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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 UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

INTERIM RESULTS

The board of directors (the “**Board**”) of In Construction Holdings Limited (the “**Company**”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2020, together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

(Expressed in Hong Kong dollars)

		Six months ended	
	<i>Note</i>	30 September	
		2020	2019
		\$'000	\$'000
		(Unaudited)	(Unaudited)
Revenue	3	252,739	188,587
Direct costs		<u>(215,161)</u>	<u>(173,808)</u>
Gross profit		37,578	14,779
Other revenue	4	3,576	1,152
Administrative and other operating expenses		<u>(15,545)</u>	<u>(12,505)</u>
Profit from operations		25,609	3,426
Finance costs	5(a)	<u>(531)</u>	<u>(575)</u>
Profit before taxation	5	25,078	2,851
Income tax	6	<u>(3,727)</u>	<u>(322)</u>
Profit and total comprehensive income for the period		<u>21,351</u>	<u>2,529</u>
Earnings per share (Hong Kong cents)			
Basic and diluted	7	<u>2.57</u>	<u>0.30</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

(Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 September 2020 \$'000 (Unaudited)	At 31 March 2020 \$'000 (Audited)
Non-current assets			
Property, plant and equipment		114	184
Lease receivables		12,781	15,159
Deferred tax assets		73	69
		12,968	15,412
Current assets			
Contract assets		221,423	189,499
Inventories		706	868
Lease receivables		4,708	4,606
Trade and other receivables	8	111,836	129,182
Tax recoverable		598	4,187
Cash and bank balances		51,873	46,125
		391,144	374,467
Current liabilities			
Contract liabilities		1,563	4,027
Trade and other payables	9	101,877	94,330
Lease liabilities		4,715	4,615
Tax payable		172	93
Bank loan – secured		–	10,000
Loan from a shareholder		13,000	13,000
		121,327	126,065
Net current assets		269,817	248,402
Total assets less current liabilities		282,785	263,814

	At	At
	30 September	31 March
<i>Note</i>	2020	2020
	\$'000	\$'000
	(Unaudited)	(Audited)
Non-current liability		
Lease liabilities	<u>12,765</u>	<u>15,145</u>
NET ASSETS	<u>270,020</u>	<u>248,669</u>
CAPITAL AND RESERVES		
Share capital	8,300	8,300
Reserves	<u>261,720</u>	<u>240,369</u>
TOTAL EQUITY	<u>270,020</u>	<u>248,669</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 interim results set out in this announcement do not constitute the Group's financial statements for the six months ended 30 September 2020 but are extracted from the interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

2. CHANGES IN ACCOUNTING POLICIES

Overview

The HKICPA has issued certain of amendments to Hong Kong Financial Reporting Standards ("**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.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue from construction contracts earned during the period.

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

	Six months ended	
	30 September	
	2020	2019
	\$'000	\$'000
Bank interest income	210	335
Interest income from lease receivables	457	503
Sales of scrap materials	1,190	296
Government subsidies (<i>note</i>)	1,630	–
Others	89	18
	<u>3,576</u>	<u>1,152</u>

Note: During the six months ended 30 September 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund set up by the Hong Kong Special Administrative Region Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended	
	30 September	
	2020	2019
	\$'000	\$'000
(a) Finance costs		
Interest on bank overdraft	12	1
Interest on bank loan	136	71
Interest on lease liabilities	383	503
	<u>531</u>	<u>575</u>
(b) Staff costs (including directors' remuneration)		
Contributions to defined contribution retirement plans	379	399
Salaries, wages and other benefits	14,772	15,286
	<u>15,151</u>	<u>15,685</u>
(c) Other items		
Depreciation	70	125
Lease payments relating to short-term leases	596	596
Impairment losses on trade and other receivables	6,115	120
	<u>6,781</u>	<u>841</u>

6. INCOME TAX

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

	Six months ended	
	30 September	
	2020	2019
	\$'000	\$'000
Current tax		
Provision for Hong Kong Profits Tax for the period	3,731	331
Deferred tax		
Origination and reversal of temporary differences	<u>(4)</u>	<u>(9)</u>
	<u>3,727</u>	<u>322</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 is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 September 2019: 16.5%) to the six months ended 30 September 2020, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

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

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2020 is based on the profit attributable to equity shareholders of the Company of \$21,351,000 (six months ended 30 September 2019: \$2,529,000) and weighted average of 830,000,000 shares (six months ended 30 September 2019: 830,000,000 shares) in issue during the period.

(b) Diluted earnings per share

There were no diluted potential shares in existence during the six months ended 30 September 2020 and 2019.

8. TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

	At 30 September 2020 \$'000	At 31 March 2020 \$'000
Within 1 month	6,824	12,965
Over 1 month but within 2 months	11,288	38,288
Over 2 months but within 3 months	12,092	5,076
Over 3 months	<u>13,678</u>	<u>1,240</u>
Trade debtors, net of loss allowance (<i>note (i)</i>)	43,882	57,569
Deposits, prepayments and other receivables (<i>notes (ii) and (iii)</i>)	34,160	38,101
Retentions receivable (<i>note (iv)</i>)	33,784	33,502
Amounts due from shareholders (<i>note (v)</i>)	<u>10</u>	<u>10</u>
	<u>111,836</u>	<u>129,182</u>

Notes:

- (i) Trade debtors are normally due within 14 – 30 days from the date of billing.
- (ii) As at 30 September 2020, except for the amount of \$112,500 (31 March 2020: \$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.
- (iii) As at 30 September 2020, deposits of \$31,841,000 (31 March 2020: \$30,312,000) were pledged to secure the issuance of performance bonds.
- (iv) All of the retentions receivable as at 30 September 2020 and 31 March 2020 were expected to be recovered within one year.
- (v) The amounts due from shareholders as at 30 September 2020 and 31 March 2020 were unsecured, interest-free and expected to be recovered within one year.

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:

	At 30 September 2020 \$'000	At 31 March 2020 \$'000
Within 1 month	42,257	38,166
Over 1 month but within 2 months	7,608	13,377
Over 2 months but within 3 months	13,187	4,498
Over 3 months	<u>23,013</u>	<u>29,998</u>
Trade creditors	86,065	86,039
Other payables and accruals	14,984	8,291
Amount due to a shareholder (<i>note</i>)	<u>828</u>	–
	<u><u>101,877</u></u>	<u><u>94,330</u></u>

Note: The amount due to a shareholder as at 30 September 2020 was unsecured, interest-free and expected to be repaid within one year.

10. DIVIDENDS

The board of directors has resolved not to declare any interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: \$Nil).

11. CONTINGENT LIABILITIES

As at 30 September 2020, the Group had contingent liabilities in respect of performance bonds to guarantee due and proper performance of obligations undertaken by the Group's subsidiary for projects amounting to \$94,207,000 (31 March 2020: \$87,587,000) in its ordinary course of business. The performance bonds were 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 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 six months ended 30 September 2020, the Group has successfully carried out construction works with alternative design which not only complies with the technical requirements but is also more cost efficient for "design and build" contracts. The cost efficient proposals allow the Group to offer its customers more competitive pricing and at the same time secure its profit margin for the period.

During the six months ended 30 September 2020, one new project with a contract sum of HK\$17.9 million was awarded to the Group. Two existing projects were completed during the period. As at 30 September 2020, seven projects with the outstanding contract sum of HK\$378.1 million were all in progress.

Year/Period of award/project	Type of contract	Status as at 30 September 2020
<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	Completed
<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	Completed
Liberty Avenue	Design and build	Work in progress
Hang On Street	Design and build	Work in progress
<i>Year 2020-2021</i>		
Wo Shang Wai	Monitoring and maintenance	Work in progress

Financial Review

During the six months ended 30 September 2020, there were 16 projects contributing revenue of approximately HK\$252.7 million, whereas revenue for the corresponding period in 2019 of approximately HK\$188.6 million was contributed by 14 projects. The top five projects contributed revenue amounted to approximately HK\$204.4 million (2019: approximately HK\$176.8 million), in which the top project contributed 43.9% of the total revenue.

The Group recorded an increase in contract revenue for the six months ended 30 September 2020 by approximately HK\$64.1 million as compared with that of the corresponding period in 2019. Gross profit increased by approximately HK\$22.8 million, to approximately HK\$37.6 million for the current period from approximately HK\$14.8 million for the corresponding period in 2019. Gross profit margin increased to 14.9% for the current period from 7.8% for the corresponding period in 2019. Such increase was primarily attributable to, among other factors, increase in revenue and gross profit generated from new projects undertaken by the Group during the period and successfully claim of extension of time from our customers of various projects.

Administrative and other operating expenses increased by approximately HK\$3.0 million to approximately HK\$15.5 million, compared with approximately HK\$12.5 million of the corresponding period in the prior year, which was mainly due to the increase of impairment losses on trade and other receivables by HK\$6.0 million.

As a result, profit for the period was HK\$21.4 million, increased by approximately HK\$18.9 million compared with the corresponding period in the prior year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

	As at 30 September 2020	As at 31 March 2020
Current ratio	3.2	3.0
Gearing ratio ¹	11.3%	17.2%

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 decreased by 5.9% as at 30 September 2020 as compared to that as at 31 March 2020 was mainly due to repayment of HK\$10 million bank loan during the six months ended 30 September 2020.

As at 30 September 2020, the Group had cash and bank balances of approximately HK\$51.9 million (31 March 2020: HK\$46.1 million), of which approximately HK\$40.8 million (31 March 2020: HK\$35.6 million) were restricted bank deposits. Such restricted bank deposits were held for the purpose of the issuance of surety bonds for our projects and requirement of our general banking facilities. As at 30 September 2020 and 31 March 2020, the Group had no bank overdraft.

The capital structure of the Group consisted of equity of HK\$270.0 million, with HK\$30.5 million debts as at 30 September 2020.

The Group adopts a prudent approach in cash management. Apart from certain debts including lease liabilities and shareholder's loan, the Group did not have any material outstanding debts as at 30 September 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\$170.0 million, of which the unutilised and unrestricted banking facilities amounted to approximately HK\$129.4 million.

EMPLOYEES

The Group had 50 full-time employees as at 30 September 2020 (31 March 2020: 50). The Group offers a competitive remuneration package that is based on overall market rates and employee performance, as well as the performance of the Group. The remuneration package is comprised of salary, performance-based bonus, and other benefits including training and provident funds.

CAPITAL COMMITMENTS

The Group had no capital commitments as at 30 September 2020.

CONTINGENT LIABILITIES

Save as disclosed in note 11 to this announcement, the Group had no other contingent liabilities as at 30 September 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 six months ended 30 September 2020. There is no other plan for material investments or capital assets as at 30 September 2020.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the shares of the Company (the “**Listing**”) will be utilised subsequent to the Listing 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 announcements of the Company dated 7 August 2015, 28 March 2018 and the supplemental announcement dated 21 August 2020. The below table sets out the proposed applications of the net proceeds and usage up to 30 September 2020 and the expected timeline of application of unutilised net proceeds:

	Proposed application <i>HK\$'million</i>	Actual usage up to 30 September 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	51.3
General working capital	10.0	10.0
	<u>99.5</u>	<u>94.1</u>
Expected timeline of application of unutilised net proceeds		By 31 March 2022

REASONS FOR DELAY IN THE USE OF NET PROCEEDS

The original expected timeline of unutilised Net Proceeds in respect of the financing for the issue of surety bonds for future projects was 31 March 2020. The delay in the use of Net Proceeds arose mainly:

- (i) Some projects do not require the issue of surety bonds;
- (ii) Projects tendered with a relatively low contract sum require surety bonds with smaller amount.

FUTURE PROSPECTS

Taking into account the Chief Executive's Policy Address of the Government of the Hong Kong Special Administrative Region in increasing land supply and commitment to infrastructure investments, the Group expects a rebound in the foundation industry in the long run. Despite vigorous competition in the construction industry in Hong Kong, 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 its healthy financial position. To maintain its competitive edge, the Group continues to adhere to its business strategy, by expanding its capacity to capture more business opportunities, reinforcing its capability in foundation design and project management skills, and offering qualitative and flexible solutions to its customers.

The outbreak of the COVID-19 pandemic in early 2020 affect the whole world and all business sectors. Fortunately, the impact on the foundation industry in Hong Kong is relatively low. However, the Group will continue to assess the development of the COVID-19 pandemic and its impact on both the operational and financial aspects. The Group will take every precautionary measures to minimise the impact of the COVID-19 pandemic to the Group.

INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: \$Nil).

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 period.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 30 September 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 adopted, 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**"), which is 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.

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 had complied with the required standards set out in the Model Code during the six months ended 30 September 2020.

REVIEW OF INTERIM RESULTS

The interim financial report for the six months ended 30 September 2020 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has reviewed the interim results and financial report of the Group for the six months ended 30 September 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 interim 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 period.

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

Hong Kong, 27 November 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.