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DESON CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

迪臣建設國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8268)

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2018

CHARACTERISTICS OF THE GEM (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “**Group**”) for the nine months ended 31 December 2018 (the “**Reporting Period**”), together with the unaudited comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 31 December 2018

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
REVENUE	4	175,656	144,747	532,776	615,967
Cost of sales		<u>(172,949)</u>	<u>(145,692)</u>	<u>(522,129)</u>	<u>(552,973)</u>
Gross profit/(loss)		2,707	(945)	10,647	62,994
Other income and gains	4	164	278	3,057	935
Fair value gain/(loss) on investment properties		—	(1,740)	108	(1,740)
Administrative expenses		(10,070)	(10,808)	(26,103)	(26,585)
Other operating income/(expenses), net		34	(22,011)	293	(22,018)
Finance costs	6	<u>(947)</u>	<u>(845)</u>	<u>(2,824)</u>	<u>(2,513)</u>
PROFIT/(LOSS) BEFORE TAX	5	(8,112)	(36,071)	(14,822)	11,073
Income tax credit/(expense)	7	<u>—</u>	<u>448</u>	<u>22</u>	<u>(409)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(8,112)</u>	<u>(35,623)</u>	<u>(14,800)</u>	<u>10,664</u>
Attributable to:					
Owners of the Company		(7,214)	(24,613)	(13,822)	20,847
Non-controlling interests		<u>(898)</u>	<u>(11,010)</u>	<u>(978)</u>	<u>(10,183)</u>
		<u>(8,112)</u>	<u>(35,623)</u>	<u>(14,800)</u>	<u>10,664</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8				
Basic		<u>HK(0.72) cent</u>	<u>HK(2.46) cents</u>	<u>HK(1.38) cents</u>	<u>HK2.08 cents</u>
Diluted		<u>HK(0.72) cent</u>	<u>HK(2.46) cents</u>	<u>HK(1.38) cents</u>	<u>HK2.08 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the nine months ended 31 December 2018

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD	<u>(8,112)</u>	<u>(35,623)</u>	<u>(14,800)</u>	<u>10,664</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	<u>100</u>	<u>136</u>	<u>(1,310)</u>	<u>1,599</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>100</u>	<u>136</u>	<u>(1,310)</u>	<u>1,599</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(8,012)</u>	<u>(35,487)</u>	<u>(16,110)</u>	<u>12,263</u>
Attributable to:				
Owners of the Company	<u>(7,155)</u>	<u>(24,333)</u>	<u>(15,304)</u>	<u>22,280</u>
Non-controlling interests	<u>(857)</u>	<u>(11,154)</u>	<u>(806)</u>	<u>(10,017)</u>
	<u>(8,012)</u>	<u>(35,487)</u>	<u>(16,110)</u>	<u>12,263</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2018

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Issued capital	Share premium	Contribution surplus	Property revaluation reserve	Share option reserve	Exchange fluctuation reserve	Reserve funds	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2017 (audited)	25,000	9,381	(5,372)	15,916	1,183	1,951	5,581	41,863	95,503	7,028	102,531
Profit/(loss) for the period	—	—	—	—	—	—	—	20,847	20,847	(10,183)	10,664
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	—	—	—	—	—	1,433	—	—	1,433	166	1,599
Total comprehensive income/(loss) for the period	—	—	—	—	—	1,433	—	20,847	22,280	(10,017)	12,263
Release of revaluation reserve	—	—	—	(324)	—	—	—	324	—	—	—
At 31 December 2017	<u>25,000</u>	<u>9,381</u>	<u>(5,372)</u>	<u>15,592</u>	<u>1,183</u>	<u>3,384</u>	<u>5,581</u>	<u>63,034</u>	<u>117,783</u>	<u>(2,989)</u>	<u>114,794</u>
At 1 April 2018 (audited)	25,000	9,381	(5,372)	13,906	1,183	4,390	5,581	84,046	138,115	(2,774)	135,341
Adjustment on adoption of HKFRS 15, net of tax	—	—	—	—	—	—	—	2,972	2,972	—	2,972
Restated balance at 1 April 2018	<u>25,000</u>	<u>9,381</u>	<u>(5,372)</u>	<u>13,906</u>	<u>1,183</u>	<u>4,390</u>	<u>5,581</u>	<u>87,018</u>	<u>141,087</u>	<u>(2,774)</u>	<u>138,313</u>
Loss for the period	—	—	—	—	—	—	—	(13,822)	(13,822)	(978)	(14,800)
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	—	—	—	—	—	(1,482)	—	—	(1,482)	172	(1,310)
Total comprehensive loss for the period	—	—	—	—	—	(1,482)	—	(13,822)	(15,304)	(806)	(16,110)
Release of revaluation reserve	—	—	—	(310)	—	—	—	310	—	—	—
At 31 December 2018	<u>25,000</u>	<u>9,381</u>	<u>(5,372)</u>	<u>13,596</u>	<u>1,183</u>	<u>2,908</u>	<u>5,581</u>	<u>73,506</u>	<u>125,783</u>	<u>(3,580)</u>	<u>122,203</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Deson Construction International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands as an exempted company with limited liability on 18 July 2014. The registered address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally involved in (i) the construction business, as a main contractor, fitting-out works, and as well as the provision of electrical and mechanical engineering services, mainly in Hong Kong, Mainland China and Macau, and other construction related businesses; (ii) investment in securities; and (iii) property investment.

2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all 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 applicable disclosure requirement of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”). They have been prepared under the historical cost convention, except for leasehold land and buildings classified as property, plant and equipment, investment properties, financial assets at fair value through profit or loss and derivative component of convertible bonds, which have been measured at valuation or fair value. These unaudited condensed consolidated financial statements should be read in conjunction with the Group’s annual report for the year ended 31 March 2018.

2. BASIS OF PREPARATION (Continued)

The accounting policies and methods of computation used in preparing the unaudited condensed consolidated financial statements for the nine months ended 31 December 2018 are consistent with those used in the audited consolidated financial statements of the Group for the year ended 31 March 2018, except as described below:

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK (IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
Annual Improvements 2014–2016 Cycle	<i>Amendments to HKFRS 1 and HKAS 28</i>

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, and presentation of contract assets and contract liabilities.

2. BASIS OF PREPARATION (Continued)

HKFRS 9 “*Financial Instruments*”

(i) *Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 “*Financial Instruments: Recognition and Measurement*” for annual periods beginning on or after 1 April 2018, bringing together all three aspects of the accounting for financial instruments: (i) classification and measurement; (ii) impairment; and (iii) hedge accounting. The adoption of HKFRS 9 from 1 April 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated financial statements.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“**FVTPL**”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“**amortised costs**”); (ii) financial assets at fair value through other comprehensive income (“**FVOCI**”); or (iii) FVTPL (as defined above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed; and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “**SPPI criterion**”). Under HKFRS 9, embedded derivative is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It 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 meet the SPPI criterion.

2. BASIS OF PREPARATION (Continued)

HKFRS 9 “Financial Instruments” (Continued)

(i) Classification and measurement of financial instruments (Continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as FVTPL:

- It is held within a business model whose objective is to achieve by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group’s financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt investments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

2. BASIS OF PREPARATION (Continued)

HKFRS 9 “Financial Instruments” (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 April 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9
Listed equity investments	Held-for-trading	FVTPL
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 did not affect the carrying amounts of the Group’s financial liabilities as at 1 April 2018.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “**incurred loss model**” to the “**expected credit losses (“ECLs”) model**”. HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investments at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. BASIS OF PREPARATION (Continued)

HKFRS 9 “Financial Instruments” (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward looking information. The Group’s debt investment at FVOCI are considered to have low credit risk since the issuers’ credit rating are high.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the assets.

Impact of the ECL model

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group applies general approach to measure ECL on deposits and other receivables. Impairment based on the expected credit loss model on the Group’s trade receivables have no significant financial impact on the Group’s condensed consolidated financial statements for the current accounting period.

2. BASIS OF PREPARATION (Continued)

HKFRS 9 “*Financial Instruments*” (Continued)

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 March 2018, but are recognised in the statement of financial position on 1 April 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 April 2018. Accordingly, the information presented for 31 March 2018 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held; and
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

On 1 April 2018 and 31 December 2018, the Directors reviewed and assessed the Group’s financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact were considered insignificant to the Group.

HKFRS 15 “*Revenue from Contracts with Customers*”

The Group has adopted HKFRS 15 from 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. In accordance with the transitional provisions in HKFRS 15, prior period comparative figures have not been restated.

The accounting policies were changed to comply with HKFRS 15. HKFRS 15 replaces the provisions of HKAS 18 *Revenue* (“HKAS 18”) and HKAS 11 *Construction Contracts* (“HKAS 11”) that relate to the recognition, classification and measurement of revenue and costs.

2. BASIS OF PREPARATION (Continued)

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

The effects of the adoption of HKFRS 15 are as follows:

Accounting for construction activities

Under HKFRS 15, the Group recognises construction contract revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Construction contracts are generally accounted for as a single unit of account (a single performance obligation) and are not segmented between types of services. The Group recognises revenue using the cost-to-cost method, based primarily on contract cost incurred to date compared to total estimated contract cost. The cost-to-cost method (an input method) is the most faithful depiction of the Group’s performance because it directly measures the value of the services transferred to the customer.

Changes to total estimated contract cost or losses, if any, are recognised in the period in which they are determined as assessed at the contract level.

Contract assets represent revenue recognised in excess of amounts billed and include unbilled receivables. Unbilled receivables, which represent an unconditional right to payment, are reclassified to accounts receivable when they are billed under the terms of the contract and subject only to the passage of time. Advances that are payments on account of contract assets have been deducted from contract assets. Contract liabilities represent amounts billed to clients in excess of revenue recognised to date.

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

Condensed consolidated statement of financial position (extracted)	As at 1 April 2018		
	Balances without the adoption of HKFRS 15 <i>HK\$’000</i>	Effects of the adoption of HKFRS 15 <i>HK\$’000</i>	Balances as reported <i>HK\$’000</i>
Current assets			
Gross amount due from contract customers	44,055	(44,055)	—
Accounts receivable	99,984	(55,116)	44,868
Contract assets	—	102,143	102,143
Current liabilities			
Gross amount due to contract customers	(113,898)	113,898	—
Other payables and accruals	(69,719)	(113,898)	(183,617)
Equity			
Reserves	(113,115)	(2,972)	(116,087)

2. BASIS OF PREPARATION (Continued)

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Accounting for construction activities (Continued)

Condensed consolidated statement of financial position (extracted)	As at 31 December 2018		
	Balances without the adoption of HKFRS 15 <i>HK\$'000</i>	Effects of the adoption of HKFRS 15 <i>HK\$'000</i>	Balances with adoption of HKFRS 15 <i>HK\$'000</i>
Current assets			
Gross amount due from contract customers	29,594	(29,594)	—
Accounts receivable	147,108	(60,531)	86,577
Contract assets	—	91,119	91,119
Current liabilities			
Gross amount due to contract customers	(122,767)	122,767	—
Other payables and accruals	(90,875)	(122,767)	(213,642)
Equity			
Reserves	(99,789)	(994)	(100,783)
	Nine months ended 31 December 2018		
	Result		
Condensed consolidated statement of profit or loss (extracted)	without the adoption of HKFRS 15 <i>HK\$'000</i>	Effects of the adoption of HKFRS 15 <i>HK\$'000</i>	Results as reported <i>HK\$'000</i>
Revenue	(533,710)	934	(532,776)
Cost of sales	521,085	1,044	522,129
Loss for the period	12,822	1,978	14,800

The condensed consolidated financial statements of the Group for the nine months ended 31 December 2018 have not been audited nor reviewed by the Company’s independent auditor but have been reviewed by the Company’s audit committee.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2017: two) reportable operating segments as follows:

- (a) the construction business segment is engaged in construction contract works, as a main contractor, decoration, as well as the provision of electrical and mechanical engineering services; and
- (b) the securities investment segment is engaged in investment in securities; and
- (c) the property investment business segment is engaged in the holding of investment properties.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	(Unaudited) Three months ended 31 December 2018				(Unaudited) Nine months ended 31 December 2018			
	Construction contracting and related business HK\$'000	Investment in securities HK\$'000	Property investment HK\$'000	Total HK\$'000	Construction contracting and related business HK\$'000	Investment in securities HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue:								
Income from external customers	176,382	(864)	138	175,656	536,720	(4,260)	316	532,776
Other income and gains	70	—	—	70	2,881	—	—	2,881
	<u>176,452</u>	<u>(864)</u>	<u>138</u>	<u>175,726</u>	<u>539,601</u>	<u>(4,260)</u>	<u>316</u>	<u>535,657</u>
Segment results								
Operating profit/(loss)	(5,717)	(864)	135	(6,446)	(5,117)	(4,260)	335	(9,042)
<i>Reconciliation:</i>								
Interest income				94				176
Unallocated expenses				(813)				(3,132)
Finance costs				(947)				(2,824)
Loss before tax				<u>(8,112)</u>				<u>(14,822)</u>
Other segment information:								
Fair value gain on investment properties	—	—	—	—	—	—	(108)	(108)
Loss on disposal of items of property, plant and equipment	9	—	—	9	9	—	—	9
Reversal of impairment of accounts receivables	—	—	—	—	(259)	—	—	(259)
Depreciation	<u>188</u>	<u>—</u>	<u>—</u>	<u>188</u>	<u>626</u>	<u>—</u>	<u>—</u>	<u>626</u>

3. OPERATING SEGMENT INFORMATION (Continued)

	(Unaudited)			(Unaudited)		
	Three months ended 31 December 2017			Nine months ended 31 December 2017		
	Construction contracting and related business <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Total <i>HK\$'000</i>	Construction contracting and related business <i>HK\$'000</i>	Investment in securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:						
Income from external customers	148,012	(3,265)	144,747	583,108	32,859	615,967
Other income and gains	187	—	187	681	—	681
	<u>148,199</u>	<u>(3,265)</u>	<u>144,934</u>	<u>583,789</u>	<u>32,859</u>	<u>616,648</u>
Segment results						
Operating profit/(loss)	(8,267)	(3,265)	(11,532)	6,476	32,859	39,335
<i>Reconciliation:</i>						
Interest income			91			254
Provision for cash loss			(21,982)			(21,982)
Unallocated expenses			(1,803)			(4,021)
Finance costs			(845)			(2,513)
Profit/(loss) before tax			<u>(36,071)</u>			<u>11,073</u>
Other segment information:						
Fair value loss on investment properties	1,740	—	1,740	1,740	—	1,740
Loss on disposal of items of property, plant and equipment	27	—	27	58	—	58
Depreciation	206	—	206	617	—	617

Geographical information of income from external customers

	(Unaudited)		(Unaudited)	
	Three months ended 31 December 2018		Nine months ended 31 December 2017	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	136,356	105,521	388,365	433,666
Mainland China	39,300	39,226	144,411	178,098
Macau	—	—	—	4,203
	<u>175,656</u>	<u>144,747</u>	<u>532,776</u>	<u>615,967</u>

The revenue information above is based on the locations of the operations.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents an appropriate proportion of contract revenue from construction contracting and related business and gain/(loss) and dividend on investment in securities and rental income from property investment.

An analysis of the Group's revenue, other income and gains is as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Income from construction contracting and related businesses	176,382	148,012	536,720	583,108
Fair value gain/(loss) on financial assets at fair value through profit or loss, net	(864)	(3,298)	(4,260)	32,700
Dividend income from financial assets at fair value through profit or loss	—	33	—	159
Rental income from property investment business	138	—	316	—
	<u>175,656</u>	<u>144,747</u>	<u>532,776</u>	<u>615,967</u>
Other income and gains				
Bank interest income	94	91	176	254
Gross rental income	—	159	—	469
Others	70	28	2,881	212
	<u>164</u>	<u>278</u>	<u>3,057</u>	<u>935</u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Cost of construction contracting	172,949	145,692	522,129	552,973
Depreciation	188	206	626	617
Minimum lease payments under operating leases on land and buildings	656	658	1,987	1,924
Rental income on investment properties	(138)	(159)	(316)	(469)
Less: outgoings	<u>13</u>	<u>22</u>	<u>16</u>	<u>74</u>
Net rental income	<u>(125)</u>	<u>(137)</u>	<u>(300)</u>	<u>(395)</u>
Employee benefit expense (including directors' remuneration):				
Wages, salaries and allowances	10,172	9,542	25,371	24,145
Pension scheme contributions*	125	264	683	731
Less: Amount capitalised	<u>(3,596)</u>	<u>(3,666)</u>	<u>(9,024)</u>	<u>(9,570)</u>
	<u>6,701</u>	<u>6,140</u>	<u>17,030</u>	<u>15,306</u>
Provision for cash loss [^]	—	21,982	—	21,982
Loss on disposal of items of property, plant and equipment [^]	9	27	9	58
Foreign exchange differences, net [^]	(43)	2	(43)	(22)
Reversal of impairment of accounts receivable [^]	<u>—</u>	<u>—</u>	<u>(259)</u>	<u>—</u>

* At 31 December 2018, there were no forfeited contributions available to the Group to reduce contributions to the pension schemes in future years (31 March 2018: Nil).

[^] These amounts included in "Other operating income/(expenses), net" on the face of the condensed consolidated statement of profit or loss.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	231	42	346	135
Interest on convertible bonds	930	839	2,761	2,492
Less: Interest capitalised	(214)	(36)	(283)	(114)
	947	845	2,824	2,513

7. INCOME TAX

Hong Kong profits tax had been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the nine months ended 31 December 2017 and 2018, unless the Group's subsidiaries did not generate any assessable profits arising in Hong Kong during that period or the Group's subsidiaries had available tax losses brought forward from prior years to offset the assessable profits generated during that period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current — Hong Kong				
Charge for the period	—	—	—	900
Current — Elsewhere				
Charge for the period	—	36	—	71
Deferred	—	(484)	(22)	(562)
Total tax charge/(credit) for the period	—	(448)	(22)	409

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)

* The share options granted on 3 February 2016 had an anti-dilutive effect on the basic earnings/(loss) per share and have not been included in the diluted earnings/(loss) per share calculation for the three months ended and nine months ended 31 December 2018 and 2017.

Because the diluted earnings/(loss) per share amounts increase/(decrease) when taking convertible bonds into account for the three months and nine months ended 31 December 2018 and 2017, the convertible bonds had an anti-dilutive effect on the basic earnings/(loss) per share for these periods. Accordingly, they were ignored in the calculation of diluted earnings/(loss) per share in these periods. Therefore, the diluted earnings/(loss) per share amounts for the three months ended 31 December 2018 and nine months ended 31 December 2018 are based on the loss of HK\$7,214,000 (three months ended 31 December 2017: loss of HK\$24,613,000) and loss of HK\$13,822,000 (nine months ended 31 December 2017: profit of HK\$20,847,000) respectively and the weighted average number of ordinary shares in issue of 1,000,000,000 (three months ended 31 December 2017: 1,000,000,000) and 1,000,000,000 (nine months ended 31 December 2017: 1,000,000,000) respectively.

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2018 (nine months ended 31 December 2017: Nil).

10. SHARE CAPITAL

	(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 31 March 2018 <i>HK\$'000</i>
Authorised:		
4,000,000,000 ordinary shares of HK\$0.025 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
1,000,000,000 ordinary shares of HK\$0.025 each	<u>25,000</u>	<u>25,000</u>
	Number of shares in issue	Share premium account <i>HK\$'000</i>
	Issued capital <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2018 and 31 December 2018	<u>1,000,000,000</u>	<u>25,000</u>
	<u>9,381</u>	<u>34,381</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's principal businesses are (i) acting as a contractor in the building industry operating in Hong Kong, the People's Republic of China (the "PRC") and Macau where we provide one-stop comprehensive services with the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering ("E&M") works; and (c) alterations, addition, renovation, refurbishment and fitting-out works; and (ii) investment in securities, where the Group invests in long term and short term investment in marketable securities; and (iii) property investment in Hong Kong.

The Group's turnover for the nine months ended 31 December 2018 was approximately HK\$532,776,000 which represented a significant decrease of approximately 14% from approximately HK\$615,967,000 for the nine months ended 31 December 2017. For the construction segment, turnover for the nine months ended 31 December 2018 was approximately HK\$536,720,000 which represented a decrease of 8% from approximately HK\$583,108,000 for the nine months ended 31 December 2017. For the investment in marketable securities segment, turnover for the nine months ended 31 December 2018 was a loss of approximately HK\$4,260,000 which represented a significant decrease of 113% from a profit of approximately HK\$32,859,000 for the nine months ended 31 December 2017. For the property investment segment, turnover for the nine months ended 31 December 2018 was approximately HK\$316,000.

(i) Construction Segment

(a) Building construction works:

For the nine months ended 31 December 2018, revenue recorded at this section amounted to approximately HK\$125,845,000 (nine months ended 31 December 2017: HK\$122,695,000).

The increase by approximately 3% was due to the additional turnover recognised for (i) the main contractor works for one residential redevelopment works including E&M works at Peak Road, Hong Kong which commenced in January 2018; and (ii) the site formation and foundation works at Peak Road Zone C, Hong Kong which commenced in June 2018. No revenue was recognised for these projects in the last reporting period.

The above increase was partly offset by the decrease of turnover for the site formation and foundation works for a residential house redevelopment at Peak Road Zone A and Zone B, Hong Kong which was almost completed for the year ended 31 March 2018, thus just a few portion of the revenue was recognised in this Reporting Period. Besides, the variation order works for these main contractor works for four residential houses at Stubbs Road, Hong Kong of which the corresponding main contract was completed in the year ended 31 March 2015 were recognised last year. No such revenue was recognised in this reporting period.

(b) Electrical and mechanical engineering works:

For the nine months ended 31 December 2018, revenue recorded at this section amounted to approximately HK\$142,018,000 (nine months ended 31 December 2017: HK\$192,574,000). The significant decrease by approximately 26% was due to the substantial completion of some projects before 31 March 2018 and therefore less revenue was recognised in this reporting period. These projects include: (i) the building services installation works of two special schools at Sung On Street, To Kwa Wan, Kowloon, Hong Kong; (ii) the building services installation works of 36-classroom primary school at Area 36 in Fanling, New Territories, Hong Kong; (iii) the term contract for building services installation works at Sogo Department Store, Causeway Bay, Hong Kong; (iv) the triennial term contract for the maintenance & repair of alterations and additions fire services installations for the Health Services Buildings in the Hong Kong region and Outlying Islands; and (v) the electrical installation at Lot 1003 at Demarcation District No 40, Sha Tau Kok, New Territories, Hong Kong.

The above decrease was partly offset by (i) the additional work done during this Reporting Period for the school redevelopment project at Ying Wa Girls' School; and (ii) new contracts commenced after last reporting period which included the interior renovation works at Sogo Department Store, Causeway Bay, Hong Kong and term contract for building services works at Sogo Department Store, Causeway Bay, Hong Kong.

(c) Fitting-out works:

For the nine months ended 31 December 2018, revenue recorded at this section amounted to approximately HK\$268,857,000 (nine months ended 31 December 2017: HK\$267,839,000).

The slight increase by approximately 0.4% was because of more revenue recognised for the following projects which commenced in this Reporting Period: (i) the fitting-out works of House A at Stubbs Road, Hong Kong in April 2018; (ii) the fitting-out works of a locker room of a sports hall in Hebei, the PRC in January 2018; and (iii) the fitting-out works at Pik Sha Road, Hong Kong in July 2018.

The above increase was partly offset due to: (i) the completion of a fitting-out work contract of residential house at Henderson Road, Hong Kong in May 2017; (ii) the completion of fitting-out works of an office at the China Insurance Group Building, Central, Hong Kong; and (iii) the amount received in the last reporting period for a project in Beijing, the PRC, that was in dispute with a client. No further amount was received in the current Reporting Period and therefore no revenue was recognised in this Reporting Period.

(ii) Investment in Marketable Securities Segment

For the nine months ended 31 December 2018, loss recorded from this segment amounted to approximately HK\$4,260,000 (nine months ended 31 December 2017: profit of HK\$32,859,000).

As at 31 December 2018, the Group managed a portfolio of listed equity investments with fair value of approximately HK\$15 million (31 March 2018: HK\$20 million) which are classified as financial assets at fair value through profit or loss.

During the Reporting Period, the Group recorded (i) an unrealised loss on fair value change of listed equity investments of approximately HK\$4,206,000 (nine months ended 31 December 2017: HK\$1,191,000); (ii) a realised loss of approximately HK\$54,000 (nine months ended 31 December 2017: realised gain of HK\$33,891,000); and (iii) no dividend income from these equity investments (nine months ended 31 December 2017: approximately HK\$159,000). Details of the marketable securities are disclosed under the section “**SIGNIFICANT INVESTMENTS**”.

(iii) Property Investment Segment

For the nine months ended 31 December 2018, revenue recorded from this segment amounted to approximately HK\$316,000 (nine months ended 31 December 2017: Nil). It was mainly attributable to rental income earned from the investment properties.

In March 2018, the Group has entered into a sale and purchase agreement with a third party to acquire the entire share capital of a company which is principally engaged in property holding investment for a consideration of HK\$8,500,000. The property is located in Jordan, Kowloon, Hong Kong with a saleable area of 652 square feet. The transaction was completed on 30 April 2018. In May 2018, the Group has entered into another sale and purchase agreement to acquire a property holding company for a consideration of HK\$10,300,000. The property is located in Wanchai, Hong Kong with a saleable area of 681 square feet. The transaction was completed on 29 June 2018.

Both properties are located in a prime area of Hong Kong, which is near the MTR station. Tenancy agreements will be entered into or renewed upon expiry of the current leases in respect of both properties in order to earn additional income for the Group. The Board considers that the acquisitions are a sound investment which could provide potential capital appreciation opportunity and recurring cashflow to the Group. The Group’s existing portfolio consists of commercial properties in Hong Kong. The acquisitions, which involved rental income earned from commercial properties in Hong Kong, will strengthen the Group’s portfolio and its presence at the market.

Due to the (i) loss incurred in E&M works because of rising costs consistent with the market conditions both in labour and material throughout the contractual period and extra costs for extended contractual period in some projects as well for the nine months ended 31 December 2018; and (ii) fair value loss of the marketable securities for the nine months ended 31 December 2018, the net loss attributable to owners of the Company for this Reporting Period is approximately HK\$13,822,000 as compared with the net profit attributable to owners of the Company which amounted to approximately HK\$20,847,000 for the nine months ended 31 December 2017. The above decrease was partly offset by the provision for cash loss arising from certain suspicious internet frauds which involved fraudulent transfers of funds of approximately HK\$22 million from the bank account of Beijing Chang-de Architectural Decoration Co., Limited (“**Beijing Chang-De**”), a 60% owned subsidiary in the last reporting period. No such loss was recognised in current period. Details of the case are included in the section headed “**Status of the legal case**”.

Basic loss per share is HK1.38 cents for the period ended 31 December 2018.

Status of the legal case

As announced in the announcement of the Company dated 21 December 2017, the Group has reported to the Beijing Public Security Bureau a suspected case of internet fraud which involved fraudulent transfers of funds of approximately HK\$22 million (approximately RMB19 million) from the bank account of Beijing Chang-De. The matter is currently under the investigation of the Beijing Public Security Bureau. The Group has instructed its legal advisers in Mainland China to issue a letter to seek damages from the PRC bank involved for their failure to notify Beijing Chang-De of the irregular internet banking transactions or preventing further payments to be made online, as required under the relevant banking rules and regulations under the PRC laws. As at the date of this announcement, we are unable to ascertain the recoverability of the funds transferred.

In relation to the above matter, Beijing Chang-De has immediately: (i) established an investigation committee to investigate and report on the matter; (ii) commenced civil proceedings against the personnel involved for professional negligence and misconduct for damages caused while at the same time seek a property preservation order during the proceedings; (iii) terminated the employment contract of the personnel involved in accordance with the statutory requirements and sued such personnel for fraud; and (iv) reported to the relevant accounting association on the professional negligence and misconduct of the relevant personnel involved.

Financial Review

Turnover

For the nine months ended 31 December 2018, the Group's turnover amounted to approximately HK\$533 million, decreased by approximately 14% as compared to the last reporting period. The decrease in turnover was mainly due to (i) the decrease in turnover arising from the projects of the construction business; and (ii) the significant decrease in the fair value gain recognised for the marketable securities.

Gross profit margin

Our gross profit decreased significantly by approximately HK\$52 million or 83%, from approximately HK\$63 million for the nine months ended 31 December 2017 to approximately HK\$11 million for the nine months ended 31 December 2018. The decrease in gross profit was mainly arising from the fair value loss for the marketable securities.

During the nine months ended 31 December 2018, the gross profit margin was approximately 2.0%, down significantly by 8.2 percentage points as compared to last period's 10.2%. This is mainly because of (i) the change from gain from the investment in security segment in the last report period to a loss incurred for the same segment; and (ii) loss incurred for the E&M works.

After excluding the portion generating from the investment in marketable securities segment and property investment segment, the gross profit margin for this Reporting Period was approximately 2.7%, down by 2.5 percentage points as compared to the last period's 5.2%. The significant decrease was due to the loss incurred for the E&M section.

Other income

Other income increased significantly by approximately HK\$2.1 million or 227% from approximately HK\$935,000 for the nine months ended 31 December 2017 to approximately HK\$3,057,000 for the nine months ended 31 December 2018. The increase is mainly because of the compensation received from a winding-up company which related to a long outstanding contracts amount which full provision has already been made in the previous years.

Administrative expenses

Administrative expenses decreased slightly by approximately HK\$0.5 million or approximately 2% from approximately HK\$26.6 million for the nine months ended 31 December 2017 to approximately HK\$26.1 million for the nine months ended 31 December 2018. The slight decrease was mainly because of the decrease of staff cost of Beijing Chang-De due to the drop of number of staff.

Other operating income/(expenses)

The amount was changed from a loss of approximately HK\$22 million for the nine months ended 31 December 2017 to an income of approximately HK\$0.3 million for the nine months ended 31 December 2018. Prior period's amount mainly represented the provision for cash loss arising from certain suspicious internet frauds which involved fraudulent transfers of funds of approximately HK\$22 million from the bank account of the Beijing Chang-De.

Finance costs

Finance costs increased by approximately HK\$0.3 million or 12% from approximately HK\$2.5 million for the nine months ended 31 December 2017 to approximately HK\$2.8 million for the nine months ended 31 December 2018. The increase was mainly due to the increase in interest of liability component of the convertible bonds.

Dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2018 (nine months ended 31 December 2017: Nil).

Liquidity and financial resources

The Group continued to maintain a suitable liquid position. As at 31 December 2018, the Group had cash and cash equivalents of HK\$60,244,000 (31 March 2018: HK\$54,314,000) mainly in Hong Kong dollar and Renminbi. As at 31 December 2018, the Group had total assets of HK\$433,392,000 (31 March 2018: HK\$403,172,000). The Group's current ratio as at 31 December 2018 was 1.27 compared to 1.60 at 31 March 2018.

As at 31 December 2018, the gearing ratio for the Group is 1% (31 March 2018: 18%). It was calculated based on the non-current liabilities of HK\$1,106,000 (31 March 2018: HK\$29,423,000) and long term capital (equity and non-current liabilities) of HK\$123,309,000 (31 March 2018: HK\$164,764,000).

Capital expenditure

Total capital expenditure for the nine months ended 31 December 2018 was approximately HK\$18,825,000, which was mainly used in the purchase of investment properties.

Contingent liabilities

At the end of the reporting date, there were no significant contingent liabilities for the Group.

Commitments

At the end of the reporting date, there were no significant capital commitments for the Group.

Charges on group assets

The Group's banking facilities are secured by:

- (i) the pledge of the Group's leasehold land and buildings situated in Hong Kong of HK\$18,988,000 (31 March 2018: HK\$19,400,000); and
- (ii) the pledge of the Group's deposits of HK\$26,302,000 (31 March 2018: HK\$26,236,000).

Treasury policies

The Directors will continue to follow a prudent policy in managing its cash balances and maintain a strong and healthy level of liquidity to ensure that the Group is well- placed to take advantage of growth opportunities. Interest for the current bank borrowings were mainly on floating rate basis and the bank borrowings are principally denominated in Hong Kong dollars, hence, the Group has no significant exposure to foreign exchange rate fluctuations.

Exchange risk exposure

The Group is mainly exposed to Renminbi, which arises from the relevant group entities' foreign currency denominated monetary assets and liabilities for the Group's operating activities.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

Capital structure of the Group

There is no change in capital structure of the Group during the period ended 31 December 2018.

As at 31 December 2018, the Company had outstanding convertible bonds with the aggregate principal amount of HK\$30,900,000 held by six independent third parties.

Based on the initial conversion price of HK\$0.30 per conversion share, 103,000,000 conversion shares will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the Convertible Bonds which represent approximately 10.3% of the existing issued share capital of the Company as at the date of approval of these financial statements.

Prospects

(i) Construction Business

The Group will uphold an on-going parallel development of its construction business (including building construction and E&M works) in the PRC, Hong Kong and Macau. To cope with the difficulties encountered in the construction and engineering industry, the Group has adopted a prudent strategy in project tendering.

With its proven track records and adequate expertise in the main contracting business, the Group obtained “List of Approved Contractors for Public Works under Group C of the Building Category under Environment, Transport and Works Bureau of the HKSAR”. Together with the licence in Group II under the “Turn-key Interior Design and Fitting-out Works” under the “List of Approved Suppliers of Materials and Specialist Contractors for Public Works” and the 11 licences held under the “List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Environment, Transport and Works Bureau of the Government of the HKSAR”, the Group is well-equipped to take an active part in the construction business development.

During the Reporting Period, new projects were granted such as the site formation and foundation works at Peak Road Zone C, Hong Kong, the main contractors works including E&M works of one residential house at Peak Road (through an unincorporated joint venture company), the interior renovation works for Sogo office at East Point Centre, Causeway Bay, Hong Kong, the replacement of air-cooled chiller and modification of chiller plant at Ho Man Tin Government Offices, the fitting-out works of House A at No. 48 Stubbs Road, Hong Kong, fitting-out works at Pik Sha Road, Sai Kung, the fitting-out works of a House C at No. 48 Stubbs Road, Hong Kong, the fitting-out works of a residential in Guanghua New Town Residential District, Beijing, the PRC, the fitting-out works of offices at the Beijing Capital International Airport, the fitting-out works of an office in Xicheng, Beijing, the PRC and a redevelopment project of a kindergarten in Shunyi, Beijing, the PRC. As at the date of this announcement, the Group has contracts on hand with a total contract sum of over HK\$1,554 million.

With the Group’s proven track record, comprehensive services and numerous licences, permits and qualifications, the Directors believe that the Group could strengthen its position in the Hong Kong market and diversify its customer base particularly by attracting larger corporate customers and tenders for more capital intensive projects for such customers. While the outlook for the construction industry in Hong Kong looks promising in the long run, there remain challenges that are unlikely to dissipate in the near future. The overall building and construction expenditure maintained its stable trend which was contributed by the growth in private building and construction activity and public building and construction expenditure stayed at a high level.

In view of the growth prospects for both public and private development projects, the Group intends to expand the business capacity and scale to strengthen its market position in Hong Kong to capture more sizeable and profitable projects. The Group intends to further diversify the customer base by bidding works from more private residential developers.

While the construction sectors keep its stable trend, the Group's divisions in building construction and E&M faced keen competition as reflected in very close tender prices amongst tenderers. The management of all the Group's divisions are cautious in securing business and maintaining satisfactory margin. With the satisfactory level of contracts on hand, the Board is cautiously optimistic on the Group's business development in the future.

With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) further expand the Group's service scope by applying for additional licences, permits or qualifications which may be required; (ii) exercise more caution when tendering for new construction contracts and continue to selectively undertake new contracts; and (iii) further strengthen the Group's construction department through recruiting additional qualified and experienced staff.

(ii) Investment in Securities Business

Regarding the business in investments in securities, the Group has set up a Treasury Management Committee ("**Treasury Management Committee**") to implement on the Group's behalf the investment policy and guidelines. The Treasury Management Committee comprises one chairman and two committee members (comprising of two directors and the financial controller of the Company, including at least one executive director who acts as the investment manager). The Board will adopt cautious measures to manage this business activity aiming at generating additional investment return on the available funds of the Group from time to time.

Despite uncertainties in the global financial markets, the Group will continue to respond to the changing market environment and review its investment strategy regularly. The Group will also seek investment opportunities in listed securities and other financial products in Hong Kong and other recognised financial markets overseas with a view to generate additional income and enhance the capital use of the Group.

In view of the recent volatility in the stock market, the Board will adopt cautious measures to manage the Group's investment portfolio with an aim to provide positive return to the Group in the near future.

(iii) Property Investment Business

In March 2018, the Group has entered into a sale and purchase agreement with a third party to acquire the entire share capital of a company which is principally engaged in property holding investment for a consideration of HK\$8,500,000. The property is located in Jordan, Kowloon, Hong Kong with a saleable area of 652 square feet. The transaction was completed on 30 April 2018. In May 2018, the Group has entered into another sale and purchase agreement to acquire a property holding company for a consideration of HK\$10,300,000. The property is located in Wanchai, Hong Kong with a saleable area of 681 square feet. The transaction was completed on 29 June 2018.

Both properties are located in a prime area of Hong Kong, which is near the MTR station. Tenancy agreements will be entered into or renewed upon expiry of the current leases in respect of both properties in order to earn additional income for the Group. The Board considers that the acquisitions are sound investments which could provide potential capital appreciation opportunity and recurring cashflow to the Group. The Group's existing portfolio consists of commercial properties in Hong Kong. The acquisitions, which involve a commercial property in Hong Kong, will strengthen the Group's portfolio and its presence at the market.

The Directors, including the independent non-executive Directors, are of the view that the terms of the sale and purchase agreements are fair and reasonable and the acquisitions are in the interests of the Group and the shareholders of the Company as a whole.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Group held approximately HK\$15 million financial assets at fair value through profit or loss. Details of the significant investments are as follows:

		Stock		Unrealised fair	Market	Approximate	
	Notes	Code	Place of incorporation	value gain/(loss)	values	percentage of	Approximate
				HK\$'000	HK\$'000	assets at fair	percentage to
						value through	the net assets
						profit or loss	of the Group
						%	%
SOHO China Limited	1	410	Cayman Islands	(39.6)	83.7	0.54	0.07
Singamas Container Holdings Limited	2	716	Hong Kong	(26.0)	105.0	0.68	0.09
Shun Wo Group Holdings Limited	3	1591	Cayman Islands	(1,647.0)	2,295.0	14.92	1.90
Pantronics Holdings Limited	4	1611	British Virgin Islands	3,896.4	5,660.5	36.81	4.68
EJE (Hong Kong) Holdings Limited	5	8101	Cayman Islands	(5,724.0)	7,056.0	45.88	5.83
Koala Financial Group Limited	6	8226	Cayman Islands	(666.0)	180.0	1.17	0.14
				<u>(4,206.20)</u>	<u>15,380.2</u>	<u>100.00</u>	<u>12.71</u>

Notes:

- SOHO China Limited is principally engaged in real estate development, property leasing and property management. No dividend was received during the period. According to its latest published financial statements, it had net asset value of approximately RMB34,939,542,000 as at 30 June 2018.
- Singamas Container Holdings Limited is principally engaged in (i) manufacturing of marine dry freight containers, refrigerated containers, collapsible flatrack containers, tank containers, US domestic containers, offshore containers, other specialized containers and container parts and (ii) provision of container storage, repair and trucking services, serving as a freight station, container/cargo handling and other container related services. No dividend was received during the period. According to its latest published financial statements, it had net asset value of approximately USD613,937,000 as at 30 June 2018.
- Shun Wo Group Holdings Limited is engaged in undertaking foundation works in Hong Kong. No dividend was received during the period. According to its latest published financial statements, it had net asset value of approximately HK\$162,942,000 as at 30 September 2018.
- Pantronics Holdings Limited is principally engaged in the electronic manufacturing services. No dividend was received during the period. According to its latest published financial statements, it had net asset value of approximately HK\$134,887,000 as at 30 September 2018.
- EJE (Hong Kong) Holdings Limited is principally engaged in (i) the design, manufacture and sale of mattress and soft bed products; (ii) securities investment; (iii) property investment in Hong Kong; (iv) money lending in Hong Kong; and (v) manufacture of custom-made furniture in the PRC. No dividend was received during the period. According to its latest published financial statements, it had a net asset value of approximately HK\$318,355,000 as at 30 September 2018.

6. Koala Financial Group Limited is principally engaged in (i) securities investment; (ii) trading of commodities; (iii) trading of garment accessories; (iv) manufacturing and sales of LED digital display products; (v) provision of securities placing and brokerage services; (vi) money lending; and (vii) leasing of investment properties. No dividend was received during the period. According to its latest published financial statements, it had net asset value of approximately HK\$242,886,000 as at 30 June 2018.

During the nine months ended 31 December 2018, the Group disposed some of the investments in market and the sales proceeds generated from the investments in marketable securities amounted to approximately HK\$5.7 million and loss recognised in revenue for the amount of HK\$53,500. Details of the transactions are as follows:

	Stock code	Place of incorporation	Sales proceeds <i>HK\$'000</i>	Realised gain/(loss) <i>HK\$'000</i>
DTXS Silk Road Investment Holdings Company Limited	620	Bermuda	817	(15.3)
Pantronics Holdings Limited	1611	BVI	36	1.7
FSM Holdings Limited	1721	Cayman Islands	3,291	(17.1)
GCL-Poly Energy Holdings Limited	3800	Cayman Islands	<u>1,516</u>	<u>(22.8)</u>
			<u>5,660</u>	<u>(53.5)</u>

In view of the recent volatility in the stock market, the Board will adopt cautious measures to manage the Group's investment portfolio with an aim to provide positive return to the Group in the near future.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 10 August 2015 and the Stock Exchange granting approval of the listing of and permission to deal in the shares to be issued under the share option scheme (the “Scheme”) on 11 August 2015, the Company adopted the Share Option Scheme. Under the terms of the Scheme, the Board of the Company may, at its discretion, grant options to eligible participants to subscribe for shares in the Company. The Scheme became effective on 10 August 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Company had 80,000,000 share options available for issue under the Scheme, which represented approximately 8% of the issued shares of the Company as at 31 December 2018.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 10 years after the date when the option is granted and will expire on the last date of such period.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting date are as follows:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of the Company's shares**	
	At 1 April 2018	Granted during the period	Exercised during the period	At 31 December 2018			Exercise price of share options* <i>HK\$ per share</i>	At grant date of options <i>HK\$ per share</i>
Directors:								
Keung Kwok Cheung	2,400,000	—	—	2,400,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Kwok Koon Keung	2,200,000	—	—	2,200,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Lo Wing Ling	2,200,000	—	—	2,200,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Ong Chi King	1,000,000	—	—	1,000,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Lee Tho Siem	1,000,000	—	—	1,000,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Cheung Ting Kee	1,000,000	—	—	1,000,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Ong King Keung	1,000,000	—	—	1,000,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
	<u>10,800,000</u>	<u>—</u>	<u>—</u>	<u>10,800,000</u>				
Other employees, in aggregate	7,200,000	—	—	7,200,000	3 February 2016	3 February 2016 to 2 February 2019	0.28	0.255
Total	<u>18,000,000</u>	<u>—</u>	<u>—</u>	<u>18,000,000</u>				

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing price immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the each of the Directors and the chief executive in shares, underlying shares or debentures of the Company or any associated corporation (within in the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of GEM Listing Rules, were as follows:

A. Long positions in ordinary shares of the Company

Name of Directors	Number of ordinary shares held, capacity and nature of interest		Number of underlying ordinary shares of HK\$0.025 each in the Company	Options*	Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation				
Mr. Keung Kwok Cheung	—	—		2,400,000	2,400,000	0.24%
Mr. Kwok Koon Keung	500	—		2,200,000	2,200,500	0.22%
Mr. Lo Wing Ling	—	—		2,200,000	2,200,000	0.22%
Mr. Ong Chi King	8,802,000	—		1,000,000	9,802,000	0.98%
Mr. Tjia Boen Sien ("Mr. Tjia")	22,887,200	338,414,868		—	361,302,068	36.13%
		(Note 1)				
Mr. Ong King Keung	—	—		1,000,000	1,000,000	0.10%
Mr. Lee Tho Siem	—	—		1,000,000	1,000,000	0.10%
Mr. Cheung Ting Kee	—	—		1,000,000	1,000,000	0.10%

* The options were granted on 3 February 2016 with consideration of HK\$1 under the Share Option Scheme adopted by the Company. The above options could be exercised from the date of grant to 2 February 2019 in accordance with the rules of the Share Option Scheme to subscribe for ordinary shares of HK\$0.025 each in the Company at an initial exercise price of HK\$0.28 per share. None of the options were exercised by any of the above Directors during the period. Further details of the Directors' interests in underlying shares in respect of the options are disclosed in Note 2 below.

Notes:

- (1) Mr. Tjia beneficially owns all the shares in Sparta Assets Limited (“**Sparta Assets**”), a company incorporated in the British Virgin Islands (“**BVI**”). Sparta Assets directly beneficially owned 26,645,000 shares in the Company and it beneficially owned 349,935,000 shares in DDIHL, representing 35.79% of the issued share capital in DDIHL. By virtue of the SFO, Mr. Tjia is deemed to be interested in 338,414,868 shares in the Company (being aggregate of 26,645,000 shares in the Company held by Sparta Assets and 311,769,868 shares in the Company indirectly owned by DDIHL (through DDHL) which Sparta Assets is deemed to be interested in).
- (2) Details of Directors’ interests in underlying shares in respect of the options granted under the Share Option Scheme are summarised as follows:

Name of Directors	Exercise price per share <i>HK\$</i>	Number of underlying ordinary shares of HK\$0.025 each in the Company in respect of which options have been granted
		Balance as at 31 December 2018
Mr. Keung Kwok Cheung	0.28	2,400,000
Mr. Kwok Koon Keung	0.28	2,200,000
Mr. Lo Wing Ling	0.28	2,200,000
Mr. Ong Chi King	0.28	1,000,000
Mr. Lee Tho Siem	0.28	1,000,000
Mr. Cheung Ting Kee	0.28	1,000,000
Mr. Ong King Keung	0.28	1,000,000

The above interests in the underlying shares of the Company in respect of options were held pursuant to unlisted physically settled equity derivatives.

B. Interest in shares and underlying shares of associated corporation — Deson Development International Holdings Limited (“DDIHL”)

Name of Directors	Number of ordinary shares of HK\$0.10 each in DDIHL		Number of underlying ordinary shares of HK\$0.10 each in DDIHL	Percentage of the DDIHL’s issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mr. Tjia	68,661,600(L)	349,935,000(L) <i>(Note 1)</i>	418,596,600	42.81%
Mr. Keung Kwok Cheung	300,000(L)	—	300,000	0.03%
Mr. Kwok Koon Keung	1,500(L)	—	1,500	—
Mr. Lee Tho Siem	1,785,000(L) <i>(Note 2)</i>	—	1,785,000	0.18%

Notes:

(L) denotes long position.

1. Mr. Tjia beneficially owns all the shares in Sparta Assets, a company incorporated in the BVI. Sparta Assets directly beneficially owned 349,935,000 shares in DDIHL. By virtue of the SFO, Mr. Tjia is deemed to be interested in 349,935,000 shares in DDIHL held by Sparta Assets.
2. Mr. Lee Tho Siem directly beneficially owned 1,110,000 shares and is deemed to be interested in 675,000 shares held by his spouse, Ms. Wong Kam Ching. By virtue of the SFO, Ms. Wong Kam Ching’s interest is taken to be Mr. Lee Tho Siem’s interest.

As at 31 December 2018, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of physically settled, cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2018, so far as is known to the Directors of the Company, the following persons (other than Directors or chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
DDHL	Beneficial owner	311,769,868	31.18%
DDIHL	Interest in controlled corporation (Note 1)	311,769,868	31.18%
Sparta Assets	Beneficial owner	26,645,000	2.66%
	Interest in controlled corporations (Note 2)	311,769,868	31.18%

Notes:

1. DDHL is a company incorporated in the BVI and is wholly owned by DDIHL. DDIHL is deemed to be interested in the shares beneficially owned by DDHL.
2. Sparta Assets directly beneficially owned 349,935,000 shares in DDIHL, representing 35.79% of the issued share capital in DDIHL. By virtue of the SFO, Sparta Assets is deemed to be interested in 311,769,868 shares indirectly owned by DDIHL (through DDHL).

Save as disclosed above, as at the 31 December 2018, none of the substantial or significant shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the section "**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**" above, had any interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

Save as disclosed above, the Directors are not aware of any business and interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the Reporting Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules. No director has dealt in the shares of the Company during the Reporting Period.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 December 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to a high standard of corporate governance practices in enhancing the confidence of shareholders, investors, employees, creditors and business partners and also the growth of its business. The Board has and will continue to review and improve the Company's corporate governance practices from time to time in order to increase its transparency and accountability to shareholders.

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules as its own corporate governance code since the Listing Date. The Company has, so far as applicable, principally complied with the CG Code during the Reporting Period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial control, internal control and risk management systems of the Group, and provide advice and comments on the Group's financial reporting matters to the Board. As at the date of this announcement, the audit committee comprises of three independent non-executive Directors, namely Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Chan Ka Yin.

The unaudited third quarterly results of the Company for the nine months ended 31 December 2018 have not been audited by the Company's independent auditor, but have been reviewed by the audit committee members who have provided advice and comments thereon.

By order of the Board
Deson Construction International Holdings Limited
Keung Kwok Cheung
Chief Executive Officer and Executive Director

Hong Kong, 11 February 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Keung Kwok Cheung, Mr. Kwok Koon Keung, Mr. Lo Wing Ling and Mr. Ong Chi King as executive Directors; Mr. Tjia Boen Sien and Mr. Ong King Keung as non-executive Directors; and Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Chan Ka Yin as independent non-executive Directors.