chairman of the China Drainage Professional Committee* (中國排水專業委員會). Mr. Tao was an Executive Director and the Chief Executive Officer of the Keyne Group* (江蘇金大地集團) from July 2003 to 2006. From 2012 to 2013, Mr. Tao was appointed as an Executive Director and the Chief Executive Officer of the Nanjing 1912 Group* (南京1912集團), the Vice President of the China Federation of Urban Commercial Outlets Construction Administration (中國城市商業網點建設管理聯合會) and the Deputy Secretary-General of the China Commercial Real Estate Association* (中國商業地產聯盟). Mr. Tao had been appointed as Project Consultant of Jiangsu Provincial Construction Group Co., Ltd* (江蘇省建築工程集團有限公司) from 2013 to 2017.

Chief Operating Officer

Mr. Shen Zhi (沈治) (“Mr. Shen”) aged 42, was appointed as Chief Operating Officer of the Group on 9 February 2018. Mr. Shen is an engineer and an intermediate level accountant* (中級會計師). Mr. Shen is currently the Deputy General Manager* (常務副總經理) of the Jiangsu Provincial Construction Group Overseas Company* (江蘇省建築工程集團有限公司海外公司) and the secretary of a branch of the Communist Party of China* (中國共產黨支部書記). Mr. Shen graduated from the Yangzhou University* (揚州大學) with a professional qualification in Financial Accounting of Construction Works (基本建設財務會計) in June 1999 and obtained a Bachelor Degree in Economic and Administration Management from the People's Liberation Army Nanjing Political College* (中國人民解放軍南京政治學院) in December 2015.

COMPANY SECRETARY

Mr. Fung Kwok Wai (馮國衛) (“Mr. Fung”), aged 60, was appointed as the Company Secretary and Chief Financial Officer of the Group on 14 February 2019. He is responsible for the overall financial and company secretarial aspects of the Group. Mr. Fung is a fellow member of both the Association of Chartered Certified Accountants and The Hong Kong Institute of the Certified Public Accountants. He holds a bachelor degree and has 30 years' experience in auditing, finance, accounting and company secretarial work.

MANAGEMENT DISCUSSION AND ANALYSIS

For the civil engineering contracts in Hong Kong, the Group is engaged in the provision of (i) waterworks engineering services; (ii) road works and drainage services and site formation works; and (iii) landslip preventive and mitigation works to slopes and retaining walls services (“**LPM Services**”).

Kwan On Construction Company Limited, 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 material contracts on hand as at 31 March 2020:

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
Tendered by Kwan On Construction Company Limited						
KL/2012/03	Civil Engineering and Development Department	Kai Tak Development – Stage 4 infrastructure at former north apron area	2/9/2017 ⁽¹⁾	985.5	884.5	101.0
CV/2015/01	Civil Engineering and Development Department	Provision of Universal Access Facilities for Highway Structures – Package 1 Contract 2	8/11/2019 ⁽¹⁾	205.1	197.2	7.9
GW1538	West Kowloon Cultural District Authority	Public Infrastructure Works for Phase 1 Development of West Kowloon Cultural District (Package 1)	9/1/2018 ⁽¹⁾	118.7	118.7	–
NE/2016/05	Civil Engineering and Development Department	Development of Anderson Road Quarry Site - Pedestrian Connectivity Facilities Works Phase 1	30/3/2020 ⁽¹⁾	299.0	123.4	175.6
GE/2018/03	Civil Engineering and Development Department	Landslip Prevention and Mitigation Programme, 2012, Package C, Landslip Prevention and Mitigation Works in Lantau and Hong Kong Island	25/12/2020	113.9	46.7	67.2
DC/2018/10	Drainage Services Department	Condition Survey and Rehabilitation of Underground Sewers and Stormwater Drains – Stage 1	13/4/2022	205.5	22.0	183.5
20170102	Housing Authority	Road Improvement Works at Ma On Shan, Sha Tin	15/12/2021	190.3	34.5	155.8
GE/2018/01	Civil Engineering and Development Department	Landslip Prevention and Mitigation Programme, 2017, Package K	7/10/2022	118.8	3.3	115.5
20189126	Housing Authority	Slope Maintenance and Improvement Works for Region B	20/10/2022	45.1	0.8	44.3
HY/2018/12	Highways Department	Provision of Universal Accessibility Facilities at Footbridges, Elevated Walkways and Subways – Package 4	21/5/2024	268.9	8.8	260.1
Total					1,439.9	1,110.9

MANAGEMENT DISCUSSION AND ANALYSIS

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 revenue recognised by our Group HK\$ million	Further revenue expected to be recognised by our Group HK\$ million
Tendered by the Group's joint operations							
HY/2014/12	Highways Department ("HyD")	Provision of Barrier-free Access Facilities for Highways Structures – Phase 3 Contract 6	15/7/2019 ⁽¹⁾	215.2	109.8	103.9	5.9
HY/2013/19	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Town Centre Section	27/12/2019 ⁽¹⁾	585.0	298.4	237.7	60.7
HY/2014/14	HyD	Retrofitting of Noise Barriers on Tuen Mun Road – Fu Tei Section	27/6/2020	462.8	236.0	207.2	28.8
CV/2015/08	Civil Engineering and Development Department	Provision of Universal Access Facilities for Highway Structure – Package 1, Contract 3	28/1/2020 ⁽¹⁾	164.1	106.7	97.7	9.0
1/WSD/17(L)	WSD	Term contract for Waterworks District L – Lantau and the Outlying Islands	31/8/2020	271.5	138.5	75.3	63.2
Total					889.4	721.8	167.6

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 March 2020 (the “**Reporting Year**”) amounted to approximately HK\$599.9 million (2019: approximately HK\$731.8 million), represented a decrease of 18.0% or approximately HK\$131.9 million as compared to the year ended 31 March 2019.

	Year ended 31 March	
	2020 HK\$'000	2019 HK\$'000
Waterworks	65,819	129,179
Road works and drainage and site formation works	388,849	458,197
LPM Services	47,024	27,863
Hotel construction project in Phuket, Thailand	–	116,600
Supply of construction materials in Thailand	98,220	–
	599,912	731,839

Revenue in the waterworks engineering services for the Reporting Year decreased by 49.0% to approximately HK\$65.8 million (2019: approximately HK\$129.2 million), mainly due to (1) the contract 9/WSD/13 has already completed during the last year, which has contributed a revenue of approximately HK\$29.3 million to the Group for the last year and (2) the contract 10/WSD/10 has been substantially completed during the early stage of the Reporting Year. The revenue contributed by 10/WSD/10 decreased by HK\$37.6 million to HK\$11.1 million during the Reporting Year.

Revenue in the road works and drainage category decreased by 15.1% to approximately HK\$388.8 million (2019: approximately HK\$458.2 million), primarily due to the decrease in revenue contribution from the contracts which have been substantially completed in the Reporting Year. The total revenue contributed by the substantially completed contracts KL/2012/03, CV/2015/01, GW1538, HY/2014/12, HY/2013/19, HY/2014/14 and CV2015/08 have been decreased by HK\$165.5 million when comparing to last year. However, the decrease was partially offset by an additional revenue contribution of approximately HK\$67.5 million from the new contracts HA20130375, DC/2018/10 and HA20170112 for the Reporting Year and increase in revenue from contract NE/2016/05 by HK\$28.6 million when comparing to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue in the LPM works for the Reporting Year increased by 68.8% to approximately HK\$47.0 million (2019: approximately HK\$27.9 million), mainly due to additional revenue contribution of approximately HK\$30.1 million from the new contracts GE/2018/03, GE/2018/01 and HA20189126 for the Reporting Year. However, the increase in revenue was partially offset by the contracts GE/2010/21 and GE/2013/16 completed in the last year, which are no longer to contribute revenue in the Reporting Year. These two contracts have contributed a revenue of approximately HK\$11.1 million to the Group for the last year.

During the Reporting Year, the Group entered into an agreement with a local customer in Thailand to supply the construction materials for building works. All materials and services have been delivered to the customer during the Reporting Year. The Group recorded a revenue of approximately HK\$98.2 million with a gross profit of approximately HK\$13.2 million.

Cost of sales

Cost of sales decreased from approximately HK\$662.0 million for the year ended 31 March 2019 to approximately HK\$533.9 million for the Reporting Year, representing a decrease of 19.4%. The decrease was in line with the decrease in revenue for 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	
	2020	2019
Waterworks	-0.7%	7.8%
Road works and drainage and site formation works	12.0%	12.0%
LPM Services	24.9%	0.1%
Hotel construction project in Phuket, Thailand	—	5%
Supply of construction materials in Thailand	13.3%	—

The gross profit margin for waterworks engineering services dropped to -0.7% for the Reporting Year (2019: 7.8%). Such decrease was mainly due to the fact that the revenue generated was unable to cover the overhead cost for the contract 10/WSD/10 which have been substantially completed in the Reporting Year. The overhead cost charged to the contract 10/WSD/10 was approximately HK\$7.6 million, which mainly included direct staff cost in project team. The contract is expected to be fully completed before September 2020.

The gross profit margin for road works and drainage and site formation works service remained stable for the Reporting Year.

The gross profit margin for the LPM Service increased significantly to 24.9% for the Reporting Year (2019: 0.1%). Such increase was mainly due to the profit contributed from the new contract GE/2018/03.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income and other gain

Other income and other gain for the Reporting Year amounted to approximately HK\$7.5 million (2019: approximately HK\$3.3 million). The significant increase was mainly attributable to the interest income from the receivable in relation a transferred construction project in Thailand of approximately HK\$5.6 million (2019: approximately HK\$1.9 million).

Administrative expenses

Administrative expenses for the Reporting Year increased by 27.9% to approximately HK\$46.8 million (2019: approximately HK\$36.6 million). The increase was mainly attributable to (1) an increase in staff costs of approximately HK\$6.0 million; (2) an increase in professional fees of approximately HK\$1.1 million for the market research in the Group's property development projects in the Republic of the Philippines during the Reporting Year; and (3) an increase in short-term lease expenses and depreciation of right-of-use assets of approximately HK\$1.7 million when comparing to the total lease expenses in last year. This represents higher office rental expenses during the Reporting Year.

Finance costs

Finance costs for the Reporting Year amounted to approximately HK\$8.9 million (2019: approximately HK\$3.9 million), which was mainly due to an increase in bank borrowings during the Reporting Year.

Income tax expenses

Income tax expenses for the Reporting Year amounted to approximately HK\$3.2 million (2019: approximately HK\$6.6 million). The decrease in income tax expenses was mainly attributable to an over-provision of approximately HK\$3.7 million in previous years.

Profit for the year

Profit for the year decreased by 44.2% to approximately HK\$14.6 million (2019: approximately HK\$26.1 million). Such decrease was mainly due to the increase of administrative expenses and finance costs in the Reporting Year, while the effect was partially offset by the additional interest income received in relation a transferred construction project in Thailand.

Other comprehensive expense

Other comprehensive expense for the Reporting Year amounted to approximately HK\$27.7 million (2019: income of approximately HK\$8.2 million). The decrease in income was mainly attributable to the fair value loss on the investment in common shares of a company listed on the Philippine Stock Exchange, Inc.,. Such financial assets recognised a loss of approximately HK\$30.8 million to the Group during the Reporting Year (2019: gain of approximately HK\$8.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2020, the Group had net current assets of approximately HK\$461.2 million (2019: approximately HK\$270.5 million), representing an increase of approximately HK\$190.7 million. Such increase was mainly attributable to the Group's new property development project in the Republic of the Philippines. The Group plans to sell out all residential units of the property upon completion of the construction. The land cost and direct development cost was recognised in the inventories during the Reporting Year, which amounted to approximately HK\$161.3 million.

The current ratio of the Group as at 31 March 2020 was approximately 2.40 times (2019: approximately 2.01 times). It was because inventories and contract assets increased by HK\$248.1 million when comparing to last year's, while the bank borrowings increased by approximately HK\$58.5 million.

The gearing ratio, calculated based on the net debt (including contract liabilities, trade and other payables, bank borrowings, amounts due to other partners of joint operations, lease liabilities and less bank balances and cash and pledged bank deposits) divided by total capital, was approximately 48.8% as at 31 March 2020 (2019: approximately 28.6%). The increase was mainly due to the bank borrowings of the Group increased from approximately HK\$126.5 million to approximately HK\$251.6 million as at 31 March 2020 while the total capital of the Group also increased from approximately HK\$372.7 million to approximately HK\$516.2 million as at 31 March 2020. The increase in bank borrowing of approximately HK\$125.1 million was mainly attributable to (i) an increase in an overseas bank borrowing of approximately HK\$81.3 million to finance the land acquisition in the Republic of the Philippines; and (ii) an increase of working capital to finance the ongoing Hong Kong construction projects of approximately HK\$43.8 million.

CAPITAL STRUCTURE

On 2 July 2019, the Company issued 220,000,000 ordinary shares of HK\$0.01 each upon the completion of a subscription agreement dated 3 June 2019.

On 31 March 2020, the Company issued 264,000,000 ordinary shares of HK\$0.01 each upon the completion of two subscription agreements dated 6 March 2020.

Save as aforesaid, 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 2020, the Company's issued share capital was approximately HK\$15.8 million and the number of ordinary shares issued was 1,584,000,000 of HK\$0.01 each.

As at 31 March 2019, the Company's issued share capital was HK\$11.00 million and the number of ordinary shares issued was 1,100,000,000 of HK\$0.01 each.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

As at 31 March 2020, the Group did not have any significant capital commitments (2019: 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 has acquired entire issued shares of a Project Company at a consideration of PHP236,300,000 (equivalent to approximately HK\$35,400,000) in the Republic of the Philippines. Details of the transaction have been set out in the Company's announcements on 24 September 2019 and 27 September 2019. Save as aforesaid, the Group did not have any material acquisitions or disposal of subsidiaries and affiliated companies during the Reporting Year.

CONTINGENT LIABILITIES

Save for certain litigations involved, the Group did not have any material contingent liabilities as at 31 March 2020 (2019: Nil).

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to other receivables in relation to a transferred construction project, trade and retention receivables and deposits with banks. As set out in the Note 19(c) to the consolidated financial statements, the Group entered into a repayment agreement during the reporting period. The first repayment have been received by the Group and the remaining receivable and the interest thereon are guaranteed by a substantial shareholder of the Company. Hence, the Directors consider the credit risk of the other receivables in relation to a transferred construction project is significantly reduced. The credit risk of the Group's trade and retention receivables is concentrated since 97% of which was derived from five (2019: three) major customers as at 31 March 2020 (2019: 92%). 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.

SIGNIFICANT INVESTMENTS HELD

As at 31 March 2020, the Group did not hold any significant investment with a value of 5 per cent. or more of the Group's total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE OF GROUP'S ASSETS AND SECURITIES FOR BANKING FACILITIES

As at 31 March 2020, the Group's bank borrowings and other banking facilities are secured by (i) bank deposits amounting to approximately HK\$43,745,000 (2019: HK\$43,745,000); (ii) leasehold land and building amounting to approximately HK\$30,908,000 (2019: HK\$31,566,000); and (iii) freehold land included in inventories amounting to approximately HK\$155,339,000 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed a total of 358 employees, comprising 279 staff employed on a full-time basis and 79 casual workers. Staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$98.3 million for the Reporting Year (2019: approximately HK\$94.8 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.

LITIGATIONS

As at 31 March 2020, 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board recognised that transparency and accountability are important to a listed company. Therefore, the 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 of Hong Kong Limited (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 2020 (the "**Reporting Year**") except for the following deviation.

CG Code Provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 March 2020, only two regular board meetings were convened. However, the management have regularly updated the Board for the Group's business development with performance review through electronic means of communication. All the Board members are encouraged to express their opinions on the Company's matters. The Board was consulted for every crucial decision and the written resolutions were also circulated to all the Directors to obtain the board consents. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code. However, the Company will consider to hold regularly board meetings at approximately quarterly intervals in the future.

CG Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination committees and any other committees to attend. The chairman of the Board and the chairmen of the audit committee, the nomination committee and the risk management committee were not able to attend the annual general meeting of the Company held on 25 September 2019 due to other important business engagement. They had delegated the Chief Executive Officer to chair and be available to answer questions at the annual general meeting.

CORPORATE GOVERNANCE REPORT

CG Code Provision A.2.7 stipulates that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year ended 31 March 2020, the chairman didn't hold a meeting with independent non-executive directors. Alternatively, He has directly communicated to independent non-executive directors individually through electronic means. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR 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 "**Model Code**"). 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.

BOARD OF DIRECTORS

As at 31 March 2020, the Board comprised seven Directors, including four Executive Directors and three Independent Non-executive Directors. As at the date of this report, the Board comprised the following Directors:

Executive Directors

Mr. Chen Zhenghua
Mr. Zhang Fangbing
Mr. Wong Wa
Mr. Cao Lei

Independent Non-executive Directors

Prof. Lam Sing Kwong Simon
Mr. Lum Pak Sum
Mr. Gong Zhenzhi

The Board believes that the number of executive and non-executive directors is reasonable and adequate to provide sufficient balances that would safeguard the interests of the shareholders.

CORPORATE GOVERNANCE REPORT

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors make decisions objectively in the interests of the Company. The Board has the full support from the Executive Directors and the senior management of the Company to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code and the disclosures in this annual report. All Directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent Non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee (as defined under the paragraph headed "Board Committees").

The biographical details of the Directors and other senior management are set out in the section headed with "Biographical Details of Directors and Senior Management" from pages 5 to 10 of this annual report. Save as disclosed in the section "Biographical Details of the Directors and Senior Management" in this annual report, each of the Board members has no financial, business, family or other material or relevant relationships with each other.

CHIEF EXECUTIVE OFFICER ("CEO")

The Company has appointed Mr. Zhang Fangbing ("**Mr. Zhang**") as CEO on 15 January 2020. The biographical details of Mr. Zhang are set out in the section headed with "Biographical Details of Directors and Senior Management" of this annual report.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "**Board Diversity Policy**") from the date of Listing up to the date of this corporate governance report. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

CORPORATE GOVERNANCE REPORT

The Company recognised the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, all of which the Company considers to be important to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and recommend any proposed changes to the Board for approval. The Nomination Committee will review the Board Diversity Policy as appropriate from time to time to ensure its effectiveness.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the Reporting Year.

ATTENDANCE RECORDS OF MEETINGS

The Company convened and held two regular Board meetings during the Reporting Year.

Additional Board meetings will be convened, as and when required, to deal with ad hoc issues. Any Director who is not able to present physically may participate at any Board meeting through electronic means of communication, such as conference phone or other similar communication equipment, in accordance with the Articles.

Notice convening each regular Board meeting is sent at least 14 days in advance, and reasonable notice is given for other Board meetings and committee meetings. The Company Secretary assists the Board to prepare the meeting notice and agenda. Each Director may include any item in the agenda. The agenda, accompanied by meeting papers with sufficient and reliable information, are sent to each Director at least 3 days before each Board meeting or committee meeting to enable the Directors to make informed decisions on the matters to be discussed, except where a Board meeting or committee meeting is convened on a very urgent basis to consider any urgent ad hoc matter.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes will normally be circulated to Directors for comments within a reasonable time after each meeting and the final version is open for Directors' inspection.

CORPORATE GOVERNANCE REPORT

During the Reporting Year, two regular Board meetings, two Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting and the 2019 annual general meeting (“**AGM**”) were held. Details of individual Directors’ attendance at these meetings are set out in the following table:

Directors	Attended/Eligible to attend					AGM
	Regular	Audit	Remuneration	Nomination	Risk	
	Board	Committee	on Committee	Committee	Management	
	Meeting	Meeting	Meeting	Meeting	Committee	
Executive Directors						
Mr. Chen Zhenghua	2/2	N/A	N/A	1/1	N/A	0/1
Mr. Zhang Fangbing	2/2	N/A	1/1	N/A	N/A	1/1
Mr. Wong Wa	1/2	N/A	N/A	N/A	N/A	1/1
Mr. Cao Lei	2/2	N/A	N/A	N/A	N/A	0/1
Independent Non-Executive Directors						
Prof. Lam Sing Kwong, Simon	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Lum Pak Sum	2/2	2/2	1/1	N/A	1/1	1/1
Mr. Gong Zhenzhi	2/2	2/2	N/A	1/1	1/1	0/1

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company’s policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, and the Company’s policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days’ notice of regular Board meetings given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our Executive Directors has entered into a service contract with our Company upon appointment and we have issued letters of appointment to each of our independent non-executive Directors. The service contracts with our Executive Directors are for an initial term of three years commencing from the date of appointment. The letters of appointment with each of our Independent Non-executive Directors are for an initial fixed term of three years commencing from the date of appointment. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles and the applicable Listing Rules.

The Articles provide that subject to the manner of retirement by rotation of Directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

The Company has three Independent Non-executive Directors which complies with Rule 3.10(1) of the Listing Rules. Among the three Independent Non-executive Directors, Mr. Lum Pak Sum has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Independent Non-executive Directors represent at least one-third of the Board in compliance with Rule 3.10A of the Listing Rules.

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each of the Independent Non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his independence. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independency pursuant to Rule 3.13 of the Listing Rules and the Company considers these Independent Non-executive Directors to be independent.

Pursuant to article 84(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being shall retire from office and shall be eligible to offer themselves for re-election. In addition, separate ordinary resolutions in relation to the proposed re-election of the retiring Directors should be put forward to the shareholders in the annual general meeting. The term of office of the Directors who have been re-elected shall commence from the date of the annual general meeting which approves their re-appointments and end at the conclusion of the third subsequent annual general meeting of the Company.

The Company has taken out directors and officers liability insurance to cover liabilities arising from legal action against the Directors.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director will be given an induction training so as to ensure that he has appropriate understanding of the Group's business and of his duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the Listing Rules.

All Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills during the year ended 31 March 2020 for ensuring their contribution to the Board remains informed and relevant. Such professional development was completed by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participating in business-related researches which are relevant to the business or directors' duties.

BOARD COMMITTEES

The Board has established four board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") and the risk management committee (the "**Risk Management Committee**"). Save for the Risk Management Committee, the written terms of reference are available on the websites of the Stock Exchange and the Company.

All Board committees are provided with sufficient resources to perform their duties, and upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the CG Code which include developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, reviewing the Company's compliance with the code provisions in the CG Code and disclosures in this annual report.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 March 2015 with written terms of reference in compliance with the Listing Rules. In accordance with provisions set out in the CG Code, these terms of reference are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

The Audit Committee currently consists of three Independent Non-executive Directors, namely Prof. Lam Sing Kwong, Simon, Mr. Lum Pak Sum and Mr. Gong Zhenzhi. The chairman of the Audit Committee is Mr. Lum Pak Sum, who has appropriate professional qualifications and experience in accounting matters.

The main duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independency, objectivity and the effectiveness of the audit process and to discuss the nature and scope of the audit with the external auditor. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) financial control, internal control and risk management systems of the Company.

The consolidated financial statements of the Group for the Reporting Year have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the Reporting Year has complied with the applicable accounting standards, Listing Rules and that adequate disclosures have been made. The Audit Committee had reviewed the Group's consolidated financial statements for the Reporting Year.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the Reporting Year.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 16 March 2015 comprising one Executive Director, namely Mr. Zhang Fangbing and two Independent Non-executive Directors, namely Prof. Lam Sing Kwong, Simon and Mr. Lum Pak Sum. Prof. Lam Sing Kwong, Simon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriated policies and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the Reporting Year.

NOMINATION COMMITTEE

The Nomination Committee was established on 16 March 2015 comprising one Executive Director, namely Mr. Chen Zhenghua and two Independent Non-executive Directors, namely Prof. Lam Sing Kwong, Simon and Mr. Gong Zhenzhi. Mr. Gong Zhenzhi is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange.

CORPORATE GOVERNANCE REPORT

The primary duties of the Nomination Committee are to review and assess the structure, size and diversity of the Board and the independence of the Independent Non-executive Directors and makes recommendations to the Board on appointment of new Directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. In designing the Board's composition, board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of directors and the senior management by band for the Reporting Year is set out below:

Remuneration band	Number of persons
Less than HK\$500,000	4
HK\$500,001 to HK\$1,000,000	2
HK\$1,000,001 to HK\$1,500,000	2

Particulars regarding Directors' remuneration and the five highest paid employees are required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Notes 10 and 11 to the consolidated financial statements in this annual report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 March 2020, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, PKF Hong Kong Limited, about their reporting responsibility on the consolidated financial statements of the Group are set out in the independent auditor's report included in this annual report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee and the Risk Management Committee assist the Board in fulfilling its oversee and corporate governance roles in the Group's financial, operational, procedural compliance, risk management and internal control functions.

Main Features of the systems

The Group has established a risk management framework integrated with the internal control system, which includes, but not limited to the participation of the Board, the Audit Committee and the Risk Management Committee. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the effectiveness of risk management. The Risk Management Committee meets, at least on an annual basis, to review the overall risk management strategies and the risk tolerance/appetite level to assess the effectiveness of the Group in mitigating risks. On a daily basis, the management monitor the business operations to ensure their internal controls are implemented as intended. Any weaknesses identified would be remediated by the management immediately.

Risk identification Process

The Group has established an on-going process for identifying, evaluating and managing the significant risks of the Group. Such process comprises the following stages:

1. Risk identification – identify potential risks and recorded into the risk register, which summarize into four categories: reporting, operational, strategic and compliance risk;
2. Risk assessment and prioritization – assess the risks in terms of impact and vulnerability, then assign a rating and prioritize in descending order;
3. Risk response – risk can be accepted, mitigated, shared, or avoided. A remediation plan will be established to respond to the identified risks;
4. Risk monitoring – monitor the effectiveness of the remediation plan on a periodic basis.

Procedures for the handling and dissemination of inside information

The Board has established a policy on the procedures and internal controls for the handling and dissemination of inside information. For any material violation of this policy, the Board will decide, or designate appropriate personnel to decide the course of actions for rectifying the problems and avoiding recurrence. The Group handles and disseminates inside information with due care. Staff is required to comply with confidentiality terms. Only personnel at appropriate level can get reach of price sensitive and inside information.

CORPORATE GOVERNANCE REPORT

Internal Audit

An independent consulting firm (the “**Firm**”) has been engaged to work with the Group to perform the Internal Audit functions. Key risks and internal controls for selected processes are assessed by the Firm. The review results and proposed recommendations are communicated to senior management, the Audit Committee and the Risk Management Committee. The Board, through the Audit Committee and the Risk Management Committee, has reviewed the results of the work done by the Firm in relation to the effectiveness of the internal control and risk management systems of the Group. In response to any material internal control defects identified, the Firm would provide recommendations for major observations of control weaknesses. Management will take suggestions raised by the Firm to further enhance its risk management and internal control systems.

The Board has reviewed and confirmed the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, financial reporting and internal audit functions. There is no significant control weaknesses noted for the Reporting Year. The Board confirms that the Group’s risk management and internal control systems are effective and adequate.

AUDITOR’S REMUNERATION

PKF Hong Kong Limited was appointed as the external auditor of the Company. During the Reporting Year, the total fees paid and payable to PKF Hong Kong Limited amounted to HK\$900,000 for audit services.

PERMITTED INDEMNITY PROVISION

The Company has taken out and maintained directors’ liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Company.

COMPANY SECRETARY

Mr. Fung Kwok Wai (“**Mr. Fung**”) is the Company Secretary of the Company, whose biographical details are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report. Mr. Fung has informed the Company that he has taken more than 15 hours of relevant professional training for the Reporting Year. The Company considers that the training of the Company Secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules for the Reporting Year.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant change in the constitutional documents of the Company during the Reporting Year.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the website of The Stock Exchange and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to the articles of association of the Company. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors and welcomes suggestions from investors, shareholders and the public.

Enquiries and concerns to the Board and the Company may be sent by post to the head office and principal place of business of the Company in Hong Kong at "Unit 2801, 118 Connaught Road West, Hong Kong", for the attention of the Board and/or the company secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

The Company has established several channels to communicate with the shareholders and investors as follows:

- (a) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the website of the Stock Exchange "www.hkexnews.hk" and the Company's website at "www.kwanonconstruction.com";

CORPORATE GOVERNANCE REPORT

- (b) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (c) corporate information is made available on the Company's website;
- (d) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (e) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

ENVIRONMENTAL POLICY

Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promotes awareness towards environmental protection to the employees. Our Group implements green office practices which include double-sided printing, copying, promoting the use of recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances. Our Group will review the environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's business and enhance environmental sustainability.

ESG POLICIES AND PERFORMANCE

During the Reporting Year, the Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance ("ESG") Reporting Guide. Information about the Company's ESG policies and performance during the Reporting Year will be set out in the Environmental, Social and Governance Report to be available on the Company's website.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2020 (the “**Reporting Year**”).

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the principal activities of its subsidiaries are set out in Note 1 to the consolidated financial statements. There was no significant change in the Group's principal activities during the Reporting Year.

FINANCIAL RESULTS

The results of the Group for the Reporting Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 56 and 57 of this annual report.

BUSINESS REVIEW

Further discussion and analysis of the business activities of the Group, including a business review of the Group for the Reporting Year and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis as set out on pages 11 to 18 of this annual report. These discussions form part of this Directors' report.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, the principal risks and uncertainties faced by the Group are set out below:

Our Group relies on the contracts granted by the Government, and our Group's business, results of operations and profitability may be adversely affected if we fail to secure contracts from the Government or there is any significant reduction of such contracts in the future

During the Reporting Year, the customer base of our Group was highly concentrated. Revenue generated from Government contracts represented approximately 83.6% (2019: 84.1%) of our Group's total revenue for the Reporting Year. Contracts from the Government are normally awarded to contractors on the Contractor List and the Specialist List by way of public tender. Approved contractors on the Contractor List and approved specialist contractors on the Specialist List are subject to a regulatory regime which is put in place to ensure that standards of financial capability, expertise, management and safety are maintained by those contractors carrying out the Government's works. An approved contractor could be prohibited from tendering for public works of the relevant category during a suspension period if a serious construction accident occurs at a construction site for which such contractor is responsible for the safety performance of such contractor is not satisfactory. There is no assurance that serious accident will not occur at construction sites for which we are responsible for, or that we will not be subject to regulatory actions in the future which may have an adverse impact on our overall operations or on our eligibility to tender for public works of the Government. In the event that our Group fails to secure contracts from the Government or there is significant reduction of contracts from the Government in the future, our Group's business, results of operations and profitability may be adversely affected.

REPORT OF THE DIRECTORS

Our revenue is mainly derived from projects which are not recurring in nature and any significant decrease in the number of our projects would affect our operations and financial results

All of our revenue during the Reporting Year was derived from undertaking (i) waterworks engineering services; (ii) road works and drainage services and site formation works; (iii) LPM Services; and (iv) building works as a contractor in Hong Kong. We also engaged in building works in the Southeast Asia. Our engagements with customers were on a project basis and non-recurring in nature. We did not enter into any long term agreement or master service agreement with our customers as at the date of this annual report. After completion of the projects, our customers are not obliged to engage us again in subsequent projects, and we have to undergo the tendering process for every new project. There is no assurance that our existing customers will award new projects to us, nor can we guarantee that we would be able to maintain our business relationships with existing customers. In the event that we are unable to attract new customers or secure new projects from our existing customers, there may be a significant decrease in our revenue, and our operations and financial results would hence be adversely affected.

Our Group's business is labour-intensive. If we or our subcontractors experience any shortage of labour, industrial actions, strikes or material increase in labour costs, our operations and financial results would be adversely affected

Our construction works are labour-intensive in nature. During the Reporting Year, our Group and our subcontractors did not experience any material shortage of labour, industrial actions, strikes or material increase in labour costs. However, there is no assurance that we will not experience these problems in the future when the peak load of construction activities is ongoing. In the event that there is a significant increase in the costs and demand of labour and we have to retain our labour by increasing their wages, our staff cost and/or subcontracting cost will increase and thus lower our profitability. On the other hand, if we or our subcontractors fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with our existing or future projects, we may not be able to complete our projects on schedule and within budget, our Group's operations and profitability may be adversely affected.

Delay in the commencement of public projects, which may be caused by factors such as political disagreements, delay in approval of funding proposals, and the occurrence of large scale demonstration or occupation activities may adversely affect our operations and results of operation.

REPORT OF THE DIRECTORS

Delay in the commencement of public projects may be caused by factors such as political disagreements in relation to such projects, delay in approval of the funding proposals for public works due to political filibustering by law-makers and objections, protests or legal actions by affected residents or entities. Any large-scale protests or occupation activity may also delay the construction works to be carried out in the affected areas. Our engagement in public projects depend on the timing of the funding approval by the committees of the Legislative Council of Hong Kong, where filibustering by the members thereof has often led to delays in the passing of public works funding proposals in recent years. Any change of the political environment in Hong Kong may affect the economy and construction industry in the region, which may adversely affect our operations and results of operations. The delay in the commencement of public projects may affect the utilisation of our equipment and our results of operation if we are not able to engage our equipment for other projects at the same or similar level. Further, the uncertainty on the commencement the relevant projects also make it more difficult for us to make accurate planning for the demand, deployment, utilisation of our equipment, which may adversely affect our operations and financial performance.

Our Group has been committed to exploring the Southeast Asia market and may encounter business risk in oversea business markets

In order to enhance its overall business development and profitability, the Group has been committed to exploring the Southeast Asia market in recent years, including Thailand and the Republic of the Philippines. Although the Group has conducted due diligence prior to the relevant investments, the relevant business, financial condition and results of operations are still subject to risks and uncertainties in the countries in which the operations are conducted, including but not limited to international, regional and local economic and political conditions, Regulatory policies, local government policies and threshold requirements for infrastructure projects, restrictions on foreign investment and repatriation of earnings. In the event of any adverse change in these operating environments and laws, regulations or policies, the Group may be required to revoke or revise the existing arrangements in such countries, which may adversely affect its business, financial condition and results of operations.

ENVIRONMENTAL POLICIES, PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is dedicated to maintain sustainable working practices and pay close attention to ensure all resources are efficiently utilised. We strive to become an environmental-friendly corporation, and that we had placed an environmental officer in each of our contract to monitor and implement the project environmental management system.

We have an environmental management plan for each contract undertaken by our Group, which sets out our general environmental policies, organisational structure and responsibilities of our environmental protection team, in-house rules and regulations, environmental performance monitoring, implementation measures, waste management measures and review of requirements.

REPORT OF THE DIRECTORS

The Group and its business activities are subject to requirements under various laws. The laws and regulations which have a significant impact on the Group include, among others, Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong), Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong), Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong), Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), and Immigration Ordinance (Chapter 115 of the Laws of Hong Kong). The Group has put in place in-house rules containing measures and work procedures to ensure that the Group's operation is in compliance with the applicable laws and regulations.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors are of view that employees, customers and business partners are the keys to the sustainable development of the Group. Our Directors believe that our Group maintains good working relations with its employees and business partners and it endeavours to improve the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. We provide various types of trainings to our employees, including (i) conducting in-house continuous professional development seminars; (ii) subsidising our staff in pursuing further studies in related fields; and (iii) provision of safety training programme to staff to enhance their safety awareness.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer accounted for approximately 37.6% (2019: 37.9%) of the Group's total revenue. The five largest customers accounted for approximately 95.4% (2019: 95.4%) of the Group's total revenue for the Reporting Year.

The Group's five largest suppliers together accounted for approximately 50.3% (2019: approximately 51.7%) of the Group's total cost of sales for the Reporting Year. The largest subcontractor accounted for approximately 25.7% (2019: approximately 30.1%) of the total cost of sales of the Group for the Reporting Year.

REPORT OF THE DIRECTORS

Other than as set out in the paragraph above, to the best knowledge of the Directors, neither the Directors, their associates, nor any Shareholders, who owned more than 5% of the Company's issued voting shares, had any beneficial interest in any of the Group's five largest customers or suppliers during the Reporting Year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Year are set out in Note 14 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme (the "**Scheme**") of the Company was adopted on 16 March 2015. There were no share option granted or agreed to be granted under the Scheme since the date of the adoption to the date of this annual report.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant options to the employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or any subsidiary (including any Director of the Company or any subsidiary) who is in full-time or part-time employment with or otherwise engaged by the Company or any subsidiary at the time when an option is granted to such employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner or any person who, in the absolute discretion of the Board has contributed or may contribute to the Group as incentive or reward for their contribution to the Group.

(b) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the Scheme together with options which may be granted under any other share option schemes for the time being of the Group shall not exceed such number of shares as equals 10% of the issued share capital of the Company at the date of approval of the Scheme, being 960,000,000 shares, unless the Company obtains a fresh approval.

(c) Maximum number of options to any one grantee

Unless approved by the shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each grantee in any 12-month period must not exceed 1% of the shares in issue.

REPORT OF THE DIRECTORS

(d) Price of shares

The subscription price for shares under Scheme shall be determined at the discretion of the Directors but will not be less than the highest of:

- (i) The closing price of the shares on the Stock Exchange as shown in the daily quotation sheet of the Stock Exchange on the offer date of the particular option, which must be a day on which the Stock Exchange is open for the business of dealing in securities (“**Business Day**”);
- (ii) The average of the closing prices of the shares shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date of that particular option; and
- (iii) The nominal value of a share on the offer date of the particular option.

(e) Time of exercise of option

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but not later than 10 years from the date of grant but subject to the early termination of the Scheme.

ISSUE OF EQUITY SECURITIES

- (i) As disclosed in the Company’s announcement dated 3 June 2019 and 4 June 2019, the Company entered the Subscription Agreement on 3 June 2019 with the Subscriber, Splendid Horizon Limited, a company incorporated in the British Virgin Islands with limited liability. Pursuant to the Subscription Agreement, upon completion of the subscription on 2 July 2019, the Company allotted and issued, and Subscriber subscribed for, 220,000,000 ordinary shares of the Company, at the subscription price of HK\$0.485 per Subscription Share (the “**Subscription**”). The net subscription price per Subscription Share, after deduction of relevant expenses, is approximately HK\$0.479. The closing price of the shares of the Company on the date of the Subscription Agreement was HK\$0.590 per share of the Company as quoted on the Stock Exchange. The aggregate nominal value of the Subscription Shares is HK\$2.2 million, and the market value of the Subscription Shares is HK\$129.8 million, based on the closing price of HK\$0.59 per Share on the date of the Subscription Agreement.

REPORT OF THE DIRECTORS

The aggregate gross proceeds of the Subscription amounted to HK\$106.7 million. The aggregate net proceeds of the Subscription, after the deduction of related expenses, amounted to approximately HK\$105.4 million. The intended use and the actual use of the net proceeds are set out as below:

Net proceeds raised	Proposed used of proceeds	Actual use of proceeds
HK\$105.4 million	(i) As to approximately 70% (representing approximately HK\$73.8 million) for principal construction business to implement the Group's already signed contracts; (ii) as to approximately 20% (representing approximately HK\$21.1 million) for development and expansion of potential overseas markets, such as undergoing market research, project feasibility research, promotion and project funds so as to achieve market diversification as disclosed in the interim results announcement of the Company dated 26 November 2018; and (iii) the remaining of approximately 10% (representing approximately HK\$10.5 million) as the Group's general working capital.	Same as proposed

For further details, please refer to the announcements of the Company dated 3 June 2019, 4 June 2019 and 11 May 2018.

(ii) As disclosed in the Company's announcement dated 6 March 2020 and 10 March 2020, the Company entered the Subscription Agreement on 6 March 2020 with Fortune Elite Holdings Limited, a company incorporated in the British Virgin Islands with limited liability (the "**Subscriber I**") and Mr. Sun Jiajun (孫家軍), an individual professional investor based in the PRC (the "**Subscriber II**"). Pursuant to the Subscription Agreement, upon completion of the subscription on 31 March 2020, an aggregate of 264,000,000 new Shares were issued to the Subscribers, of which 132,000,000 new Shares were issued to Subscriber I, and 132,000,000 new Shares were issued to Subscriber II, at the Subscription Price of HK\$0.1976 per Subscription Share (the "**Subscription**"). The net subscription price per Subscription Share, after deduction of relevant expenses, is approximately HK\$0.1940. The closing price of the shares of the Company on the date of the Subscription Agreement was HK\$0.207 per share of the Company as quoted on the Stock Exchange. The aggregate nominal value of the Subscription Shares is HK\$2.64 million, and the market value of the Subscription Shares is HK\$54.65 million, based on the closing price of HK\$0.207 per Share on the date of the Subscription Agreement.

REPORT OF THE DIRECTORS

The aggregate gross proceeds of the Subscription will be HK\$52.17 million. The aggregate net proceeds of the Subscription, after the deduction of related expenses, will be approximately HK\$51.21 million. The intended use and the actual use of the net proceeds are set out as below:

Net proceeds raised	Proposed used of proceeds	Actual use of proceeds
HK\$51.21 million	(i) As to approximately 70% (representing approximately HK\$35.85 million) for principal construction business to implement the Group's already signed contracts; (ii) as to approximately 20% (representing approximately HK\$10.24 million) for development and expansion of potential overseas markets, such as undergoing market research, project feasibility research, promotion and project funds so as to achieve market diversification; and (iii) the remaining of approximately 10% (representing approximately HK\$5.12 million) as the Group's general working capital.	(i) Approximately HK\$35.85 million have been used for principal construction business to implement the Group's already signed contracts; (ii) Approximately HK\$2.5 million have been used for property development projects in the Republic of the Philippines. The remaining proceed of approximately HK\$7.74 million is expected to be use for development and expansion of potential overseas markets in the coming 6 months; and (iii) approximately HK\$5.12 million have been used for Group's general working capital.

The Directors are of the view that the Subscriptions offers a valuable opportunity to raise additional funds to strengthen the financial position of the Group and broaden the Shareholders' base and the capital base of the Company.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Year are set out in Note 27 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Year are set out in Note 33(a) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

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.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained public float as required under the Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Reporting Year and up to the date of this annual report were as follows:

Executive Directors

Mr. Chen Zhenghua (*Chairman*)
Mr. Zhang Fangbing
Mr. Wong Wa
Mr. Cao Lei

Independent Non-executive Directors

Prof. Lam Sing Kwong, Simon
Mr. Lum Pak Sum
Mr. Gong Zhenzhi

Pursuant to article 83(3) of the articles of association of the Company (the “**Articles**”), the Directors shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the shareholders of the Company after his appointment and be subject to re-election. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to article 84(1) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of 3), the number nearest to but not less than one-third shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

In accordance with articles 83(3) and 84(2) of the articles of association of the Company, Mr. Chen Zhenghua, Mr. Zhang Fangbing and Mr. Wong Wa, will retire and being eligible, will offer themselves for re-election at the Company’s forthcoming annual general meeting.

Biographical details of the Directors and senior management are set out in the section headed “Biographies of Directors and Senior Management”. Information regarding Directors’ and Chief Executive’s emoluments is set out in Note 10 to the consolidated financial statements. An annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules have been received from each of the Independent Non-executive Directors.

REPORT OF THE DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 5 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the date of appointment, as appropriate and will continue thereafter until terminated in accordance with the terms of the contract. Independent Non-executive Directors are appointed for a term of three years initially and will continue thereafter unless terminated by either party giving at least three months' notice in writing.

INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

The Independent Non-executive Directors have also reviewed the compliance by each of the 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.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 10 and 11 to the consolidated financial statements.

The Remuneration Committee of the Company will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Scheme.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report, there was no change in the information of the Directors required to be disclosed under the Listing Rules for the Reporting Year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 March 2020, the interests and short positions of the Directors and CEO in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

Name	Capacity	Number of issued Shares interested	Percentage of the issued share capital of the Company
Mr. Chen Zhenghua ("Mr. Chen") (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
Mr. Zhang Fangbing ("Mr. Zhang") (Note 1)	Interest of corporation	248,000,000 (L)	15.66%

Notes:

- The interests of Mr. Chen and Mr. Zhang was held by Sino Coronet, which is a wholly-owned subsidiary of 江蘇省建築工程集團有限公司. 江蘇省建築工程集團有限公司 is beneficially owned as to 50% by 綠地城市投資集團有限公司, and as to 35% by 江蘇華遠投資集團有限公司. 江蘇華遠投資集團有限公司 is owned as to 89.3% by Mr. Chen and 10.7% by 江蘇省城開投資有限公司, which is owned as to approximately 45.17% by Mr. Chen and approximately 1.25% by Mr. Zhang, an Executive Director of the Company and approximately 53.58% by independent third parties.

Saved as disclosed above, none of the Directors and Chief Executive of the Company had any other interests or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to Appendix 10 to the Listing Rules.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 March 2020, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and CEO.

Name	Capacity	Number of issued Shares interested	Percentage of the issued share capital of the Company
Sino Coronet Group Limited (" Sino Coronet ") (Note 1)	Beneficial owner	248,000,000 (L)	15.66%
江蘇省建築工程集團有限公司 (" Jiangsu Construction ") (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
江蘇華遠投資集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
Mr. Chen Zhenghua (" Mr. Chen ") (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
綠地城市投資集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
綠地控股集團有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
綠地控股集團股份有限公司 (Note 1)	Interest of controlled corporation	248,000,000 (L)	15.66%
Splendid Horizon Limited (" Splendid Horizon ") (Note 2)	Beneficial owner	220,000,000	13.89%
Mr. He Guangping (Note 2)	Interest of controlled corporation	220,000,000	13.89%
Mr. Li Guosheng (Note 2)	Interest of controlled corporation	220,000,000	13.89%
Mr. Sun Jiajun	Beneficial owner	157,480,000	9.94%
Fortune Elite Holdings Limited (Note 3)	Beneficial owner	132,000,000	8.33%
Mr. Huang Chih Chien (Note 3)	Interest of controlled corporation	132,000,000	8.33%
Ms. Ang, Ellena Balesteros (Note 3)	Interest of controlled corporation	132,000,000	8.33%

REPORT OF THE DIRECTORS

Notes:

1. Sino Coronet is a wholly-owned subsidiary of Jiangsu Construction, which is beneficially owned as to 50% by Greenland City Investment Group Co., Ltd. (綠地城市投資集團有限公司) ("**Greenland City Investment**"), as to 35% by Jiangsu Huayuan Investment Group Co. Ltd. (江蘇華遠投資集團有限公司) ("**Jiangsu Huayuan**") and as to 15% by Nanking City Development Holdings Investment Partnership (Limited Partnership) (南京城開發權投資合夥企業(有限合夥)) ("**Nanking City Development**"). Nanking City Development are owned by independent third parties.

Greenland City Investment is owned as to 94.74% by Greenland Holdings Group Co., Ltd. (綠地控股集團有限公司) ("**Greenland Group**"), which is in turn wholly-owned by Greenland Holdings Group Stock Co., Ltd. (綠地控股集團股份有限公司) ("**Greenland Holdings**").

Jiangsu Huayuan is owned as to 89.3% by Mr. Chen Zhenhua ("**Mr. Chen**"), chairman of the Board and an executive Director and 10.7% by Jiangsu Province City Development Investment Co., Ltd. (江蘇省城開發投資有限公司) ("**Jiangsu City Development**"), which is owned as to approximately 45.17% by Mr. Chen.

Accordingly, Jiangsu Construction, Jiangsu Huayuan, Mr. Chen, Greenland City Investment, Greenland Group and Greenland Holdings are deemed to be interested in such 248,000,000 shares.

2. The 220,000,000 Shares were held by Splendid Horizon. Splendid Horizon is owned as to 50% by Mr. He Guangping and as to 50% by Mr. Li Guosheng. Accordingly, Mr. He Guangping and Mr. Li Guosheng are deemed to be interested in such 220,000,000 Shares.
3. The 132,000,000 Shares were held by Fortune Elite Holdings Limited. Fortune Elite Holdings Limited is owned as to 60% by Mr. Huang Chih Chien and as to 40% by Ms. Ang, Ellena Balesteros. Accordingly, Mr. Huang Chih Chien and Ms. Ang, Ellena Balesteros are deemed to be interested in such 132,000,000 Shares.

Saved as disclosed above, none of the Directors and CEO had any other interests or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to Appendix 10 to the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party and connected transactions of the Group are set out in Note 35 to the consolidated financial statements. The related party transactions set out in Note 35 to the consolidated financial statements were fully exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Connected Transactions Exempt from the Circular, Independent Financial Advice and Shareholders' Approval Requirements

On 29 July 2012, Kwan On Construction Company Limited ("**Kwan On Construction**"), a wholly-owned subsidiary of the Company, formed an unincorporated joint venture, Kwan On – U-Tech, with U-Tech Engineering Co. Ltd. ("**U-Tech**") for the purpose of preparing and submitting the joint tender and subsequent execution of the works relating to the contract 10/WSD/10. U-Tech is regarded as a connected person at the subsidiary level of the Company by reason of its ability to exercise influence over the affairs of Kwan On – U-Tech.

Joint operation formed by Kwan On Construction and U-Tech

On 16 December 2013, Kwan On Construction and U-Tech entered into an agreement pursuant to which Kwan On Construction and U-Tech agreed to share the surplus, loss, assets and liabilities, rights and obligations arising from their cooperation in the project for the contract 9/WSD/13 in equal shares. There is no monetary consideration payable by either party under this agreement and hence no transaction amount has been recorded for this connected transaction.

Financial guarantee by a substantial shareholder of the Company

In accordance with the relevant arrangements entered into with a main contractor in the overseas hotel construction project in Thailand during the year ended 31 March 2019, the main contractor had assumed the obligation to pay certified value of works completed by the Group amounted to THB477,318,232 (equivalent to approximately HK\$116,600,000). During the year ended 31 March 2020, the first repayment of THB205,620,283 (equivalent to approximately HK\$48,721,000) have been received by the Group. The remaining receivable of THB271,697,949 (equivalent to approximately HK\$69,408,000) and the interest thereon are guaranteed by a substantial shareholder of the Company. The guarantee is conducted on normal commercial terms and is not secured by the assets of our Group.

During the year ended 31 March 2020, a performance deposit amounted to PHP198,545,576 (equivalent to HK\$29,782,000) was paid to the land owner for construction project in the Republic of the Philippines. It is secured by the pledge of entire equity interests in the land owner and is guaranteed by a substantial shareholder of the Company. The guarantee is conducted on normal commercial terms and is not secured by the asset of our Group.

Subcontracting arrangements

During the Reporting Year, the following subcontracting arrangements had been entered into between certain members of the Group and U-Tech:

1. on 24 August 2011, Kwan On – U-Tech (as main contractor) and U-Tech (as subcontractor) entered into the articles of agreement pursuant to which Kwan On – U-Tech agreed to engage U-Tech as a subcontractor to perform water mains rehabilitation in Shatin and Sai Kung at approximately HK\$33.8 million (subject to adjustment) on a back to back basis as required under the main contract entered into between Kwan On – U-Tech and WSD for project 10/WSD/10. The subcontract sum shall be payable by Kwan On – U-Tech to U-Tech in stages in accordance with the terms of the articles of agreement and based on the value of work done measured (the "**10/WSD/10 Subcontracting Arrangement**"); and

REPORT OF THE DIRECTORS

The total contract sum under the 10/WSD/10 Subcontracting Arrangement was determined based on the schedule of rates agreed by Kwan On – U-Tech and U-Tech by reference to the prevailing market rates. The contract sum paid by Kwan On – U-Tech to U-Tech under the 10/WSD/10 Subcontracting Arrangement for the Reporting Year amounted to approximately HK\$640,000 (2019: HK\$56,000).

The Directors, including the Independent Non-executive Directors, consider that all the continuing connected transactions between the Group and a connected person at the subsidiary level above are conducted on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole and are in the ordinary and usual course of the business.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

EQUITY-LINK AGREEMENTS

Save as disclosed in this annual report relating to share option scheme, no equity-link agreement have been entered into during the Reporting Year or subsisted at the end of the Reporting Year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance to which the Company or any of its subsidiaries was a party in which a Director or an entity connected with a Director had a material interest subsisted at the end of the Reporting Year or any time during the Reporting Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Year.

EMPLOYEES AND REMUNERATION POLICIES

The employees and remuneration policies of the Group during the Reporting Year is set out in the subsection headed "Employees and Remuneration Policies" on page 18 of this annual report. The content is part of the Management Discussion and Analysis.

There is no service contract, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation) of any director.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than shareholdings disclosed above, at no time during the Reporting Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

NO PRE-EMPTIVE RIGHTS

There is no pre-emptive rights in the jurisdiction in which the Company was incorporated.

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, risk management and financial reporting matters and the audited consolidated financial statements for the Reporting Year.

AUDITORS

Messrs. SHINEWING (HK) CPA Limited (“**Shinewing**”) has resigned as the auditor of the Company with effect from 30 March 2020 and PKF Hong Kong Limited (“**PKF**”) has been appointed as the auditor of the Company with effect from 30 March 2020 to fill the vacancy following the resignation of Shinewing. The consolidated financial statements for the Reporting Year have been audited by PKF, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of this annual report on the websites of the Company and the Stock Exchange.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Tuesday, 29 September 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 17 September 2020 to Tuesday, 29 September 2020 (both days inclusive), during which period no share transfers will be registered.

In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Thursday, 17 September 2020.

On behalf of the Board

Chen Zhenghua

Chairman

Hong Kong, 30 June 2020

INDEPENDENT AUDITOR'S REPORT

大信梁學濂(香港)會計師事務所有限公司

Accountants &
business advisers26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong KongINDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF KWAN ON HOLDINGS LIMITED

均安控股有限公司

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Kwan On Holdings Company (the **"Company"**) and its subsidiaries (hereinafter collectively referred to as the **"Group"**) set out on pages 56 to 157, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (**"HKFRSs"**) issued by the Hong Kong Institute of Certified Public Accountants (the **"HKICPA"**) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (**"HKSAs"**) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the **"Code"**) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Accounting measurement for construction contracts

Refer to Note 6 to the consolidated financial statements and the accounting policies on pages 72 to 76.

The key audit matter

During the year ended 31 March 2020, the Group has recognised contract revenue from construction works of approximately HK\$501,692,000. Such revenue was recognised over time based on the progress measured using an input method – based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation of the construction services which involves significant management judgment and estimation. Management estimate the budgeted costs at the commencement of the contracts and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimation of costs as well as the progress of related construction works requires significant judgement and has a significant impact on the amount and timing of revenue recognised.

How the matter was addressed in our audit

Our audit procedures performed in relation to management's accounting measurement for construction contracts included:

- understanding the design and implementation of key internal controls over revenue recognition;
- assessing the appropriateness of the Group's revenue recognition policy under the requirements of HKFRS 15 by inspecting a sample of representative contracts with customers;
- obtaining a detailed breakdown of the total estimated costs to completion for all contracts in progress during the year and comparing, on a sample basis, actual costs incurred to the financial year end date and future cost estimates with agreements and certifications referred to by management in its assessment of the estimated costs to completion;
- selecting a sample of incomplete contracts as at year end and checking calculation of significant components of budgeted contract costs and actual contract costs to supporting documents such as purchase orders of equipment and contracts with subcontractors;
- selecting a sample of completed contracts and checking the historical reliability of the budgeted contract costs; and
- re-calculating on a sample basis the calculation of revenue recognised during the year based on the input method.

INDEPENDENT AUDITOR'S REPORT

Recoverability of trade and other receivables and contract assets

Refer to Notes 19 and 20 to the consolidated financial statements and the accounting policies on pages 86 to 95.

The key audit matter

As at 31 March, 2020, the Group had trade and other receivables and contract assets of approximately HK\$234,738,000 and HK\$222,950,000 respectively, net of expected credit losses ("ECL") of HK\$2,557,000 and HK\$20,000 respectively.

We identified the impairment of trade and other receivables and contract assets as a key audit matter due to the significance to the Group's consolidated financial statements and the involvement of subjective judgements and management estimates based on the historical default rates, past-due status and aging information of the debtors and the forward-looking information in evaluating the ECL of the Group's trade receivables, other receivable and contract assets at the end of the reporting period.

How the matter was addressed in our audit

Our audit procedures performed in relation to management's assessment of the recoverability of trade receivables, other receivables and contract assets included:

- obtaining and reviewing the management's assessment of the impairment of trade receivables, other receivables and contract assets;
- understanding the methods on how the management estimates the loss allowance for trade receivables, other receivables and contract assets;
- evaluating the independent qualified professional valuer's competence, capabilities and objectivity;
- testing the accuracy of the information used by management to develop the provision matrix, including ageing analysis as at 31 March 2020, on a sample basis, by comparing individual items in the analysis with the relevant contracts, invoices and other supporting documents;
- evaluating management's basis and judgement in determining credit loss allowance on trade receivables, other receivables and contract assets as at 31 March 2020, including the reasonableness of loss given default rates, probability of default rates, discount rates, historical loss rates and forward-looking information; and
- testing subsequent settlements on a sample basis by inspecting supporting documents in relation to cash receipt subsequent to the end of the reporting period.

INDEPENDENT AUDITOR'S REPORT

Assessment of the net realisable value of the inventories

Refer to Note 18 to the consolidated financial statements and the accounting policies on page 85.

The key audit matter

As at 31 March 2020, the Group had inventories which are property under development for sale on two parcels of freehold land located in the Republic of the Philippines.

The inventories are stated at the lower of cost and net realisable value. The determination of the net realisable value of inventories requires estimations, including expected future selling prices and costs necessary to complete the sale of these inventories, and is assessed by the management with reference to the independent valuations carried out by an external property valuer.

We identified the assessment of the net realisable value of the inventories as a key audit matter because of the significance of these inventories to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures performed in relation to management's assessment of the net realisable value of the inventories included:

- obtaining and inspecting managements' valuation assessments and the valuation report prepared by the external property valuer and on which the management's assessment of the net realisable value of the property under development for sale was based;
- assessing the external property valuer's qualification, experience and expertise in the properties being valued and considering their objectivity and independence; and
- discussing with management and the external property valuer their valuation methodologies; and assessing the key estimates and assumptions adopted in the valuation, including expected future selling prices and costs to completion, by comparing expected future selling prices to, where available, recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of development, and publicly available construction cost information for properties of a similar nature and location.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Company and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tan Yik Chung Wilson (Practising Certificate Number: P05103).

PKF Hong Kong Limited

Certified Public Accountants

Hong Kong

30 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	6	599,912	731,839
Cost of sales		(533,905)	(662,046)
Gross profit		66,007	69,793
Other income	6	7,494	3,304
Other (loss)/gain	6	(15)	47
Administrative expenses		(46,787)	(36,575)
Share of profit of an associate		12	–
Finance costs	7	(8,922)	(3,888)
Profit before tax		17,789	32,681
Income tax expenses	8	(3,218)	(6,577)
Profit for the year	9	14,571	26,104
Other comprehensive income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income		(30,776)	8,009
		(30,776)	8,009
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		3,036	204
		3,036	204
Other comprehensive (expense)/income for the year		(27,740)	8,213
Total comprehensive (expense)/income for the year		(13,169)	34,317

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Profit for the year attributable to:			
Owners of the Company		16,223	24,271
Non-controlling interests		(1,652)	1,833
		<u>14,571</u>	<u>26,104</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(11,516)	32,484
Non-controlling interests		(1,653)	1,833
		<u>(13,169)</u>	<u>34,317</u>
Earnings per share			
Basic and diluted (HK cents)	13	<u>1.28</u>	<u>2.21</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	14	45,265	41,535
Right-of-use assets	15	17,186	–
Interests in associates	16	36	–
Financial assets at fair value through other comprehensive income	17	20,578	50,360
Other receivables	19	53,635	10,806
		136,700	102,701
Current assets			
Inventories	18	161,284	–
Trade and other receivables	19	181,103	229,613
Contract assets	20	222,950	136,160
Amount due from an associate	21	69,306	–
Amounts due from other partners of joint operations	28	3,184	15,576
Pledged bank deposits	22	43,745	43,745
Bank balances and cash	22	109,532	112,742
		791,104	537,836
Current liabilities			
Contract liabilities	20	21,298	11,537
Trade and other payables	23	103,030	125,129
Amounts due to other partners of joint operations	28	11,127	–
Bank borrowings	24	185,001	126,482
Lease liabilities	25	6,400	–
Income tax payable		3,050	4,238
		329,906	267,386
Net current assets		461,198	270,450
Total assets less current liabilities		597,898	373,151
Non-current liabilities			
Bank borrowings	24	66,563	–
Lease liabilities	25	11,629	–
Deferred tax liabilities	26	3,556	464
		81,748	464
NET ASSETS		516,150	372,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Capital and Reserves			
Share capital	27	15,840	11,000
Reserves		500,677	360,401
Equity attributable to owners of the Company		516,517	371,401
Non-controlling interests		(367)	1,286
TOTAL EQUITY		516,150	372,687

The consolidated financial statements on pages 56 to 157 were approved and authorised for issue by the board of directors on 30 June 2020 and are signed on its behalf by:

Mr. Zhang Fanbing
Director

Mr. Chen Zhenghua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 March 2020

	Attributable to owners of the Company									Non-	
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note (a))	Translation reserve HK\$'000	Contributed surplus HK\$'000 (Note (b))	Capital reserve HK\$'000 (Note (c))	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	controlling interests HK\$'000	Total HK\$'000
At 1 April 2018	11,000	203,686	9,755	-	22,968	12,544	-	80,426	340,379	2,753	343,132
HKFRS 9 adjustment on retained profits	-	-	-	-	-	-	-	(1,462)	(1,462)	-	(1,462)
At 1 April 2018, as restated	11,000	203,686	9,755	-	22,968	12,544	-	78,964	338,917	2,753	341,670
Profit for the year	-	-	-	-	-	-	-	24,271	24,271	1,833	26,104
Other comprehensive income for the year	-	-	-	204	-	-	8,009	-	8,213	-	8,213
Total comprehensive income for the year	-	-	-	204	-	-	8,009	24,271	32,484	1,833	34,317
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,300)	(3,300)
At 31 March 2019	11,000	203,686	9,755	204	22,968	12,544	8,009	103,235	371,401	1,286	372,687
	Attributable to owners of the Company									Non-	
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note (a))	Translation reserve HK\$'000	Contributed surplus HK\$'000 (Note (b))	Capital reserve HK\$'000 (Note (c))	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	controlling interests HK\$'000	Total HK\$'000
At 1 April 2019	11,000	203,686	9,755	204	22,968	12,544	8,009	103,235	371,401	1,286	372,687
Profit for the year	-	-	-	-	-	-	-	16,223	16,223	(1,652)	14,571
Other comprehensive expense for the year	-	-	-	3,037	-	-	(30,776)	-	(27,739)	(1)	(27,740)
Total comprehensive expense for the year	-	-	-	3,037	-	-	(30,776)	16,223	(11,516)	(1,653)	(13,169)
Issue of shares upon subscription	4,840	154,026	-	-	-	-	-	-	158,866	-	158,866
Transaction costs attributable to subscription of shares	-	(2,234)	-	-	-	-	-	-	(2,234)	-	(2,234)
At 31 March 2020	15,840	355,478	9,755	3,241	22,968	12,544	(22,767)	119,458	516,517	(367)	516,150

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 March 2020

Notes:

- (a) The merger reserve of the Group represents the difference between the investment costs in subsidiaries and the nominal value of the issued share capital of the Group's subsidiaries.
- (b) Contributed surplus of approximately HK\$22,968,000 represents the excess of the carrying amount of the Company's share of equity value of a subsidiary acquired and the nominal amount of the Company's shares issued for such acquisition at the time of the group reorganisation which were completed on 16 March 2015.
- (c) The capital reserve arose from capital contribution from equity holders resulted from the events set out below:
 - (i) Pursuant to a written confirmation on 23 March 2015, two of the Company's shareholders, Fortune Decade Investments Limited ("**Fortune Decade**") and Twilight Treasure Limited ("**Twilight Treasure**"), agreed to bear the listing expenses in connection with 120,000,000 sales shares sold through the placing of the Company's shares took place during the year ended 31 March 2015 and reimburse their share of these expenses to the Company upon the listing of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited. The reimbursement of approximately HK\$7,453,000 by these shareholders in their capacity as shareholders was accounted for as capital contribution to the Company; and
 - (ii) The shareholders of certain subsidiaries of the Company agreed to repay the dividends previously received by them by the way of set-off against their respective amounts receivable from those subsidiaries of the Group. Such repayment of dividends was accounted for as capital contribution to the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
Profit before tax	17,789	32,681
Adjustments for:		
Depreciation of property, plant and equipment	4,883	4,917
Depreciation of right-of-use assets	4,902	–
Finance costs	8,922	3,888
Interest income	(6,163)	(2,238)
Loss/(gain) on disposal of property, plant and equipment	15	(47)
Share of profit from an associate	(12)	–
Effect of foreign exchange rate change	2,042	–
Operating cash flows before movements in working capital	32,378	39,201
(Increase)/decrease in inventories	(157,674)	2,880
Decrease/(increase) in trade and other receivables	3,711	(28,775)
Increase in contract assets	(86,790)	(41,281)
Increase in amount due from an associate	(69,306)	–
Decrease in amounts due from other partners of joint operations	12,392	1
Increase/(decrease) in contract liabilities	9,761	(14,214)
Decrease in trade and other payables	(22,099)	(5,462)
Increase in amounts due to other partners of joint operations	11,127	–
Cash used in operations	(266,500)	(47,650)
Hong Kong profits tax paid, net	(1,314)	(4,224)
NET CASH USED IN OPERATING ACTIVITIES	(267,814)	(51,874)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(8,828)	(5,541)
Purchases of financial assets at fair value through other comprehensive income	–	(42,351)
Proceeds from disposal of property, plant and equipment	200	622
Placement of pledged bank deposits	–	(32,400)
Investment in an associate	(24)	–
Interest received	8,133	268
NET CASH USED IN INVESTING ACTIVITIES	(519)	(79,402)

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
FINANCING ACTIVITIES		
New bank loans raised	237,065	453,410
Repayment of bank borrowings	(116,300)	(348,063)
Repayment to an ex-director (included in other payable)	–	(25,000)
Interest paid	(11,911)	(3,888)
Distribution paid to non-controlling interests	–	(3,300)
Proceeds from issue of shares	158,866	–
Expenses on issue of shares	(2,234)	–
Capital element of lease rentals paid	(4,059)	–
Interest element of lease rentals paid	(621)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	260,806	73,159
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,527)	(58,117)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	112,742	170,455
Effect of foreign exchange rate change	–	404
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	105,215	112,742
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	109,532	112,742
Bank overdrafts (included in bank borrowings)	(4,317)	–
	105,215	112,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

1. GENERAL INFORMATION

Kwan On Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 6 December 2012 as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The registered office of the Company is located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands. The principal place of business is Unit 2801, 118 Connaught Road West, Hong Kong.

The Company is an investment holding company and its subsidiaries (together referred to as the “**Group**”) are principally engaged in the construction related business and property development in Hong Kong and Southeast Asia.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

In the current year, the Group has adopted the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“**HKAS(s)**”), amendments and Interpretations (“**Int(s)**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty Over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements (2015-2017)	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

HKFRS 16 Leases

2.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in Note 3. Comparative information has not been restated and continues to be reported under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or modified on or after 1 April 2019.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.36%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

HKFRS 16 Leases (Continued)

2.1 Impacts on adoption of HKFRS 16 Leases (Continued)

The Group as lessee (Continued)

The Group recognises right-of-use assets and measures them at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

	Carrying amount previously reported at 31 March 2019 HK\$'000	Impact on adoption of HKFRS 16 HK\$'000	Carrying amount as restated at 1 April 2019 HK\$'000
Non-current Assets			
Right-of-use assets	–	1,814	1,814
Current Liabilities			
Lease liabilities	–	1,108	1,108
Non-current Liabilities			
Lease liabilities	–	706	706

Starting from 1 April 2019, in the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

HKFRS 16 Leases (Continued)

2.1 Impacts on adoption of HKFRS 16 Leases (Continued)

The Group as lessee (Continued)

Differences between operating lease commitments as at 31 March 2019 (Note 31), the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 April 2019 are as follows:

	HK\$'000
Operating lease commitment disclosed as at 31 March 2019	2,361
Less: short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(461)
	<u>1,900</u>
Discounted using the incremental borrowing rate and lease liabilities recognised as at 1 April 2019	<u>1,814</u>
Analysed as	
Current portion	1,108
Non-current portion	<u>706</u>
	<u>1,814</u>

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective date not yet been determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2022.

The directors of the Company anticipate that the application of new and amendments to HKFRSs will have no material impact on the consolidated results and the consolidated financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from provision of construction and maintenance works on civil engineering contracts.

Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on an asset under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with an onerous contract. An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Contract costs

The Group incurs costs (including labour costs, utility expenses, materials and consumables and others) to fulfill a contract in its construction contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognised an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue is measured at the fair value of the consideration received or receivable for services rendered in the normal course of business.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Variable consideration

For contracts that contain variable consideration (variation order of construction work), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of services or administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Under HKFRS 16 (applicable on or after 1 April 2019)

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Under HKFRS 16 (applicable on or after 1 April 2019) (Continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group's right-of-use assets are not separately presented and are included in "property, plant and equipment" and "right-of-use assets" in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Under HKAS 17 (applicable prior to 1 April 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Offsetting financial instruments

Financial assets and liabilities of the Group are offset and the net amount presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group, as a joint operator, recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity enters into a transaction with a joint operation in which the group entity is a joint operator, such as a sale or contribution of assets, the Group is considered to be conducting the transaction with the other parties to the joint operation and the Group recognises gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When a group entity enters into a transaction with a joint operation in which the group entity is a joint operator, such as a purchase of assets, the Group recognises its share of the gains and losses until it resells those assets to a third party.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, short-term deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss, if any.

Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of properties comprises cost of land, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfil a contract comprise the development cost and land cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfil a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**") are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

- (i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (“ECL”), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investment in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Loss arising from changes in fair value of financial assets at fair value through profit or loss" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, contract assets, amount due from an associate, amounts due from other partners of joint operations, pledged bank deposits and bank balances and cash) that are measured at amortised cost and also on financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument (for stage 2 and stage 3). In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date (for stage 1). Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition of financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

When measuring fair value, except for the Group's share-based payment transactions, leasing transactions, value in use of property, plant and equipment and intangible asset for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimation (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Consolidation of Kwan On - U-Tech Joint Venture 1 ("Kwan On - U-Tech 1")

The Group formed a legal joint venture, Kwan On - U-Tech 1, with an independent third party namely U-Tech Engineering Co. Ltd. ("**U-Tech**"), for the purpose of execution of a contract. The Group can appoint the majority of the board of directors of Kwan On - U-Tech 1 and thus direct its relevant activities. The Group shares 70% of the profits or losses of Kwan On - U-Tech 1. The directors of the Company have therefore determined the Group has control over Kwan On - U-Tech 1 and the Group's financial statements have consolidated the results of Kwan On - U-Tech 1.

Joint operations

The Group formed nine unincorporated joint ventures, Kwan On - U-Tech Joint Venture 2 ("**Kwan On - U-Tech 2**"), Kwan On - U-Tech Joint Venture 3 ("**Kwan On - U-Tech 3**"), Kwan On - U-Tech Joint Venture 4 ("**Kwan On - U-Tech 4**"), Kwan On - China Geo Joint Venture ("**Kwan On - China Geo**"), Kwan On - China Geo Joint Venture 2 ("**Kwan On - China Geo 2**"), Kwan On - China Geo Joint Venture 1 ("**KO-CG Joint Venture 1**") and Kwan On - China Geo Joint Venture 2 ("**KO-CG Joint Venture 2**") with two independent third parties namely U-Tech and China Geo-Engineering Corporation ("**China Geo**") respectively, KO - Richwell - SCG Joint Venture with two independent third parties namely Richwell Machinery Engineering Limited ("**Richwell**") and Shanghai Construction Group Co Limited ("**SCG**") respectively and Kwan On - Vernaltex Joint Venture with Vernaltex Company Limited ("**Vernaltex**") for the purpose of execution of contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying the entity's accounting policies (Continued)

Joint operations (Continued)

The Group and U-Tech jointly control over the relevant activities of Kwan On - U-Tech 2, Kwan On - U-Tech 3 and Kwan On - U-Tech 4. Under the joint venture agreements, the Group has participation share of 50%, 65% and 51% respectively to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On - U-Tech 2, Kwan On - U-Tech 3 and Kwan On - U-Tech 4. As decisions about the relevant activities require unanimous consent of both the Group and U-Tech, the directors of the Company have determined that the joint arrangements are joint operations.

The Group and China Geo jointly control over the relevant activities of Kwan On - China Geo, Kwan On - China Geo 2, KO-CG Joint Venture 1 and KO-CG Joint Venture 2. Under the joint venture agreements, the Group has participation share of 51% to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On - China Geo, Kwan On - China Geo 2, KO-CG Joint Venture 1 and KO-CG Joint Venture 2. As decisions about the relevant activities require unanimous consent of both the Group and China Geo, the directors of the Company have determined that the joint arrangements are joint operations.

The Group, Richwell and SCG jointly control over the relevant activities of KO - Richwell - SCG Joint Venture. Under the joint venture agreement, the Group, Richwell and SCG have participation share of 34%, 33% and 33% respectively to the surplus, loss, assets, liabilities, right and obligation arising out of or in connection with the contract in KO - Richwell - SCG Joint Venture. As decisions about the relevant activities require unanimous consent of the Group, Richwell and SCG, the directors of the Company have determined that the joint arrangement is a joint operation.

The Group and Vernaltex jointly control over the relevant activities of Kwan On – Vernaltex Joint Venture. Under the joint venture agreement, the Group has participation share of 51% to the surplus, loss, assets, liabilities, rights and obligations arising out of or in connection with the contract in Kwan On – Vernaltex Joint Venture. As decisions about the relevant activities require unanimous consent of both the Group and Vernaltex, the directors of the Company have determined that the joint arrangement is a joint operation.

Classification between business combination and asset acquisition

During the year ended 31 March 2020, the Group entered into an equity transfer agreement with an independent third party for the acquisition of equity interests in a company in the Republic of the Philippines. As at the date of acquisition, this company merely held two parcels of freehold land in the Republic of the Philippines and did not operate any business activities. Therefore, the directors of the Company consider that the acquisition was asset acquisition. Further details of the acquisition are given in Note 39 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of the lease term

In determining the lease term, management evaluates the likelihood of exercising the renewal option/termination option by considering all facts and circumstances that create economic incentive to exercise an extension option, or not to exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Management has considered the relevant factors including (i) any significant penalties to terminate (or not extend) (ii) any leasehold improvements expected to have a significant remaining value and (iii) historical lease durations and the costs and business disruption required to replace the leased asset. Any changes in the lease term will affect the amount of lease liabilities and right-of-use assets to be recognised in future years.

Construction contracts revenue recognition

The Group recognises contract revenue and margin of a contract in relation to provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading according to the management's estimation of the total outcome of the contract including the assessment of profitability of on-going construction contracts as well as the progress towards complete satisfaction of construction works of individual contract. Stage of completion was determined based on the proportion of contract costs incurred for works performed to date relative to the estimated total contract costs (input method). Estimation of proper margin involves the assessment of the completeness and accuracy of forecast costs to completion. Total contract costs are estimated by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the past experience of similar projects. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit or loss recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Income tax

As at 31 March 2020, no deferred tax asset has been recognised on the tax losses of approximately HK\$18,077,000 (2019: HK\$12,448,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are different from original estimates, such difference will impact the recognition of deferred tax assets and income tax changes in the year in which circumstances are changed.

Loss allowance for trade receivables and other receivables and contract assets

The loss allowance for trade receivables and other receivables are based on assumptions about ECL. The Group use judgement in making these assumptions and selecting the inputs to the loss allowance calculations, bases on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment loss charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 March 2020, the carrying amount of trade receivables, other receivables and contract assets are HK\$11,609,000 (2019: HK\$12,857,000), HK\$223,129,000 (2019: HK\$227,562,000) and HK\$222,950,000 (2019: HK\$136,160,000) respectively, net of accumulated impairment losses of Nil (2019: Nil), HK\$2,557,000 (2019: HK\$2,557,000) and HK\$20,000 (2019: HK\$20,000) respectively. Details of the ECL calculation are disclosed in Notes 19, 20 and 30(b) to these consolidated financial statements.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods. The carrying amounts of property, plant and equipment as at 31 March 2020 is approximately HK\$45,265,000 (2019: HK\$41,535,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

The determination of the net realisable value of freehold land under development for sale requires the application of a risk-adjusted discount rate to the estimated future cash flows to be derived from those properties. These estimates require judgement as to the anticipated selling prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the estimated costs to completion of properties, the legal and regulatory framework and general market conditions.

5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Company that makes strategic decisions.

The Group has two reportable segments. The following summary describes the operations in each of the Group's reportable segments:

Construction – the provision of construction and maintenance works on civil engineering contracts and commercial building works; and

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

The accounting policies of the operating segments are the same as the Group's accounting policies. The Chief Executive Officer assesses the performance of the operating segments based on the segment results, which represent the profit before income tax earned by each segment without allocation of interest income, net exchange gain/loss, finance costs from lease liabilities, finance costs from bank loan and central administrative costs and directors' emoluments. Segment assets consist of all operating assets and exclude financial assets at fair value through other comprehensive income and other corporate assets, which are managed on a central basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The information of segment revenue and segment results are as follows:

For the year ended 31 March 2020

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
REVENUE			
External sales	<u>599,912</u>	<u>–</u>	<u>599,912</u>
RESULTS			
Segment results	<u>43,824</u>	<u>(98)</u>	<u>43,726</u>
Interest income			6,163
Exchange loss – net			(827)
Finance costs arisen from lease liabilities			(621)
Finance costs arisen from bank loans			(8,301)
Central administrative costs and directors' emoluments			<u>(22,351)</u>
			<u>17,789</u>

For the year ended 31 March 2019

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
REVENUE			
External sales	<u>731,839</u>	<u>–</u>	<u>731,839</u>
RESULTS			
Segment results	<u>53,057</u>	<u>–</u>	<u>53,057</u>
Interest income			2,238
Exchange loss – net			(1,509)
Finance costs arisen from bank loans			(3,888)
Central administrative costs and directors' emoluments			<u>(17,217)</u>
			<u>32,681</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

5. SEGMENT INFORMATION (CONTINUED)

Other information

Amounts included in the measure of segment results:

For the year ended 31 March 2020

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
Loss on disposal of property, plant and equipment	15	–	15
Depreciation of right-of-use assets	4,902	–	4,902
Depreciation of property, plant and equipment	<u>3,850</u>	<u>–</u>	<u>3,850</u>

For the year ended 31 March 2019

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
Gain on disposal of property, plant and equipment	(47)	–	(47)
Depreciation of property, plant and equipment	<u>3,766</u>	<u>–</u>	<u>3,766</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

As at 31 March 2020

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
Reportable segment assets	<u>644,578</u>	<u>174,199</u>	<u>818,777</u>
Reportable segment liabilities	<u>315,523</u>	<u>84,509</u>	<u>400,032</u>
Other segment information:			
Additions to non-current assets	<u>29,102</u>	<u>–</u>	<u>29,102</u>

Segment assets consist primarily of property, plant and equipment, trade and other receivables, contract assets, inventories, right-of-use assets and cash and cash equivalents.

Segment liabilities consist primarily of trade and other payables, bank borrowings, contract liabilities and finance lease liabilities.

As at 31 March 2019

	Construction HK\$'000	Property development HK\$'000	Total HK\$'000
Reportable segment assets	<u>546,759</u>	<u>–</u>	<u>546,759</u>
Reportable segment liabilities	<u>257,187</u>	<u>–</u>	<u>257,187</u>
Other segment information:			
Additions to non-current assets	<u>4,454</u>	<u>–</u>	<u>4,454</u>

Segment assets consist primarily of property, plant and equipment, trade and other receivables, contract assets and cash and cash equivalents.

Segment liabilities consist primarily of trade and other payables, bank borrowings and contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

5. SEGMENT INFORMATION (CONTINUED)

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

	2020 HK\$'000	2019 HK\$'000
Total reportable segment assets	818,777	546,759
Financial assets at fair value through other comprehensive income	20,578	50,360
Unallocated corporate assets – property, plant and equipment	31,643	32,676
Unallocated corporate assets – bank balances and cash	52,930	7,365
Other unallocated corporate assets	3,876	3,377
	<u>927,804</u>	<u>640,537</u>
Total assets	<u>927,804</u>	<u>640,537</u>

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

	2020 HK\$'000	2019 HK\$'000
Total reportable segment liabilities	400,032	257,187
Unallocated corporate liabilities – bank borrowings	10,182	10,663
Other unallocated corporate liabilities	1,440	–
	<u>411,654</u>	<u>267,850</u>
Total liabilities	<u>411,654</u>	<u>267,850</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

All of the Group's revenue was derived from Hong Kong and Thailand, based on the location of the customers. Information about the Group's non-current assets other than financial assets at fair value through other comprehensive income and interests in associates is presented based on the geographical location of the assets.

	2020 HK\$'000	2019 HK\$'000
Revenue from external customers		
– Hong Kong (city of domicile)	501,692	615,239
– Thailand	98,220	116,600
	599,912	731,839
Non-current Assets		
	2020 HK\$'000	2019 HK\$'000
– Hong Kong (city of domicile)	68,137	52,341
– Thailand	47,949	–
	116,086	52,341

Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
– Customer A	139,921	162,474
– Customer B	225,574	277,867
– Customer C	65,819	106,210
– Customer D	–	116,600
– Customer E	98,220	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

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

Revenue

During the year, the Group's revenue represents amount received and receivable from contract works performed and supply of construction materials.

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
– Provision of construction and maintenance works on civil engineering contracts and building works contracts, recognised over time	501,692	731,839
– Supply of construction materials, recognised at a point in time	98,220	–
	<u>599,912</u>	<u>731,839</u>

Other income and other (loss)/gain

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

	2020 HK\$'000	2019 HK\$'000
Other income		
Bank interest income	508	268
Other interest income (Note 19)	5,655	1,970
Sundry income	1,331	1,066
	<u>7,494</u>	<u>3,304</u>
Other (loss)/gain		
(Loss)/gain on disposal of property, plant and equipment	<u>(15)</u>	<u>47</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

7. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank loans	11,911	3,888
Interest on lease liabilities	621	–
	12,532	3,888
Less: Amount capitalised in inventories	(3,610)	–
	8,922	3,888

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

8. INCOME TAX EXPENSES

	2020 HK\$'000	2019 HK\$'000
Current tax:		
Hong Kong	1,242	4,897
Thailand	2,619	1,518
	3,861	6,415
Over provision in prior years:		
Hong Kong	(3,735)	(34)
Deferred tax (Note 26)		
Current year	3,092	196
Income tax expenses for the year	3,218	6,577

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The Corporate Income Tax in Thailand is calculated at 20% of assessable profit for both years.

The Corporate Income Tax in the Republic of the Philippines is calculated at 30% of assessable profit for the year ended 31 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

8. INCOME TAX EXPENSES (CONTINUED)

The income tax expenses for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020	2019
	HK\$'000	HK\$'000
Profit before tax	17,789	32,681
Tax expense at Hong Kong profits tax rate of 16.5%	2,935	5,392
Over-provision in prior years	(3,735)	(34)
Tax effect on share of profit of an associate	(2)	–
Tax effect of income not taxable for tax purpose	(954)	(69)
Tax effect of expenses not deductible for tax purpose	691	2,022
Tax effect of tax losses not recognised	1,279	142
Effect of two-tiered profits tax rates regime	–	(165)
Effect of different tax rate in other jurisdiction	447	266
Tax concession	(33)	–
Utilisation of tax losses	(350)	(1,065)
Tax effect of deductible temporary difference not recognised	2,940	88
Income tax expense for the year	3,218	6,577

Details of deferred tax liability are set out in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

9. PROFIT FOR THE YEAR

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

	2020 HK\$'000	2019 HK\$'000
Contract costs	533,905	662,046
Auditor's remuneration	900	1,100
Depreciation of property, plant and equipment	4,883	4,917
Depreciation of right-of-use assets	4,902	–
Exchange loss	827	1,509
Operating lease rentals in respect of		
– Leasehold land and buildings	–	2,502
– Plant and equipment	–	141
Short-term lease expenses	5,591	–
Emoluments of directors and chief executive (Note 10)	3,454	3,776
Salaries, wages and other benefits (excluding directors' emoluments)	91,493	88,351
Retirement benefits scheme contributions (excluding directors)	3,325	2,709
Total staff costs	98,272	94,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 8 (2019: 9) directors and the chief executive were as follows:

For the year ended 31 March 2020

	Chief executive officer		Executive directors			Independent non-executive directors			
	Mr. Tao	Mr. Zhang	Mr. Chen			Mr. Lam			
	Ming ¹	Fangbing ²	Zhenghua	Mr. Cao Lei	Mr. Wong Wa	Mr. Gong	Sing Kwong	Mr. Lum	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings									
Fees	-	-	-	-	-	-	150	150	300
Emoluments paid or receivable in respect of director's other services or chief executive's service in connection with the management of the affairs of the Company and its subsidiary undertakings									
Other emoluments									
Salaries	1,188	960	-	360	600	-	-	-	3,108
Discretionary bonus	-	-	-	-	-	-	-	-	-
Contributions to retirement benefits schemes	-	-	-	46	-	-	-	-	46
Total emoluments	1,188	960	-	406	600	-	150	150	3,454

¹ resigned on 15 January 2020

² appointed as chief executive officer on 15 January 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

For the year ended 31 March 2019

	Chief executive officer	Executive directors					Independent non-executive directors			
	Mr. Tao Ming	Mr. Chen Zhenghua	Mr. Zhang Fangbing	Mr. Cao Lei	Mr. Wong Wa	Mr. Gong Zhenzhi ¹	Mr. Lam Sing Kwong Simon	Mr. Lum Pak Sum	Mr. Ho Ho Ming ²	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings										
Fees	-	-	-	-	-	56	150	150	-	356
Emoluments paid or receivable in respect of director's other services or chief executive's service in connection with the management of the affairs of the Company and its subsidiary undertakings										
Other emoluments										
Salaries	1,500	-	960	360	600	-	-	-	-	3,420
Discretionary bonus	-	-	-	-	-	-	-	-	-	-
Contributions to retirement benefits schemes	-	-	-	-	-	-	-	-	-	-
Total emoluments	1,500	-	960	360	600	56	150	150	-	3,776

¹ appointed on 23 April 2018² resigned on 23 April 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2019: two) was chief executive/director of the Company whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining four (2019: three) individuals were as follows:

	2020	2019
	HK\$'000	HK\$'000
Salaries and other benefits	5,081	3,910
Retirement benefits schemes contributions	54	12
	5,135	3,922

Their emoluments were within the following bands:

	2020	2019
	Number of	Number of
	Individuals	Individuals
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	3	2
HK\$1,500,001 to HK\$2,000,000	1	–

During the years ended 31 March 2020 and 2019, no emoluments were paid by the Group to any of the directors or chief executive or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

12. DIVIDEND

No dividend was paid or proposed during the years ended 31 March 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

13. 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

	2020 HK\$'000	2019 HK\$'000
Earnings for the purpose of basic earnings per share	<u>16,223</u>	<u>24,271</u>

Number of shares

	2020 '000	2019 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,265,421</u>	<u>1,100,000</u>

Since there were no potential dilutive shares in issue during the years ended 31 March 2020 and 2019, basic and diluted earnings per share are the same for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 April 2018	32,882	–	7,542	17,997	15,991	74,412
Additions	–	1,010	22	1,655	2,854	5,541
Disposals	–	–	(1,677)	(5,703)	(1,310)	(8,690)
At 31 March 2019 and 1 April 2019	32,882	1,010	5,887	13,949	17,535	71,263
Additions	–	330	–	1,830	6,668	8,828
Disposals	–	–	–	(537)	(852)	(1,389)
At 31 March 2020	32,882	1,340	5,887	15,242	23,351	78,702
ACCUMULATED DEPRECIATION						
At 1 April 2018	658	–	5,990	15,542	10,736	32,926
Charge for the year	658	320	435	1,493	2,011	4,917
Eliminated on disposals	–	–	(1,655)	(5,629)	(831)	(8,115)
At 31 March 2019 and 1 April 2019	1,316	320	4,770	11,406	11,916	29,728
Charge for the year	658	287	351	1,326	2,261	4,883
Eliminated on disposals	–	–	–	(537)	(637)	(1,174)
At 31 March 2020	1,974	607	5,121	12,195	13,540	33,437
CARRYING VALUES						
At 31 March 2020	<u>30,908</u>	<u>733</u>	<u>766</u>	<u>3,047</u>	<u>9,811</u>	<u>45,265</u>
At 31 March 2019	<u>31,566</u>	<u>690</u>	<u>1,117</u>	<u>2,543</u>	<u>5,619</u>	<u>41,535</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	50 years or over the lease terms, whichever is shorter
Leasehold improvements	38% or over the lease terms, whichever is shorter
Furniture and fixtures	20% – 25%
Machinery	15% – 25%
Motor vehicles	25%

As at 31 March 2020, the Group's leasehold land and building with carrying amount amounting to approximately HK\$30,908,000 (2019: HK\$31,566,000) was pledged to secure banking facilities granted to the Group (Note 24).

As at 31 March 2020, included in the property, plant and equipment is the Group's right-of-use assets, in respect of leasehold land and building under long lease located in Hong Kong of HK\$30,908,000 (2019: HK\$31,566,000) of which the Group is the registered owner of these properties interests. The Group holds commercial properties for its operations in Hong Kong, where its office premises are located. Lump sum payments were made upfront to acquire these properties interests from their previous registered owner in Hong Kong, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the government authorities. These payments vary from time to time and are payable to the government authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

15. RIGHT-OF-USE ASSETS

	Leasehold properties HK\$'000
COST	
At 31 March 2019	–
Impact on initial application of HKFRS 16 (Note)	1,814
At 1 April 2019	1,814
Additions	20,274
At 31 March 2020	22,088
ACCUMULATED DEPRECIATION	
Change for the year	4,902
At 31 March 2020	4,902
CARRYING VALUE	
At 31 March 2020	17,186

Note: On 1 April 2019, the Group recognised right-of-use assets of HK\$1,814,000 on adoption of HKFRS 16.

The Group has obtained the right to use other properties as its office premises through tenancy agreements. These leases typically run for an initial period of 2 to 5 years.

In addition to the above, the Group has right-of-use assets related to properties interests of which the Group is the registered owner. Details of which are set out in Note 14 to these consolidated financial statements.

Details of the maturity analysis of lease liabilities are set out in Note 25 to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

16. INTERESTS IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Costs of investment in associates	3,024	3,000
Share of post-acquisition losses and other comprehensive expenses	(2,988)	(3,000)
	<u>36</u>	<u>–</u>
Amounts due from associates (Note (a))	5,000	5,000
	<u>5,036</u>	<u>5,000</u>
Impairment on amounts due from associates (Note (b))	(5,000)	(5,000)
	<u>36</u>	<u>–</u>

Notes:

- (a) The amounts due from associates are unsecured, interest-free and not repayable within one year.
- (b) In addition to the amounts due from associates described in Note 16(a), the Group periodically reviews the aggregate exposures to associates to assess whether there is any potential impairment over its interests in associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

16. INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 March 2020, the Group had interests in the following associates:

Name of entity	Form of entity	Country of incorporation	Class of shares held	Proportion of ownership interests or participating shares held by the Group		Proportion of voting power held		Principal activity
				2020	2019	2020	2019	
Ever Capital Holdings Limited ("Ever Capital")	Incorporated	Hong Kong	Ordinary	34.5%	34.5%	34.5%	34.5%	Investment holding
Jun An Construction (Thailand) Co., Limited ("Jun An")	Incorporated	Thailand	Ordinary	49%	–	49%	–	Provision of construction services

The summarised financial information of Ever Capital and Jun An is as follows:

Ever Capital	2020 HK\$'000	2019 HK\$'000
Non-current assets	–	145
Current assets	6,028	12,923
Current liabilities	(15,224)	(15,206)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

16. INTERESTS IN ASSOCIATES (CONTINUED)

	2020 HK\$'000	2019 HK\$'000
Revenue	—	—
Loss for the year	(7,058)	(2,139)
Other comprehensive expense for the year	—	—
Total comprehensive expense for the year	(7,058)	(2,139)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in Ever Capital is set out below:

	2020 HK\$'000	2019 HK\$'000
Net liabilities of Ever Capital	(9,196)	(2,138)
Proportion of the Group's ownership interest in Ever Capital	34.5%	34.5%
Carrying amount of the Group's interest in Ever Capital	—	—

The Group has discontinued recognition of its share of losses of Ever Capital as its share of losses of Ever Capital equals or exceeds its interests in Ever Capital. The amounts of unrecognised share of losses of Ever Capital, both for the year and cumulatively, are as follows:

	2020 HK\$'000	2019 HK\$'000
Unrecognised share of losses of Ever Capital for the year	(2,435)	(738)
Accumulated unrecognised share of losses of Ever Capital	(3,173)	(738)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

16. INTERESTS IN ASSOCIATES (CONTINUED)

Jun An	2020 HK\$'000	2019 HK\$'000
Non-current assets	<u>–</u>	<u>N/A</u>
Current assets	<u>69,354</u>	<u>N/A</u>
Current liabilities	<u>69,281</u>	<u>N/A</u>
	2020 HK\$'000	2019 HK\$'000
Revenue	<u>24</u>	<u>N/A</u>
Profit for the year	<u>24</u>	<u>N/A</u>
Other comprehensive income for the year	<u>–</u>	<u>N/A</u>
Total comprehensive income for the year	<u>24</u>	<u>N/A</u>

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in Jun An is set out below:

	2020 HK\$'000	2019 HK\$'000
Net assets of Jun An	<u>73</u>	<u>N/A</u>
Proportion of the Group's ownership interest in Jun An	<u>49%</u>	<u>N/A</u>
Carrying amount of the Group's interest in Jun An	<u>36</u>	<u>N/A</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK\$'000	2019 HK\$'000
Equity investments designated at fair value through other comprehensive income		
Common shares listed on The Philippine Stock Exchange., Inc., at market value	<u>20,578</u>	<u>50,360</u>

On 9 May 2018, Jovial Elm Limited, a wholly-owned subsidiary of the Company, entered into a share sale agreement to acquire 200,000,000 common shares in IRC Properties, Inc., a company listed on The Philippine Stock Exchange Inc. Stock Code: IRC) ("IRC") at a consideration of PHP280,000,000 (equivalent to approximately HK\$42,351,000), represented approximately 13.3% equity interest in IRC at the acquisition date.

Details are set out in the Company's announcements dated 10 May 2018 and 24 May 2018.

During the year ended 31 March 2019, IRC had increased its issued common shares to 6,061,578,964. The equity interest of IRC held by the Group was immediately diluted. As at 31 March 2019 and 2020, the Group held the equity interest of IRC was approximately 3.3%.

18. INVENTORIES

Inventories represent property under development for sale on two parcels of freehold land located in the Republic of the Philippines. There is no write-down of inventories to net realisable value nor the reversal of such a write-down during the year (2019: Nil). The Group is currently in the process of the application of the land certificates.

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

As at 31 March 2020, the Group's freehold land, amounting to approximately HK\$155,339,000 was pledged to secure banking facilities granted to the Group (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

19. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	11,609	12,857
Performance deposit (Note (a))	29,782	29,582
Receivables in respect of construction materials procurement (Note (b))	15,589	–
Other receivables in relation to a transferred construction project (Note (c))	69,408	111,043
Other receivables (Note (d))	4,374	7,756
VAT recoverable	12,201	–
Receivables from subcontractors (Note (e))	61,469	62,028
Less: allowance for impairment of other receivables	(2,557)	(2,557)
Net other receivables	190,266	207,852
Prepayments and deposits	32,863	19,710
Total trade and other receivables	234,738	240,419
Less: Classified under non-current assets	(53,635)	(10,806)
	181,103	229,613

Notes:

- (a) The amount represented the performance deposit amounted to PHP198,545,576 (equivalent to approximately HK\$29,782,000) paid to the land owner for construction project in the Republic of the Philippines. The balance was interest-free, repayable upon the completion of construction project which is expected to be within 2 to 3 years, secured by the pledge of entire equity interests in the land owner and guaranteed by a substantial shareholder of the Company.
- (b) During the year ended 31 March 2020, the Group has entered into a construction materials procurement agreement with a third-party supplier for the Group's civil engineering projects in Hong Kong. A prepayment of US Dollar 2 million (equivalent to approximately HK\$15,589,000) was paid to the supplier in December 2019, which represents 40% of the total contract sum. The first batch of materials was expected to be delivered to the Group before March 2020. However, due to the outbreak of COVID-19 virus globally, the delivery of the materials was delayed. After negotiation with the supplier, the Group has agreed to cancel the transaction and the prepayment has been fully refunded to the Group subsequently after the year ended 31 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

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

During the year ended 31 March 2020, the main contractor has informed the Group that the expected completion date of the project was delayed. On 15 October 2019, the Group and the main contractor entered into a repayment agreement, pursuant to which, the main contractor shall repay to the Group the receivable of THB477,318,232 (equivalent to approximately HK\$118,129,000) and underlying interest in the manner of (i) THB205,620,283 (equivalent to approximately HK\$48,721,000) of the Receivable and underlying interest for the year would be repaid on or before 31 March 2020; and (ii) the remaining Receivable of THB271,697,949 (equivalent to approximately HK\$69,408,000) and underlying interest at 8% per annum will be repaid in 3 equal installments in 31 March 2021, 31 March 2022 and 31 March 2023 respectively. The amount for each installment shall be THB90,565,983 (equivalent to approximately HK\$23,136,000). As at 31 March 2020, the first repayment of THB205,620,283 (equivalent to approximately HK\$48,721,000) have been received by the Group. The remaining Receivable and the interest thereon are guaranteed by a substantial shareholder of the Company, who is also the beneficial owner of the project.

- (d) Included in other receivables of the Group is amount due from the non-controlling interest of a subsidiary, U-Tech Engineering Co. Ltd., amounting to HK\$1,901,000 as at 31 March 2020 (2019: HK\$1,901,000). The balance is unsecured, interest-free and repayable on demand.
- (e) The amount represented the expenses paid on behalf of the subcontractors and is expected to be settled upon completion of the related contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

The Group allows an average credit period of 21 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2020	2019
	HK\$'000	HK\$'000
Within 30 days	<u>11,609</u>	<u>12,857</u>

As at 31 March 2020, the Group had no trade receivables that were past due nor impaired (2019: Nil).

Other receivables

The movements of loss allowance for other receivables are as follows:

	HK\$'000
At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020	<u><u>2,557</u></u>

Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in Note 30(b) to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

20. CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

	2020 HK\$'000	2019 HK\$'000
Analysed as current:		
Unbilled revenue of construction contracts (Note (a))	<u>196,262</u>	<u>107,183</u>
Retention receivables of construction contracts (Note (b))	26,708	28,997
Less: allowance for impairment of retention receivables	<u>(20)</u>	<u>(20)</u>
Net retention receivables	<u>26,688</u>	<u>28,977</u>
Total contract assets	<u>222,950</u>	<u>136,160</u>
Retention receivables of construction contracts		
Due within one year	26,688	25,364
Due after one year	<u>–</u>	<u>3,613</u>
	<u>26,688</u>	<u>28,977</u>

Notes:

- (a) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

20. CONTRACT ASSETS/CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (Continued)

Notes: (Continued)

(b) Retention receivables included in contract assets represents the Group's right to receive consideration for work performed and not yet billed because the rights are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Group on the service quality of the construction work performed by the Group.

(c) The movements of loss allowance for retention receivables are as follows:

	HK\$'000
At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020	20

The Group classifies these contract assets under current assets because the Group expects to realise them in its normal operating cycle.

Further details on the Group's credit policy and credit risk arising from contract assets are set out in Note 30(b) to these consolidated financial statements.

(b) Contract liabilities

	2020 HK\$'000	2019 HK\$'000
Contract liabilities	21,298	11,537

Contract liabilities of the Group, which are expected to be settled within the Group's normal operating cycle, are classified as current.

Revenue from construction contracts recognised during the year ended 31 March 2020 that was included in the contract liabilities at the beginning of the year was HK\$11,537,000 (2019: HK\$25,751,000).

21. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free, repayable on demand and denominated in Thai baht.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$43,745,000 (2019: HK\$43,745,000) have been pledged to secure bank overdrafts/short-term bank loans/undrawn facilities (Note 24) and are therefore classified as current assets.

The pledged deposits carry fixed interest rate is 0.1% to 1.1% (2019: 0.25% to 1.1%) per annum.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	45,332	73,143
Retention payables	41,075	39,692
Amount due to non-controlling interest of a subsidiary		
– Note	2,647	–
Other payables and accruals	13,976	12,294
	103,030	125,129

Note: The balance is unsecured, non-interest bearing and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2020 HK\$'000	2019 HK\$'000
Within 30 days	18,971	47,356
More than 30 days but within 90 days	1,460	5,873
More than 90 days	24,901	19,914
	45,332	73,143

The credit period on purchases of goods is 30 to 45 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

24. BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank overdraft, secured	4,317	–
Secured bank loans	247,247	126,482
	251,564	126,482

Carrying amount repayable based on scheduled repayment dates set out in the loan agreements:

	2020 HK\$'000	2019 HK\$'000
Within one year or repayable on demand	175,317	116,304
More than one year, but not exceeding two years	15,300	492
More than two years, but not exceeding five years	45,972	1,548
More than five years	14,975	8,138
	251,564	126,482

Less: Amounts due within one year shown under current liabilities

– Carrying amount of bank borrowings that are not repayable within one year but contain a repayment on demand clause	(9,684)	(10,178)
– Carrying amount of bank borrowings repayable within one year and contain a repayment on demand clause	(160,525)	(116,304)
– Carrying amount of bank borrowings repayable within one year and do not contain a repayment on demand clause	(14,792)	–
	(185,001)	(126,482)
Amounts classified as non-current portion	66,563	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

24. BANK BORROWINGS (CONTINUED)

During the year ended 31 March 2020, secured bank borrowings bore floating interest rates of 2.25% to 7.5% (2019: 2.25% to 6.13%) per annum.

Certain bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down facilities would become repayable on demand. In addition, the Group's certain loan agreements contain clauses which give the lenders the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The management regularly monitors its compliance with these covenants and does not consider that it is probable that the banks will exercise their discretionary rights to demand immediate repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 30(b) to these consolidated financial statements. As at 31 March 2020, none of the covenants relating to draw down facilities had been breached.

As at 31 March 2020, the Group's bank borrowings and other banking facilities are secured by:

- (a) bank deposits amounting to approximately HK\$43,745,000 (2019: HK\$43,745,000) (Note 22);
- (b) 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;
- (c) leasehold land and building amounting to approximately HK\$30,908,000 (2019: HK\$31,566,000) (Note 14);
- (d) freehold land included in inventories amounting to approximately HK\$155,339,000 (2019: Nil) (Note 18); and
- (e) corporate guarantee executed by Dunfeng Shipping Phils. Corp, a non-controlling interest of the Company's subsidiary, Anncore Properties Group Corp.

The unutilised banking facilities as at 31 March 2020 amounted to approximately HK\$99,890,000 (2019: HK\$109,181,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

25. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	Present value of minimum lease payments		Total minimum lease payments	
	At 31 March 2020 HK\$'000	At 1 April 2019 HK\$'000	At 31 March 2020 HK\$'000	At 1 April 2019 HK\$'000
Amounts payable:				
Within 1 year	6,400	1,108	7,209	1,140
After 1 year but within 2 years	6,136	706	6,609	760
After 2 years but within 5 years	5,493	–	5,821	–
	<u>18,029</u>	<u>1,814</u>	<u>19,639</u>	<u>1,900</u>
Less:				
Future finance charges			(1,610)	(86)
Present value of lease obligation			18,029	1,814
Less: Current portion			(6,400)	(1,108)
Non-current portion			<u>11,629</u>	<u>706</u>

On 1 April 2019, the Group recognised lease liabilities of HK\$1,814,000 relating to leases which were classified as operating leases on adoption of HKFRS 16.

26. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Accelerated depreciation allowances HK\$'000	Allowances for expected credit losses HK\$'000	Unbilled revenue HK\$'000	Total HK\$'000
At 1 April 2018	268	–	–	268
Charged to profit or loss (Note 8)	196	–	–	196
At 31 March 2019 and 1 April 2019	464	–	–	464
Charged to profit or loss (Note 8)	928	(236)	2,400	3,092
At 31 March 2020	<u>1,392</u>	<u>(236)</u>	<u>2,400</u>	<u>3,556</u>

At the end of the reporting period, the Group has unused tax losses of approximately HK\$18,077,000 (2019: HK\$12,448,000) available for offset against future profits. Deferred tax asset has not been recognised in respect of the losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

26. DEFERRED TAX LIABILITY (CONTINUED)

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$168,000 (2019: Nil), arising from decelerated depreciation allowances and allowances for expected credit losses, available for offset against future profits. Deferred tax asset has not been recognised in respect of the deductible temporary differences due to the unpredictability of future profit streams.

As at 31 March 2019, the Group had taxable temporary difference of approximately HK\$17,650,000 arising from unbilled revenue. Deferred tax liability had not been recognised owing to immateriality.

27. SHARE CAPITAL

	Number	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 April 2018 and 31 March 2019 and		
1 April 2019 and 31 March 2020	2,000,000,000	20,000
Issued and fully paid		
Ordinary shares of HK\$0.01 each		
At 1 April 2018, 31 March 2019 and 1 April 2019	1,100,000,000	11,000
Share subscription on 3 June 2019 (Note (a))	220,000,000	2,200
Share subscription on 6 March 2020 (Note (b))	264,000,000	2,640
At 31 March 2020	1,584,000,000	15,840

Notes:

- (a) On 3 June 2019, the Company and Splendid Horizon Limited (the “**Subscriber**”) entered into a subscription agreement, pursuant to which the Subscriber has agreed to subscribe for, and the Company has agreed to allot and issue, a total of 220,000,000 shares at the price of HK\$0.485 per share. The subscription was completed on 2 July 2019. The gross proceeds from the subscription were approximately HK\$106,700,000 and were used to improve the Group’s liquidity and to meet the requirements of the Group’s business operations and overseas development under Belt and Road Initiatives. Details are set out in the announcement of Company dated 3 June 2019.
- (b) On 6 March 2020, the Company entered into subscription agreements with Fortune Elite Holdings Limited (the “**Subscriber I**”) and Mr. Sun Jiajun (the “**Subscriber II**”), pursuant to which both Subscriber I and Subscriber II have agreed to subscribe for, and the Company has agreed to allot and issue, a total of 264,000,000 shares at the price of HK\$0.1976 per share. The subscription was completed on 31 March 2020. The gross proceeds from the subscription were approximately HK\$52,166,000 and were used to improve the Group’s liquidity and to meet the requirements of the Group’s business operations and overseas development under Belt and Road Initiatives. Details are set out in the announcement of Company dated 6 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

28. JOINT OPERATIONS

Details of investments in joint operations as at 31 March 2020 and 2019 are as follows:

Name	Place and date of operation	Principal activities	Participating shares
KO - U-Tech Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 16 December 2013	Civil engineering construction	50%
KO - U-Tech Joint Venture 3	Unincorporated joint operation operating in Hong Kong, 25 July 2016	Civil engineering construction	65%
KO - China Geo Joint Venture	Unincorporated joint operation operating in Hong Kong, 12 August 2013	Civil engineering construction	51%
KO - China Geo Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 14 July 2015	Civil engineering construction	51%
KO-CG Joint Venture 1	Unincorporated joint operation operating in Hong Kong, 23 December 2015	Civil engineering construction	51%
KO-CG Joint Venture 2	Unincorporated joint operation operating in Hong Kong, 23 June 2016	Civil engineering construction	51%
KO - Richwell - SCG Joint Venture	Unincorporated joint operation operating in Hong Kong, 8 December 2015	Civil engineering construction	34%
Kwan On - Vernaltex Joint Venture	Unincorporated joint operation operating in Hong Kong, 1 December 2017	Civil engineering construction	51%
Kwan On - U-Tech Joint Venture 4	Unincorporated joint operation operating in Hong Kong, 26 July 2017	Civil engineering construction	51%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

28. JOINT OPERATIONS (CONTINUED)

Pursuant to the terms of the joint venture agreement, the profit or loss sharing for each year of the joint operation shall be distributed to the joint operators in proportion to their respective participating interests.

Amounts due from/(to) other partners of joint operations are unsecured, non-interest bearing, repayable on demand and are denominated in Hong Kong dollars.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategies remain unchanged from prior year.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the year.

The capital structure of the Group consists of net debt, which includes the bank borrowings as disclosed in Note 24, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure using gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as the total of contract liabilities, trade and other payables, amounts due to other partners of joint operations, bank borrowings and lease liabilities and less unpledged bank balances and cash. Capital includes equity attributable to owners of the Company. The Group's policy is to maintain the gearing ratio at not more than 50%, which is determined and reviewed with reference to the funding needs of the Group periodically.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

29. CAPITAL RISK MANAGEMENT (CONTINUED)

	2020 HK\$'000	2019 HK\$'000
Total debt	405,048	263,148
Less: Unpledged bank balances and cash	(109,532)	(112,742)
Net debt	295,516	150,406
Equity attributable to owners of the Company	516,517	371,401
Net debt and equity	812,033	521,807
Gearing ratio	36%	29%

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at amortised cost	480,199	422,994
Financial assets at fair value through other comprehensive income	20,578	50,360
	500,777	473,354
Financial liabilities		
Financial liabilities at amortised cost	383,750	251,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from an associate, amount due from other partners of joint operations, pledged bank deposits, bank balances and cash, trade and other payables, amount due to other partners of joint operations, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should be need arise.

Carrying amounts of financial assets of the Group as at 31 March 2020 and 2019 exposed to currency risk were as follows:

	2020 HK\$'000	2019 HK\$'000
Trade and other receivables	64,377	116,600
Amount due from an associate	69,306	–
Bank balances and cash	1,709	–
	135,392	116,600

The financial assets denominated in foreign currencies are analysed as follows:

	2020 HK\$'000	2019 HK\$'000
Thai baht	133,683	116,600
United States dollars	1,709	–
	135,392	116,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Currency risk (Continued)

Since Hong Kong dollars is pegged to United States dollars, material fluctuation in the exchange rate of Hong Kong dollars against United States dollars is remote, and therefore no sensitivity analysis has been prepared.

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in Hong Kong dollars against Thai baht to which the Group has significant exposure:

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits HK\$'000
2020		
If HK\$ weakens against THB	5%	5,581
If HK\$ strengthens against THB	(5%)	(5,581)
2019		
If HK\$ weakens against THB	5%	4,868
If HK\$ strengthens against THB	(5%)	(4,868)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 22) and bank borrowings at prevailing market rates (Note 24).

The Group is also exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (Note 22) and lease liabilities (Note 25).

The Group currently does not use derivatives to hedge against the interest rate risk. However, the Group will monitor interest rate exposure and consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the related banks' Hong Kong Dollars Prime Rate and 1-year BVAL rate arising from the Group's Hong Kong dollars denominated bank borrowings and Philippines peso denominated bank borrowings respectively and the market interest rate on the bank balances.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 March 2020 and 2019:

	At 31 March 2020		At 31 March 2019	
	Effective		Effective	
	interest rate		interest rate	
	%	HK\$'000	%	HK\$'000
Fixed rate financial assets				
Pledged fixed deposits	0.1%-1.1%	43,745	0.25%-1.1%	43,745
Fixed rate financial liabilities				
Lease liabilities	5.36%	(18,029)	N/A	–
Variable rate financial assets				
Bank balances	0.01%-0.25%	78,877	0.01%-0.25%	84,896
Variable rate financial liabilities				
Bank borrowings	2.25%-7.5%	(251,564)	2.25%-6.13%	(126,482)
		<u>(146,971)</u>		<u>2,159</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 25 basis points and 50 basis points (2019: 25 basis points and 50 basis points) increase or decrease is used on bank balances and bank borrowings respectively when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on bank balances had been 25 basis points (2019: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK\$160,000 (2019: HK\$99,000).

If interest rates on bank borrowings had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately HK\$996,000 (2019: HK\$528,000).

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities and these investments are classified on the consolidated statement of financial position as financial assets at fair value through other comprehensive income. The management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the management will consider hedging the risk exposure should the need arise.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the share price of the listed investments classified as financial assets at fair value through other comprehensive income had been increased/decreased by 20% (2019: 20%) and all other variables were held constant, the revaluation reserve as at 31 March 2020 would increase/decrease by approximately HK\$4,116,000 (2019: HK\$10,072,000) resulting from the changes in fair value of financial assets at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk

At 31 March 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables and contract assets

The Group measures the loss allowance for trade receivables and contract assets at an amount equal to lifetime ECL. The expected credit losses are estimated using a provision matrix by reference to past default experience of the customers and an analysis of the customers' current financial position, adjusted for factors that are specific to the customers, general economic conditions of the industry in which the customers operate and assessment of both the current as well as the forecast direction of conditions at the reporting date.

Given the customers of the Group are mainly the Government of the Hong Kong Special Administrative Region and its related organisations and based on historical experience, majority of trade receivables were settled within credit term and the Group received continuous settlements from these customers, hence the expected loss rate is assessed to be immaterial, the weighted average expected loss rate is close to zero and no loss allowance was recognised for the year ended 31 March 2020 (2019: Nil).

As at 31 March 2020, the Group has concentration of credit risk as 40% and 97% (2019: 41% and 96%) of the total trade receivables and retention receivables were due from the Group's largest customer and five largest customers respectively. The Group does not hold any collateral from its customers.

Other receivables

The directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Other receivables (Continued)

The Group measures the loss allowance equal to 12-month ECL of other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECL based on ageing for classes with different credit risk characteristics and exposures.

An analysis of the Group's ECL of other receivables is as follows:

	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018, 31 March 2019,				
1 April 2019 and 31 March 2020	<u>2,557</u>	<u>–</u>	<u>–</u>	<u>2,557</u>

Included in the allowance for impairment of other receivables are individually impaired other receivables and receivables from subcontractors with an aggregate balance of approximately HK\$2,557,000 (2019: HK\$2,557,000) which had been long outstanding. The individually impaired other receivables and receivables from subcontractors are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. The weighted average expected loss rate for receivables from subcontractors is 2.38% (2019: 2.36%) and the ECL of other receivables is assessed on individual basis.

Amount due from an associate

The Group reviews the recoverable amount of amount due from an associate at the end of the reporting period to ensure that adequate impairment loss is made for irrecoverable amount. In this regards, the directors of the Company considers that the Group's credit risk is insignificant.

Bank balances and cash

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and other source of funding and considers the risk is minimal.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, secured bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	On demand or within one year HK\$'000	More than one year but not exceeding two years HK\$'000	More than two years but not exceeding five years HK\$'000	Over five years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 March 2020						
Trade and other payables	103,030	-	-	-	103,030	103,030
Amounts due to other partners of joint ventures	11,127	-	-	-	11,127	11,127
Bank overdraft, secured	4,317	-	-	-	4,317	4,317
Bank loans	187,664	19,341	51,279	7,561	265,845	247,247
Lease liabilities	7,209	6,609	5,821	-	19,639	18,029
	313,347	25,950	57,100	7,561	403,958	383,750
As at 31 March 2019						
Trade and other payables	124,654	475	-	-	125,129	125,129
Bank loans	127,388	-	-	-	127,388	126,482
	252,042	475	-	-	252,517	251,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the “on demand or within one year” time band in the above maturity analysis. As at 31 March 2020, the carrying amount of these bank loans amounted to HK\$170,209,000 (2019: HK\$126,482,000). Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The maturity analysis of the bank loans with a repayment on demand clause based on agreed scheduled repayment set out in the loan agreements is as follows:

	Within one year HK\$'000	More than one year but not exceeding two years HK\$'000	More than two years but not exceeding five years HK\$'000	Over five years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 March 2020						
Bank loans	<u>162,836</u>	<u>721</u>	<u>2,164</u>	<u>8,655</u>	<u>174,376</u>	<u>170,209</u>
As at 31 March 2019						
Bank loans	<u>118,159</u>	<u>729</u>	<u>2,186</u>	<u>9,472</u>	<u>130,546</u>	<u>126,482</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value estimation

(i) *Financial instruments carried at fair value*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair values measured using Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date
- Level 2 valuations: fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: fair values measured using significant unobservable inputs

	Fair value measurement categorised into			
	Fair value	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 March 2020				
Financial assets at FVOCI	<u>20,578</u>	<u>–</u>	<u>–</u>	<u>20,578</u>
As at 31 March 2019				
Financial assets at FVOCI	<u>50,360</u>	<u>–</u>	<u>–</u>	<u>50,360</u>

During the years ended 31 March 2020 and 2019, there were no transfers between financial instruments in Level 1 and Level 2, or transfers into or out of Level 3.

(ii) *Fair value of financial instruments carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 March 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

30. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Financial assets and financial liabilities subject to offsetting

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's consolidated statement of financial position.

As at 31 March 2019, the Group had a legally enforceable right to set off certain trade receivable with trade payables were due to be settled on the same date and the Group intended to settle these balances on a net basis.

	Gross amounts of recognised financial (liabilities)	Net amounts of financial assets presented in the consolidated statement of financial position	
	Gross amounts of recognised financial assets (liabilities) HK\$'000	in the consolidated statement of financial position HK\$'000	presented in the consolidated statement of financial position HK\$'000
Financial assets/liabilities subject to offsetting			
Trade receivables	116,600	(111,048)	5,552
Trade payables	(111,048)	111,048	–
	5,552	–	5,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

31. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 31 March 2019, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	HK\$'000
Within one year	1,616
In the second to fifth years inclusive	745
	<u>2,361</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for terms ranging from one to three years.

32. RETIREMENT BENEFITS PLANS

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

The total cost charged to profit or loss of approximately HK\$3,371,000 (2019: HK\$2,709,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		488	690
Investments in subsidiaries	34	22,978	25,978
		<u>23,466</u>	<u>26,668</u>
Current assets			
Trade receivables		6	6
Other receivables		3,072	3,200
Amounts due from subsidiaries (Note)		342,530	264,177
Bank balances and cash		52,493	6,712
		<u>398,101</u>	<u>274,095</u>
Current liabilities			
Other payables		1,652	–
Bank borrowings		10,181	10,663
Amounts due to subsidiaries (Note)		45,078	86,955
		<u>56,911</u>	<u>97,618</u>
Net current assets		<u>341,190</u>	<u>176,477</u>
Net assets		<u><u>364,656</u></u>	<u><u>203,145</u></u>
Capital and reserves			
Share capital	27	15,840	11,000
Reserves	33(a)	348,816	192,145
Total equity		<u><u>364,656</u></u>	<u><u>203,145</u></u>

Note:

The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(a) Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Movements in the Company's reserves during the current and prior years are as follows:

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2018	203,686	22,968	7,453	(31,211)	202,896
Loss for the year	—	—	—	(10,751)	(10,751)
At 31 March 2019 and 1 April 2019	203,686	22,968	7,453	(41,962)	192,145
Profit for the year	—	—	—	4,879	4,879
Issue of shares upon subscription	154,026	—	—	—	154,026
Transaction costs attributable to subscription of shares	(2,234)	—	—	—	(2,234)
At 31 March 2020	<u>355,478</u>	<u>22,968</u>	<u>7,453</u>	<u>(37,083)</u>	<u>348,816</u>

Note:

Pursuant to a written confirmation on 23 March 2015, the reimbursement of bearing listing expenses of approximately HK\$7,453,000 by two shareholders, Fortune Decade and Twilight Treasure, in their capacity as shareholders was accounted for as capital contribution to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of the Company's principal subsidiaries at 31 March 2020 and 2019 are as follows:

Name of subsidiaries	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Percentage of nominal value of issued ordinary share capital held by the Company				Forms of legal entity	Principal activities
			2020	2019	2020	2019		
			Directly %	Directly %	Indirectly %	Indirectly %		
Win Vision Holdings Limited	BVI	US\$1	100	100	–	–	Wholly-owned foreign company	Investment holding
Kwan on Construction Company Limited	Hong Kong	HK\$24,850,000	–	–	100	100	Private limited company	Civil engineering construction
Univac Engineering Limited	Hong Kong	HK\$6,300,200	–	–	100	100	Private limited company	Provision of contracting work on civil plumbing, fire protection, insulation, concrete repairs and related activities
Univac Engineering and Construction Limited	Hong Kong	HK\$1,403,500	–	–	100	100	Private limited company	Provision of civil, plumbing and fire protection engineering contract services
Univac Earthworks Limited	Hong Kong	HK\$90,000	–	–	100	100	Private limited company	Provision of civil and plumbing engineering contract services
Univac Building Contractors Limited	Hong Kong	HK\$10,000	–	–	100	100	Private limited company	Provision of construction site workmen services
Univac Construction Resources Limited	Hong Kong	HK\$999	–	–	100	100	Private limited company	Provision of construction site workmen services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (Continued)

Details of the Company's principal subsidiaries at 31 March 2020 and 2019 are as follows:

Name of subsidiaries	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Percentage of nominal value of issued ordinary share capital held by the Company				Forms of legal entity	Principal activities
			2020	2019	2020	2019		
			Directly	Directly	Indirectly	Indirectly		
			%	%	%	%		
Univac Fireproofing & Construction Limited	Hong Kong	HK\$2	–	–	100	100	Private limited company	Trading of diesel and provision of construction site workmen services
Kwan On-U-Tech 1	Hong Kong	Not applicable	–	–	70	70	Unincorporated joint venture	Civil engineering construction
Alpha Gold Investments Limited	Seychelles	US\$1	100	100	–	–	Private limited company	Property holding
Greenland Hua Yuan (HK) Limited	Hong Kong	HK\$100	–	–	100	100	Private limited company	Acts as administrative centre of the Group
Kwan On Transportation Holdings Limited	Hong Kong	HK\$100	–	–	100	100	Private limited company	Inactive
Jovial Elm Limited	BVI	US\$1	100	100	–	–	Wholly-owned foreign company	Investment holding
Kwan On Holdings (Philippines) Inc.	The Republic of the Philippines	PHP 11,000,000	–	–	100	100	Private limited company	Civil engineering construction
Kwan On Construction (Malaysia) Sdn Bhd	Malaysia	RM2	–	–	100	100	Private limited company	Construction of building
Anncore Properties Group Corp.*	The Republic of the Philippines	PHP 62,500	–	–	40	–	Private limited company	Investment holding
Metrocity Properties Group Inc.*	The Republic of the Philippines	PHP 300,000,000	–	–	40	–	Private limited company	Property development

* The Group has the power to appoint more than half of the directors in the board of the company, thus the Group has dominant control of the company and thus it is regarded as a subsidiary of the Group.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The following table lists out the information relating to Kwan On - U-Tech 1 and Anncore Properties Group Corp. and its subsidiary (collectively known as “**Anncore Group**”), subsidiaries of the Group, which have non-controlling interests as at 31 March 2020. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2020		2019	
	Kwan On - U-Tech 1 HK\$'000	Anncore Group HK\$'000	Kwan On - U-Tech 1 HK\$'000	Anncore Group HK\$'000
Non-controlling interests				
percentage	30%	60%	30%	N/A
Current assets	15,221	187,282	19,908	N/A
Non-current assets	–	–	41	N/A
Current liabilities	(16,241)	(120,820)	(15,662)	N/A
Non-current liabilities	–	(66,563)	–	N/A
Net (liabilities)/assets	(1,020)	(101)	4,287	N/A
Carrying amount of non-controlling interests	(306)	(61)	1,286	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY
(CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	2020		2019	
	Kwan On - U-Tech 1 HK\$'000	Anncore Group HK\$'000	Kwan On - U-Tech 1 HK\$'000	Anncore Group HK\$'000
Revenue	11,943	–	47,935	N/A
Expenses	(17,250)	(99)	(41,825)	N/A
(Loss)/profit for the year	<u>(5,307)</u>	<u>(99)</u>	<u>6,110</u>	<u>N/A</u>
(Loss)/profit for the year attributable to owners of the Company	(3,715)	(39)	4,277	N/A
(Loss)/profit for the year attributable to the non-controlling interests	<u>(1,592)</u>	<u>(60)</u>	<u>1,833</u>	<u>N/A</u>
(Loss)/profit for the year	<u>(5,307)</u>	<u>(99)</u>	<u>6,110</u>	<u>N/A</u>
Other comprehensive expense attributable to owners of the Company	–	(1)	–	N/A
Other comprehensive expense attributable to the non-controlling interests	<u>–</u>	<u>(1)</u>	<u>–</u>	<u>N/A</u>
Other comprehensive expense for the year	<u>–</u>	<u>(2)</u>	<u>–</u>	<u>N/A</u>
Total comprehensive (expense)/ income attributable to owners of the Company	(3,715)	(40)	4,277	N/A
Total comprehensive (expense)/ income attributable to the non-controlling interests	<u>(1,592)</u>	<u>(61)</u>	<u>1,833</u>	<u>N/A</u>
Total comprehensive (expense)/ income for the year	<u>(5,307)</u>	<u>(101)</u>	<u>6,110</u>	<u>N/A</u>
Distribution paid to non-controlling interests	<u>–</u>	<u>–</u>	<u>3,300</u>	<u>N/A</u>
Net cash (outflow)/inflow from operating activities	(3,418)	(77,017)	9,795	N/A
Net cash inflow from investing activities	–	–	–	N/A
Net cash inflow/(outflow) from financing activities	<u>–</u>	<u>77,745</u>	<u>(3,300)</u>	<u>N/A</u>
Net cash (outflow)/inflow	<u>(3,418)</u>	<u>728</u>	<u>6,495</u>	<u>N/A</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transactions with related parties:

Name of related parties	Nature of transactions	Notes	2020	2019
			HK\$'000	HK\$'000
U-Tech Engineering Co. Ltd.	Subcontracting fee	(a), (b)	640	56
U-Tech Engineering Co. Ltd.	Service income	(a), (b)	84	–
Jun An	Commission expense	(b), (c)	24	–
Jiangsu Provincial Construction Group Co., Ltd.* 江蘇省建築工程集團有限公司	Financial guarantee	(d)	107,541	153,560

* The English name is for identification purpose only.

Notes:

- (a) U-Tech Engineering Co. Ltd. is a non-controlling interest of a subsidiary, Kwan On - U-Tech 1, of the Group.
- (b) These transactions were carried out at terms determined and agreed by the Group and the respective related party.
- (c) On 1 November 2019, the Company appointed an associate, Jun An as its sale agent for the supply of construction materials in Thailand with a commission of THB100,000 (equivalent to approximately HK\$24,000).
- (d) Jiangsu Provincial Construction Group Co., Ltd is a substantial shareholder of the Group.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020	2019
	HK\$'000	HK\$'000
Short term employee benefits	7,265	7,024
Post-employment benefits	64	18
	7,329	7,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

36. LITIGATIONS

At the end of the reporting period, there were a number of labour claims arising from the normal course of business being lodged against the Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors of the Company, 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, arising from these claims and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

37. SHARE OPTION SCHEME

Shareholders of the Company have approved and adopted a share option scheme (the “**Scheme**”) on 16 March 2015.

A summary of the Scheme is set out as below:

The Scheme became effective for a period of 10 years commencing on 16 March 2015. Under the Scheme, the directors of the Company shall, in its absolute discretion select, make an offer to any eligible participants to subscribe for shares of the Company at a subscription price being not less than the highest of (i) the closing price of shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the offer date; or (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the share on the offer date. The offer of a grant of options may be accepted within 21 days from the date of the offer grant.

The maximum number of shares to be issued upon the exercise of all outstanding options granted at any time under the Scheme together with options which may be granted under any other share option schemes for the time being of the Company must not in aggregate exceed 10% of the issued share capital of the Company at the date of the approval of the Scheme. No options have been granted since the adoption of the share option scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Bank loans HK\$'000	Amount due to an ex-director (included in other payables) HK\$'000	Total HK\$'000
At 1 April 2018	21,135	25,000	46,135
Changes from financing cash flows:			
New bank loans raised	453,410	–	453,410
Repayment of bank borrowings	(348,063)	–	(348,063)
Repayment to an ex-director	–	(25,000)	(25,000)
Interest paid	(3,888)	–	(3,888)
Total changes from financing cash flows	101,459	(25,000)	76,459
Other change:			
Interest expenses	3,888	–	3,888
At 31 March 2019	126,482	–	126,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

	Bank loans HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 31 March 2019	126,482	–	126,482
Impact on initial application of HKFRS 16	–	1,814	1,814
At 1 April 2019	126,482	1,814	128,296
Changes from financing cash flows:			
New bank loans raised	237,065	–	237,065
Repayment of bank borrowings	(116,300)	–	(116,300)
Interest paid	(11,911)	–	(11,911)
Capital element of lease rentals paid	–	(4,059)	(4,059)
Interest element of lease rentals paid	–	(621)	(621)
Total changes from financing cash flows	108,854	(4,680)	104,174
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	20,274	20,274
Interest expenses	8,301	–	8,301
Interest expenses on lease liabilities	–	621	621
Interest capitalised	3,610	–	3,610
Total other changes	11,911	20,895	32,806
At 31 March 2020	247,247	18,029	265,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 HK\$'000	2019 HK\$'000
Within		
Operating cash flows	5,591	2,643
Financing cash flows	4,680	–
	<u>10,271</u>	<u>2,643</u>

Those amounts relate to the following:

	2020 HK\$'000	2019 HK\$'000
Lease rentals paid	<u>10,271</u>	<u>2,643</u>

39. ACQUISITION OF SUBSIDIARIES THAT IS NOT A BUSINESS

On 23 September 2019, Anncore, a non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement with a third party, pursuant to which Anncore acquired the entire equity interest of Metrocity Properties Group Inc. ("Metrocity") at a cash consideration of PHP236,300,000 (equivalent to approximately HK\$35,400,000).

Metrocity was incorporated in the Republic of the Philippines and had entered into a land acquisition agreement which agreed to acquire two parcels of freehold land located in the Republic of the Philippines. Metrocity did not operate any business at the date of completion of acquisition. The acquisition was accounted for acquisition of asset and the consideration was allocated to properties under development accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 March 2020

40. EVENTS AFTER THE REPORTING PERIOD

The management is in the process of assessing the impact of the COVID-19 outbreak on the Group's performance. However, the COVID-19 outbreak is expected to have short-term impact. With the effective control of the COVID-19 outbreak, all parts of the country are gradually resuming work and production, and downstream needs will be released. In addition, the government will likely introduce measures to stimulate economic growth after the COVID-19 outbreak. The management will continue to speed up cash flow collection, increase the volume of sales agreements with core customers, improve the pace and efficiency of procurement and sales, and improve profitability.

41. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2020
	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	719,770	780,404	637,250	731,839	599,912
Profit before income tax expense	31,785	36,701	34,668	32,681	17,789
Income tax expense	(4,006)	(3,165)	(4,361)	(6,577)	(3,218)
Profit for the year	<u>27,779</u>	<u>33,536</u>	<u>30,307</u>	<u>26,104</u>	<u>14,571</u>
Profit attributable to:					
Owners of the Company	27,003	33,344	27,075	24,271	16,223
Non-controlling interests	<u>776</u>	<u>192</u>	<u>3,232</u>	<u>1,833</u>	<u>(1,652)</u>
	<u>27,779</u>	<u>33,536</u>	<u>30,307</u>	<u>26,104</u>	<u>14,571</u>

ASSETS AND LIABILITIES

	As at 31 March				2020
	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	349,973	502,562	547,959	640,537	927,804
Less: Total liabilities	<u>246,629</u>	<u>367,082</u>	<u>204,827</u>	<u>267,850</u>	<u>411,654</u>
Total equity	103,344	135,480	343,132	372,687	516,150
Less: Non-controlling interests	<u>4,659</u>	<u>3,451</u>	<u>2,753</u>	<u>1,286</u>	<u>(367)</u>
Equity attributable to owners of the Company	<u>98,685</u>	<u>132,029</u>	<u>340,379</u>	<u>371,401</u>	<u>516,517</u>