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IN CONSTRUCTION HOLDINGS LIMITED
現恆建築控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1500)

ANNOUNCEMENT OF ANNUAL CONSOLIDATED RESULTS
FOR THE YEAR ENDED 31 MARCH 2020

ANNUAL CONSOLIDATED RESULTS

The board of directors (the “**Board**”) of In Construction Holdings Limited (the “**Company**”) is pleased to present the annual consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2020, together with the comparative figures for the year ended 31 March 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

(Expressed in Hong Kong Dollars)

	<i>Note</i>	2020	2019
		\$'000	\$'000
Revenue	3	393,892	305,128
Direct costs		<u>(367,701)</u>	<u>(274,519)</u>
Gross profit		26,191	30,609
Other revenue	4	1,968	6,183
Administrative and other operating expenses		<u>(22,586)</u>	<u>(24,282)</u>
Profit from operations		5,573	12,510
Finance costs	5(a)	<u>(1,236)</u>	<u>(90)</u>
Profit before taxation	5	4,337	12,420
Income tax	6	<u>(580)</u>	<u>(1,851)</u>
Profit and total comprehensive income for the year		<u>3,757</u>	<u>10,569</u>
Earnings per share (Hong Kong cents)			
Basic and diluted	7	<u>0.5</u>	<u>1.3</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

(Expressed in Hong Kong Dollars)

	<i>Note</i>	2020	2019
		\$'000	\$'000
Non-current assets			
Property, plant and equipment		184	403
Lease receivables		15,159	16,857
Deferred tax assets		69	42
		<u>15,412</u>	<u>17,302</u>
		----- 15,412	----- 17,302
Current assets			
Contract assets		189,499	128,742
Inventories		868	1,514
Lease receivables		4,606	3,814
Trade and other receivables	8	129,182	143,617
Tax recoverable		4,187	3,574
Cash and bank balances		46,125	45,611
		<u>374,467</u>	<u>326,872</u>
		----- 374,467	----- 326,872
Current liabilities			
Contract liabilities		4,027	2,238
Trade and other payables	9	94,330	76,353
Lease liabilities		4,615	3,814
Tax payable		93	–
Bank loan – secured		10,000	–
Loan from a shareholder		13,000	–
		<u>126,065</u>	<u>82,405</u>
		----- 126,065	----- 82,405
Net current assets		<u>248,402</u>	<u>244,467</u>
		----- 248,402	----- 244,467
Total assets less current liabilities		<u>263,814</u>	<u>261,769</u>
		----- 263,814	----- 261,769

	<i>Note</i>	2020 \$'000	2019 \$'000
Non-current liability			
Lease liabilities		<u>15,145</u>	<u>16,857</u>
NET ASSETS		<u>248,669</u>	<u>244,912</u>
CAPITAL AND RESERVES			
Share capital		8,300	8,300
Reserves		<u>240,369</u>	<u>236,612</u>
TOTAL EQUITY		<u>248,669</u>	<u>244,912</u>

Notes:

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Group is principally engaged as a contractor in the foundation industry in Hong Kong. The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 September 2014 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 April 2015 (the "**Listing**").

The annual results set out in this announcement do not constitute the Group's financial statements for the year ended 31 March 2020 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

As at 1 April 2019, all the operating lease commitments of the Group related to short-term leases or leases of low-value assets. The Group decided to apply recognition exemptions to short-term leases and leases of low-value assets. Hence, there is no impact on the financial statements.

b. Lessor accounting

The Group leases out a number of items of machinery as the lessor of finance leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue from construction contracts earned during the year.

Segment information

The chief operating decision-maker regards the Group's business as a single operating segment and reviews financial statements accordingly. Also, the Group only engages its business in Hong Kong. Therefore, no segment information is presented.

4. OTHER REVENUE

	2020	2019
	\$'000	\$'000
Bank interest income	570	708
Interest income from lease receivables	917	43
Sales of scrap materials	296	904
Rental income from machinery	–	6,000
Loss on disposal of property, plant and equipment	–	(1,532)
Others	185	60
	1,968	6,183

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2020 \$'000	2019 \$'000
(a) Finance costs		
Interest on bank loan	285	–
Interest on lease liabilities	908	43
Interest on bank overdrafts	43	47
	<u>1,236</u>	<u>90</u>
(b) Staff costs (including directors' remuneration)		
Contributions to defined contribution retirement plans	780	729
Salaries, wages and other benefits	28,727	24,298
	<u>29,507</u>	<u>25,027</u>
(c) Other items		
Depreciation	255	5,101
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	1,192
Lease payments relating to leases of low-value assets	33	–
Lease payments relating to short-term leases	1,192	–
Net foreign exchange loss	1,579	1,646
Write off of trade and other receivables	220	–
Auditors' remuneration		
– audit services	1,180	1,165
– other services	420	500
	<u>1,180</u>	<u>1,165</u>
	<u>420</u>	<u>500</u>

6. INCOME TAX

Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2020 \$'000	2019 \$'000
Current tax		
Provision for Hong Kong Profits Tax for the year	576	3,177
Under/(over)-provision in respect of prior years	31	(34)
	<u>607</u>	<u>3,143</u>
Deferred tax		
Origination and reversal of temporary differences	(27)	(1,292)
	<u>580</u>	<u>1,851</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for a subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the subsidiary of the Group, the first \$2 million are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax was calculated on the same basis in 2019.

The provision for Hong Kong Profits Tax for 2020 has also taken into account a reduction of 75% of the tax payable for the year of assessment 2019-20 subject to a maximum reduction of \$20,000 granted by the Government of the Hong Kong Special Administrative Region (the “Government”) for each business (2019: a reduction of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of \$20,000).

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$3,757,000 (2019: \$10,569,000) and the weighted average of 830,000,000 shares in issue (2019: 830,000,000 shares).

(b) Diluted earnings per share

There were no diluted potential shares in existence during the years ended 31 March 2020 and 2019.

8. TRADE AND OTHER RECEIVABLES

	2020 \$'000	2019 \$'000
Trade debtors	57,569	50,681
Deposits, prepayments and other receivables (<i>Notes (i) and (ii)</i>)	38,101	36,635
Retentions receivable (<i>Note (iii)</i>)	33,502	56,294
Amounts due from shareholders (<i>Note (iv)</i>)	10	7
	<u>129,182</u>	<u>143,617</u>

Notes:

- (i) As at 31 March 2020, except for the amount of \$37,500 which was expected to be recovered or recognised as expense after one year, all of the remaining balances were expected to be recovered or recognised as expense within one year (2019: all balances were expected to be recovered or recognised as expense within one year).
 - (ii) As at 31 March 2020, deposits of \$30,312,000 (2019: \$29,931,000) were pledged to secure the issuance of performance bond.
 - (iii) As at 31 March 2020 and 2019, all the retentions receivable were expected to be recovered within one year.
 - (iv) The amounts due from shareholders at 31 March 2020 and 2019 were unsecured, interest-free and expected to be recovered within one year.
- (a) *Ageing analysis*

Included in trade and other receivables are trade debtors, based on the invoice date (net of loss allowance) with the following ageing analysis at the end of the reporting period:

	2020 \$'000	2019 \$'000
Within 1 month	12,965	35,595
1 to 2 months	38,288	–
2 to 3 months	5,076	–
Over 3 months	1,240	15,086
	<u>57,569</u>	<u>50,681</u>

Trade debtors are normally due within 14-30 days from the date of billing.

9. TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

	2020	2019
	\$'000	\$'000
Within 1 month	38,166	29,041
1 to 2 months	13,377	14,705
2 to 3 months	4,498	14,271
Over 3 months	29,998	12,561
	<hr/>	<hr/>
Trade creditors	86,039	70,578
Other payables and accruals	8,291	5,775
	<hr/>	<hr/>
	94,330	76,353
	<hr/> <hr/>	<hr/> <hr/>

10. DIVIDENDS

The board of directors has resolved not to declare any final dividend for the year ended 31 March 2020 (2019: Nil).

11. CONTINGENT LIABILITIES

As at 31 March 2020, the Group had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the objections undertaken by the Group's subsidiary for projects amounting to \$87,587,000 (2019: \$86,692,000) in its ordinary course of business. The performance bonds are expected to be released in accordance with the terms of the respective construction contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group is principally engaged as a contractor in the foundation industry in Hong Kong, undertaking foundation works as well as associated works including demolition works, site formation works, ground investigation field works and general building works for local customers.

Business Review

The Group has been engaged to undertake foundation and associated works in the private sector construction projects in Hong Kong, with an emphasis on design and build projects and undertaking the role as a main contractor.

The Group places emphasis on design and build projects because of the flexibility and capability in coming up with foundation design plan that suits its customers' requirements and the site conditions. During the year ended 31 March 2020 (“**Financial Year 2019/20**”), the Group has successfully carried out construction works with alternative design which not only complies with the technical requirements but also be more cost efficient for “design and build” contracts. The cost efficient proposals allow the Group to offer its customers a more competitive pricing and at the same time secure its profit margin for the year.

During the Financial Year 2019/20, five new foundation projects with an aggregate contract value of HK\$392.2 million were awarded to the Group. Three existing foundation projects were completed during the year. As at 31 March 2020, eight foundation projects with the outstanding contract sum of HK\$578.6 million were all in progress.

Year of award/project	Type of contract	Status as at 31 March 2020
<i>Year 2017-2018</i>		
Chai Wan Kok Street, Tsuen Wan	Design and build	Completed
Seymour Road, Hong Kong	Design and build	Completed
Robinson Road, Mid-Levels	Design and build	Completed
<i>Year 2018-2019</i>		
Kok Cheung Street, Tai Kok Tsui	Design and build	Work in progress
Tai Po Kau	Design and build	Work in progress
Caine Road	Design and build	Work in progress
<i>Year 2019-2020</i>		
Hok Yuen Street	Design and build	Work in progress
Tung Street	Design and build	Work in progress
Kwun Chui Road	Build only	Work in progress
Liberty Avenue	Design and build	Work in progress
Hang On Street	Design and build	Work in progress

Financial Review

During the Financial Year 2019/20, there were 18 projects contributing revenue and gross profit of approximately HK\$393.9 million and HK\$26.2 million, respectively, whereas revenue and gross profit for the Financial Year 2018/19 of HK\$305.1 million and HK\$30.6 million, respectively were contributed by 10 projects. Top five projects contributed revenue amounted to HK\$341.3 million (2019: HK\$244.9 million), in which the top project contributed 47.7% of the total revenue.

Fierce competition in the market has led to a decrease in gross profit margin to 6.6% for the Financial Year 2019/20 from 10.0% of last year. Such decrease was primarily attributable to, among other factors, work done for a few foundation projects are at their preliminary stages with low certified revenue and gross profit for the year ended 31 March 2020.

Administrative and other operating expenses decreased by approximately HK\$1.7 million to approximately HK\$22.6 million, compared with approximately HK\$24.3 million of the Financial Year 2018/19, which was mainly due to decrease in depreciation of plant and machineries.

As a result, profit before taxation for the Financial Year 2019/20 decreased by HK\$8.1 million or 65.3% to HK\$4.3 million, from the last financial year of HK\$12.4 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

	As at 31 March	
	2020	2019
Current ratio	3.0	4.0
Gearing ratio ¹	17.2%	8.5%

Note:

1. Gearing ratio is calculated based on debts including lease liabilities, bank loan and shareholder's loan divided by the total equity as at the reporting dates.

Gearing ratio increased by 8.7% as at 31 March 2020 as compared to that as at 31 March 2019 was mainly due to the new bank loan of HK\$10 million and shareholder's loan of HK\$13 million as at 31 March 2020.

As at 31 March 2020, the Group had cash and bank balances of HK\$46.1 million (2019: HK\$45.6 million), of which HK\$35.6 million (2019: HK\$36.8 million) were restricted bank balances. Such restricted bank balances were held for the purpose of the issuance of surety bonds for our projects and requirement of our general banking facilities. As at 31 March 2020, the Group had no bank overdrafts (2019: Nil).

The capital structure of the Group consisted of equity of HK\$248.7 million, with HK\$42.8 million debts as at 31 March 2020.

The Group adopts a prudent approach in cash management. Apart from certain debts including lease liabilities, bank loan and shareholder's loan, the Group did not have any material outstanding debts as at 31 March 2020. Payment to settle trade payable represented the significant part of the cash outflow of the Group. Taking into account the light debt leverage, the Group is able to generate cash and meet upcoming cash requirements. In any case, the Group may utilise its banking facilities of HK\$150.0 million, of which the unutilised and unrestricted banking facilities amounted to approximately HK\$99.4 million.

EMPLOYEES

The Group had 50 full-time employees as at 31 March 2020 (2019: 49). The Group offers a competitive remuneration package that is based on the overall market rates and employee performance, as well as the performance of the Group. The remuneration package comprised of salary, performance-based bonus, and other benefits including training and provident funds.

CAPITAL COMMITMENTS

The Group had no capital commitments as at 31 March 2020 (2019: Nil).

CONTINGENT LIABILITIES

Save as disclosed in note 11 to this announcement, the Group had no other contingent liabilities as at 31 March 2020.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the Financial Year 2019/20. There is no other plan for material investments or capital assets as at 31 March 2020.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing will be utilised in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 31 March 2015 (the “Prospectus”) and the announcements of the Company dated 7 August 2015 and 28 March 2018. The below table sets out the proposed applications of the net proceeds and actual usage up to 31 March 2020:

	Proposed application <i>HK\$' million</i>	Actual usage up to 31 March 2020 <i>HK\$' million</i>
Hiring of additional staff	2.9	2.9
Acquisition of additional machinery and equipment	29.9	29.9
Financing for the issue of surety bonds for future projects	56.7	45.9
General working capital	10.0	10.0
	<hr/>	<hr/>
	99.5	88.7
	<hr/> <hr/>	<hr/> <hr/>

FUTURE PROSPECTS

Taking into account the Government of the Hong Kong Special Administrative Region’s policy in increasing land supply and commitment to infrastructure investments, the Group expects a rebound in the foundation industry in the long run. Despite the vigorous competition in the Hong Kong construction industry, the Board is confident with the Group’s future development in its net profit and scale of operations due to its long established reputation, the listing platform and healthy financial position. To maintain its competitive edge, the Group continues to adhere to its business strategy, by expanding our capacity to capture more business opportunities, reinforcing its capability in foundation design and project management skills, and offering qualitative and flexible solution to its customers.

FINAL DIVIDEND

The Board has resolved not to declare a final dividend for the Financial Year 2019/20.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 4 September 2020, the register of members of the Company will be closed from Tuesday, 1 September 2020 to Friday, 4 September 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. Shareholders of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar ("**Branch Share Registrar**") in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 31 August 2020.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

With effect from 11 July 2019, the Hong Kong Branch Share Registrar and Transfer Office of the Company, Tricor Investor Services Limited, will change its address from Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong to

**Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong**

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

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

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 March 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

Since Listing, the Board is of the opinion that the Company had applied and complied with the code provisions as set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 to the Listing Rules except for the deviation from provision A.2.1 of the Code which is explained below:

According to provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. LAU Pak Man is the Chairman and Chief Executive Officer, responsible for overall strategic development, project management and client management of the Group. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. LAU Pak Man has the benefit of ensuring consistent and continuous planning and execution of the Company’s strategies. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired in light of the diverse background and experience of the independent non-executive Directors, and the composition of the Board which comprises equal number of independent non-executive Directors and executive Directors also provides added independence to the Board. Further, the audit committee of the Company (the “**Audit Committee**”) composed exclusively of independent non-executive Directors has free and direct access to the Company’s external auditors and independent professional advisers when it considers necessary.

AUDIT COMMITTEE REVIEW

The Audit Committee consists of three independent non-executive Directors and has reviewed the Group’s consolidated financial statements for the year ended 31 March 2020.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by Directors (the “**Model Code**”). Upon specific enquiries of all the Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the year.

SCOPE OF WORK OF AUDITORS

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.inconstruction.hk and the Stock Exchange's website at www.hkexnews.hk. The 2020 Annual Report will be despatched to shareholders and will also be published on the websites of both the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business associates and other professional parties for their support throughout the year.

By order of the Board
In Construction Holdings Limited
LAU Pak Man
Chairman

Hong Kong, 24 June 2020

As at the date of this announcement, the Board comprises Mr. LAU Pak Man, Mr. CHENG Wing Cheong and Ms. KWAN Kit Sum Kit as executive Directors; Mr. LEUNG Chi Kin, Mr. LAM Chi Hung Louis and Mr. YAU Chi Man Norman (also known as IAO Chi Meng) as independent non-executive Directors.