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Hong Kong Johnson Holdings Co., Ltd.

香港莊臣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1955)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Hong Kong Johnson Holdings Co., Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2019 (the “**Period**”), together with the comparative figures for the corresponding period of 2018.

FINANCIAL HIGHLIGHTS

	Six months ended 30 September		Change
	2019	2018	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Revenue	853,395	691,767	23.4%
Gross profit	58,506	51,985	12.5%
Gross profit margin (%)	6.9%	7.5%	
Profit for the period attributable to the owners of the Company	15,442	13,293	16.2%
Adjusted profit for the period attributable to the owners of the Company ^{(1)&(2)}	20,749	17,880	16.0%

Notes:

- (1) Adjusted profit is derived by adding listing expenses from the profit for the Period.
- (2) This non-GAAP financial data is a supplemental financial measure that is not required by, or presented in accordance with, HKFRSs and is therefore referred to as a “non-GAAP” financial measure. It is not a measurement of the Group’s financial performance under HKFRSs and should not be considered as an alternative to profit from operations or any other performance measures derived in accordance with HKFRSs or as an alternative to cash flows from operating activities or as a measure of the Group’s liquidity.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	<i>Note</i>	Six months ended 30 September	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	853,395	691,767
Cost of services		<u>(794,889)</u>	<u>(639,782)</u>
Gross profit		58,506	51,985
Other income	6	728	192
Other gains and losses		138	237
Administrative expenses		(34,558)	(32,730)
Reversal of impairment loss/(impairment loss) on account receivables		<u>7</u>	<u>(68)</u>
Profit from operations		24,821	19,616
Finance costs	7	<u>(5,076)</u>	<u>(3,108)</u>
Profit before tax		19,745	16,508
Income tax expense	8	<u>(4,303)</u>	<u>(3,215)</u>
Profit for the period attributable to owners of the Company	9	15,442	13,293
Other comprehensive income for the period, net of tax		<u>–</u>	<u>–</u>
Total comprehensive income for the period attributable to owners of the Company		<u>15,442</u>	<u>13,293</u>
Earnings per share			
Basic and diluted (HK cents per share)	11	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	<i>Note</i>	At 30 September 2019 <i>HK\$'000</i> (Unaudited)	At 31 March 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>12</i>	55,728	36,896
Prepaid land lease payments		–	17,615
Right-of-use assets	<i>13</i>	27,453	–
Financial assets at fair value through profit or loss (“FVTPL”)		18,660	18,570
		<hr/>	<hr/>
Total non-current assets		101,841	73,081
Current assets			
Prepaid land lease payments		–	652
Account receivables	<i>14</i>	454,590	268,763
Prepayments, deposits and other receivables		9,203	8,411
Current tax assets		1,051	1,420
Pledged bank deposits		16,239	16,360
Bank and cash balances		97,023	87,297
		<hr/>	<hr/>
Total current assets		578,106	382,903
Current liabilities			
Account payables	<i>15</i>	23,168	13,840
Accruals, other payables and provisions		175,646	151,191
Bank borrowings		285,766	113,749
Finance lease payables		–	2,715
Lease liabilities		2,798	–
		<hr/>	<hr/>
Total current liabilities		487,378	281,495
Net current assets		90,728	101,408
		<hr/>	<hr/>
Total assets less current liabilities		192,569	174,489
		<hr/>	<hr/>

	<i>Note</i>	At 30 September 2019 HK\$'000 (Unaudited)	At 31 March 2019 HK\$'000 (Audited)
Non-current liabilities			
Provisions		3,049	3,097
Finance lease payables		–	7,437
Lease liabilities		6,187	–
Deferred tax liabilities		6,859	2,926
		<hr/> 16,095	<hr/> 13,460
Total non-current liabilities		<hr/> 16,095	<hr/> 13,460
NET ASSETS		<hr/> 176,474	<hr/> 161,029
EQUITY			
Share capital	<i>16</i>	3,750	3,750
Reserves		172,724	157,279
		<hr/> 176,474	<hr/> 161,029
TOTAL EQUITY		<hr/> 176,474	<hr/> 161,029

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 9 July 2018. The address of its registered office is 4th floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands. The address of its principal place of business is 11/F, China Aerospace Centre, 143 Hoi Bun Road, Kwun Tong, Hong Kong.

The Company is an investment holding company. The Group is engaged in provision of cleaning, janitorial and other related services.

In the opinion of the directors of the Company, as at 30 September 2019, Zhuhai Huafa Group Company Limited, a company incorporated in the PRC, is the ultimate parent of the Company.

Upon completion of the group reorganisation (the “**Group Reorganisation**”), the Company became the holding company of the subsidiaries now comprising the Group on 18 February 2019.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of global offering (the “**Listing**”) on 16 October 2019 (the “**Listing Date**”). In connection with the global offering completed on the Listing Date, the Company issued a total of 125,000,000 shares at an offer price of HK\$1.0 per share.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

These condensed consolidated financial statements should be read in conjunction with the financial information for the year ended 31 March 2019 as included in the accountants’ report of the Group as part of the prospectus for global offering issued by the Company on 27 September 2019 (the “**Prospectus**”). The accounting policies (including the key sources of estimate uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the accountant’s report as stated above for the year ended 31 March 2019 except as stated below.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2019. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted HKFRS 16 Leases from 1 April 2019. A number of other new standards are effective from 1 April 2019 but they do not have a material effect on the Group’s condensed consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases properties and motor vehicles.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The recognised right-of-use assets relate to the following types of assets:

	Balance as at	
	30 September 2019 HK\$'000	1 April 2019 HK\$'000
Properties	253	198
Motor vehicles	9,259	11,052
Prepaid land lease payments	17,941	18,267
Total right-of-use assets	<u>27,453</u>	<u>29,517</u>

Significant accounting policies

The Group recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include mainly warehouse and parking spaces. The leases typically run for a period from 1 to 2 years.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019. Right-of-use assets are measured at either:

- their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its warehouse; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring right-of-use assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of motor vehicles. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use assets and the lease liabilities at 1 April 2019 were determined at the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date.

(c) **Impacts of financial statements**

Impact on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The change in accounting policy affected the following items on the condensed consolidated statement of financial position (increase/ (decrease)) as at 1 April 2019 is summarised below.

	1 April 2019 HK\$'000
Assets	
Right-of-use assets	29,517
Property, plant and equipment	(11,052)
Prepaid land lease payments	(18,267)
	<hr/>
Total assets	198
	<hr/>
Liabilities	
Financial lease payables	(10,152)
Lease liabilities	10,347
	<hr/>
Total liabilities	195
	<hr/>
Equity	
Retained earnings	3
	<hr/>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied is 4.2%.

	1 April 2019 HK\$'000
Operating lease commitments at 31 March 2019 as disclosed in the Prospectus	362
	<hr/>
Add: Finance lease liabilities recognised as at 31 March 2019	10,152
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(156)
Less: Discounted using the incremental borrowing rate at 1 April 2019	(11)
	<hr/>
Lease liabilities recognised as at 1 April 2019	10,347
	<hr/>
Of which are:	
Current lease liabilities	2,854
Non-current lease liabilities	7,493
	<hr/>
	10,347
	<hr/>

Impact for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised HK\$18,069,000 of right-of-use assets and HK\$125,000 of lease liabilities as at 30 September 2019.

Also in relation to those leases that were previously classified as operating leases, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 September 2019, the Group recognised HK\$396,000 of depreciation charges and HK\$3,000 of finance costs from these leases.

4. SEGMENT INFORMATION

The Group has carried on a single business, which is provision of cleaning, janitorial and other related services in Hong Kong. Accordingly, there is only one single reportable segment of the Group which is regularly reviewed by the chief operating decision maker.

Geographical information:

No geographical information is presented as all of the Group's business is carried out in Hong Kong and the Group's revenue from external customers is generated and non-current assets are located in Hong Kong during the period.

5. REVENUE

The Group's operations and main revenue streams are those described in the Prospectus. The Group's revenue is derived from cleaning, janitorial and other related services income.

Disaggregation of revenue:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contract with customers within the scope of HKFRS 15		
Cleaning, janitorial and other related services income	853,395	691,767
Timing of revenue recognition		
Services transferred over time	853,395	691,767

6. OTHER INCOME

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest income	96	40
Dividend income from financial assets at FVTPL	50	51
Government subsidies (<i>note</i>)	562	101
Sundry income	20	–
	<u>728</u>	<u>192</u>

Note: The amounts represented the ex-gratia payments for the retirement of certain motor vehicles received from the Government of the Hong Kong Special Administrative Region.

7. FINANCE COSTS

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Finance lease charges	–	140
Interest on lease liabilities	214	–
Interest on bank borrowings	4,862	2,968
	<u>5,076</u>	<u>3,108</u>

8. INCOME TAX EXPENSE

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax – Hong Kong profits tax Provision for the period	<u>370</u>	<u>2,336</u>
	370	2,336
Deferred tax	<u>3,933</u>	<u>879</u>
	<u>4,303</u>	<u>3,215</u>

Pursuant to the laws and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the six months ended 30 September 2019 and 2018.

9. PROFIT FOR THE PERIOD

The Group's profit for the period is stated at after charging/(crediting) the following:

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Amortisation of prepaid land lease payments	–	326
Depreciation of property, plant and equipment	4,953	2,073
Depreciation of right-of-use assets	1,843	–
Gain on disposals/written off of property, plant and equipment, net	(48)	(18)
Listing expenses	5,307	4,587
(Reversal of impairment loss)/impairment loss on account receivables	(7)	68
Short term lease rentals	166	–
Operating lease charges – warehouse and parking space	–	173
	<hr/>	<hr/>

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: HK\$Nil).

11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this announcement, is not considered meaningful due to the Group Reorganisation and the basis of preparation of the results of the Group as set out in the relevant sections of the Prospectus.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group acquired property, plant and equipment of approximately HK\$34,501,000 (six months ended 30 September 2018: HK\$7,875,000).

Property, plant and equipment decreased by HK\$11,052,000 on 1 April 2019 following the adoption of HKFRS 16 (*note 3*).

13. RIGHT-OF-USE ASSETS

During the six months ended 30 September 2019, the Group entered into a new lease agreement for staff quarter for 2 years. The Group makes fixed payments depending on the usage of the asset during the contract period. On lease commencement, the Group recognised HK\$141,000 of right-of-use asset and lease liability.

14. ACCOUNT RECEIVABLES

	At 30 September 2019 <i>HK\$'000</i> (Unaudited)	At 31 March 2019 <i>HK\$'000</i> (Audited)
Account receivables	455,023	269,203
Allowance for account receivables	(433)	(440)
	<u>454,590</u>	<u>268,763</u>

The aging analysis of account receivables as at balance sheet date, based on invoice date, is as follow:

	At 30 September 2019 <i>HK\$'000</i> (Unaudited)	At 31 March 2019 <i>HK\$'000</i> (Audited)
Up to 90 days	427,233	244,994
91 to 180 days	22,440	19,812
181 days to 1 year	3,972	2,935
Over 1 year	1,378	1,462
	<u>455,023</u>	<u>269,203</u>

15. ACCOUNT PAYABLES

The aging analysis of account payables as at balance sheet date, based on the date of receipt of goods, is as follow:

	At 30 September 2019 <i>HK\$'000</i> (Unaudited)	At 31 March 2019 <i>HK\$'000</i> (Audited)
Up to 30 days	19,315	13,324
31 to 60 days	2,384	487
61 to 90 days	1,429	–
Over 90 days	40	29
	<u>23,168</u>	<u>13,840</u>

16. SHARE CAPITAL

	<i>Note</i>	Number of shares	Amount HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each			
– Upon incorporation on 9 July 2018	<i>(a)</i>	100	–
– Increase of authorised capital	<i>(c)</i>	37,499,900	3,750
– Increase upon share subdivision	<i>(e)</i>	337,500,000	–
		<hr/>	<hr/>
At 31 March 2019 (audited)		375,000,000	3,750
Increase of authorised capital	<i>(f)</i>	2,625,000,000	26,250
		<hr/>	<hr/>
At 30 September 2019 (unaudited)		3,000,000,000	30,000
		<hr/>	<hr/>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
– Upon incorporation on 9 July 2018	<i>(b)</i>	100	–
– Shares issued upon Group Reorganisation	<i>(d)</i>	37,499,900	3,750
– Increase upon share subdivision	<i>(e)</i>	337,500,000	–
		<hr/>	<hr/>
At 31 March 2019 (audited) and 30 September 2019 (unaudited)		375,000,000	3,750
		<hr/>	<hr/>

Note:

- (a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 July 2018, with an initial authorised share capital of HK\$10 divided into 100 shares of HK\$0.10 each.
- (b) One fully paid share was allotted and issued at the par value to the initial subscriber and subsequently transferred to Hong Kong Huafa Investment Holdings Limited (“**Hong Kong Huafa**”) on 9 July 2018. On the same day, the Company further allotted and issued 99 fully paid shares at par value to the then shareholders who directly held an interest in Johnson Cleaning Services Company Limited (“**Johnson Hong Kong**”), an indirectly wholly owned subsidiary of the Company.
- (c) On 29 November 2018, the authorised share capital of the Company was further increased by HK\$3,749,990 divided into 37,499,900 shares of HK\$0.10 each.
- (d) In the preparation of listing of the shares of the Company on the Main Board of Stock Exchange, the Group has undergone the Group Reorganisation, as more fully explained in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus. Pursuant to the Group Reorganisation, the Company became the holding company of Johnson Hong Kong on 29 November 2018 and the Group on 18 February 2019.
- (e) On 28 January 2019, the authorised share capital of the Company was subdivided from 37,500,000 shares of HK\$0.10 each into 375,000,000 shares of HK\$0.01 each. The subdivision of each of the existing issued shares of HK\$0.10 each in the capital of the Company into 10 subdivided shares of HK\$0.01 each.
- (f) On 3 September 2019, the authorised share capital of the Company was further increased from HK\$3,750,000 to HK\$30,000,000 divided into 3,000,000,000 shares of HK\$0.01 each.

17. CONTINGENT LIABILITIES

(a) Performance bonds

As at 31 March 2019 and 30 September 2019, there were contingent liabilities in respect of performance bonds relating to deposits for cleaning, janitorial and other related service projects and an employment compensation insurance contract issued by banks for the Group amounting to HK\$216,438,000 and HK\$221,719,000 respectively. The performance bonds were secured by pledged bank deposits, account receivables, buildings, prepaid land lease payments, right-of-use assets and financial assets at FVTPL.

As at 31 March 2019, the performance bonds were guaranteed by two directors, Mr. Cheung Kam Chiu and Mr. Szeto Wing Tak and two shareholders of the Company, Hong Kong Huafa and Canvest Environmental (China) Company Limited (“**Canvest (China)**”).

As at 30 September 2019, the performance bonds were guaranteed by two shareholders of the Company, Hong Kong Huafa and Canvest (China). All the guarantees had been released before 16 October 2019.

(b) Litigation

As at 31 March 2019 and 30 September 2019, the Group has been involved in several on-going litigations and claims concerning personal injuries of its existing or former employees with estimated claim amounts, net of estimated insurance deductibles, of approximately HK\$1,276,000 and HK\$1,076,000 respectively. In the opinion of the directors of the Company, the provision of insurance deductibles had been provided based on insurance policies. The estimated costs and expenses above the insurance deductibles are expected to be adequately covered by the Group’s insurance policies.

18. CAPITAL COMMITMENTS

	At 30 September 2019 <i>HK\$’000</i> (Unaudited)	At 31 March 2019 <i>HK\$’000</i> (Audited)
Contracted but not provided for:		
Consideration paid for purchase of property, plant and equipment	<u>4,389</u>	<u>1,342</u>

19. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended 30 September 2019 <i>HK\$’000</i> (Unaudited)	2018 <i>HK\$’000</i> (Unaudited)
Listing expenses paid to related companies (<i>note</i>)	<u>1,656</u>	<u>225</u>

- (b) Included in the condensed consolidated statement of financial position are the following balances with related parties:

	At 30 September 2019 <i>HK\$'000</i> (Unaudited)	At 31 March 2019 <i>HK\$'000</i> (Audited)
Prepayment (<i>note</i>)	<u>1,092</u>	<u>540</u>

- (c) The remuneration of directors and other members of key management during the period:

	Six months ended 30 September	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Basic salaries and allowances	5,441	5,191
Discretionary bonuses	3,586	2,763
Retirement benefit scheme contribution	<u>671</u>	<u>658</u>
	<u>9,698</u>	<u>8,612</u>

Note: The ultimate parent has controlling interests in the related companies.

20. EVENT AFTER THE BALANCE SHEET DATE

On 16 October 2019, the Company issued a total of 125,000,000 shares by way of global offering at an offer price of HK\$1.0 per share for a total cash consideration, before expenses, of HK\$125,000,000, and successfully listed its shares on the Main Board of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

The Group is a leading environmental hygiene service provider which provides a wide range of environmental hygiene services to all major districts throughout Hong Kong including provision of building cleaning service, park and recreation center cleaning service, street cleaning service, institutional cleaning service and other cleaning services.

The Group recorded a revenue of approximately HK\$853.4 million for the Period, representing an increase of 23.4% compared with the same period last year. The Group's overall gross profit margin decreased from approximately 7.5% to 6.9%, which was mainly due to the keen competition in the market, coupled with an increase in labour costs.

Profit attributable to owners of the Company increased by approximately HK\$2.1 million or 16.2% from approximately HK\$13.3 million for six months ended 30 September 2018 to approximately HK\$15.4 million for the Period. The increase was mainly due to the increase in gross profit by approximately HK\$6.5 million from our customers, partly offset by (i) increase in directors' bonus for approximately HK\$0.8 million; and (ii) increase in finance costs incurred as compared with the corresponding period in 2018 for approximately HK\$2.0 million due to the increase in bank borrowings.

BUSINESS REVIEW AND PROSPECTS

The Group provides a wide range of environmental hygiene services to all major districts throughout Hong Kong including provision of building cleaning service, park and recreation center cleaning service, street cleaning service, institutional cleaning service and other cleaning services. We have been recognised as a registered supplier for providing environmental hygiene service for the Hong Kong Government since 1990 and have become one of the major environmental hygiene service providers for various departments of the Hong Kong Government. Apart from the providing environmental hygiene services to various departments of the Government, we have also provided the services to numerous non-government sector customers such as property management companies and education institutions.

Works in environmental hygiene services have been broken down into jobs with smaller time segments or looser contractual terms. It is observed that there are insufficient applications with relatively higher turnover in environmental hygiene services market. In view of the high turnover rate in the industry, our Group offers workers competitive remuneration packages, personal growth opportunities and flexible schedule, and continues to introduce automated or advanced cleaning devices to improve efficiency of cleaning and sanitation.

With more than 40 years of experience in the industry, the Group became a leading environmental hygiene service provider, and have maintained stable and long term relationships with our customers. In addition, we are equipped with our own cleaning machinery and equipment as well as our vehicle fleet, which comprised more than 200 vehicles, includes specialised vehicles such as grab tippers, water wagons and refuse compaction vehicles which allow us to carry out various large scope of environment hygiene services and will be in a better position to cater for customers' demand flexibly and efficiently.

The Group considers that there is room for expansion of our market shares through organic growth and seizes the market share due to our strong market recognition, track record and extensive business reach to customers. In order to maintain or expand our business, we submit tender and/or quotations for service contracts in government and non-government sectors from time to time for new projects. Furthermore, our Directors believe that expanding the variety of our services would enhance our competitiveness over our peers thus improving our financial performance.

Subsequent to the six months period ended 30 September 2019, the shares of the Company have been listed on the Main Board of the Stock Exchange by way of global offering of 125,000,000 new shares on 16 October 2019. Since the Listing, there has been no significant change in the business operations of the Group. The proceeds from the global offering gives our Group sufficient capital for acquiring additional motor vehicles, machineries and equipment for the performance of our service contracts as required by our customers, so that our Group can undertake additional projects in order to increase our market share. Also, the proceeds have strengthened the Group's cash flow position and enabled the Group to implement its future plans and business strategies as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus in relation to the global offering. In order to develop our waste management business, one stop service with existing cleaning service and so as to provide better service in the future, we intend to use certain net proceeds from the global offering to develop or acquire businesses related to waste management such as running of a fleet of specialised vehicles (ie. refuse compaction vehicles). With the expanded waste management capacity and capabilities, we could undertake more projects of waste collection and delivery services so as to better serve our customers and enhance our operational flexibility.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 September 2019 and 2018 were approximately HK\$853.4 million and HK\$691.8 million respectively, representing an increase of approximately 23.4%. The increase was mainly due to the increase in revenue generated from our government sector customers.

Cost of Services

The cost of services primarily comprised of labour costs, cleaning materials costs and motor vehicles expenses. For the six months ended 30 September 2019 and 2018, the cost of services amounted to approximately HK\$794.9 million and HK\$639.8 million respectively, representing approximately 93.1% and 92.5% of the Group's revenue for the corresponding periods respectively. The percentage of cost of services to the Group's revenue increased by approximately 0.6% due to the increase in labour costs.

Gross profit and gross profit margin

The Group's gross profit for the Period was approximately HK\$58.5 million, representing an increase of approximately 12.5% from approximately HK\$52.0 million for the corresponding period in 2018. The increase was mainly due to an increase in revenue.

The gross profit margins of the Group for the six months ended 30 September 2019 and 2018 were approximately 6.9% and 7.5% respectively. The decrease in gross profit margin was mainly due to the keen competition in the market, coupled with an increase in labour costs. Therefore, the increment in cost of services was higher than that in revenue which resulted in a drop of gross profit margin.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 September 2019 and 2018 were approximately HK\$34.6 million and HK\$32.7 million respectively. The increase was mainly due to the increase of directors' bonus of HK\$0.8 million together with slightly increase of number of administrative staff and their average salaries. The Group continued to implement its budget cost control measures for administrative expenses during the Period.

Finance costs

The finance costs represented primarily the interest expenses on the bank borrowings with floating interest rates. The finance costs amounted to approximately HK\$5.1 million and HK\$3.1 million for the six month ended 30 September 2019 and 2018 respectively, representing approximately 0.6% and 0.4% of the Group's total revenue respectively. The increase was mainly due to the increase in bank borrowings during the Period.

Profit for the Period Attributable to Equity Shareholders of The Company

The Group's net profit attributable to equity shareholders of the Company for the six month ended 30 September 2019 and 2018 were approximately HK\$15.4 million and HK\$13.3 million respectively, representing an increase of approximately 16.2%. The increase was mainly due to the factors described above.

After adding listing expenses for the six months ended 30 September 2019, the adjusted profit for the period attributable to the owners of the Company for the six months ended 30 September 2019, amounted to HK\$20.7 million, representing an increase of 16.0% from the six months ended 30 September 2018.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has funded the liquidity and capital requirements primarily through retained earnings, bank borrowings and cash inflows from financing activities. As at 30 September 2019, the capital structure of the Group consisted of equity of approximately HK\$176.5 million (31 March 2019: HK\$161.0 million), bank borrowings of approximately HK\$285.8 million (31 March 2019: HK\$113.7 million), lease liabilities of approximately HK\$9.0 million (31 March 2019: finance lease payables of approximately HK\$10.2 million).

Account receivables

As at 30 September 2019, the Group had total account receivables of approximately HK\$454.6 million (31 March 2019: HK\$268.8 million). The increase was mainly due to the increase in revenue and the delay in settlement of account receivables by government sector customers. The slow settlement from our government sector customers for the Period was in line with their historical settlement pattern which they generally settle their invoices faster near fiscal year end of the Hong Kong Government which falls in March than other period of each year. The Group does not expect any material difficulty in collecting payment from such customers.

Cash position and fund available

During the Period, the Group maintained a healthy liquidity position, with working capital being financed by our financing cash flows and bank borrowings. As at 30 September 2019, our cash and cash equivalents were approximately HK\$97.0 million (31 March 2019: HK\$87.3 million). The Group pledged bank deposits of approximately HK\$16.2 million (31 March 2019: HK\$16.4 million) to secure the Group's banking facilities. As at 30 September 2019, the current ratio of the Group was approximately 1.2 times (31 March 2019: 1.4 times).

Bank borrowings

As at 30 September 2019, the Group had total bank borrowings of approximately HK\$285.8 million (31 March 2019: HK\$113.7 million). As at 30 September 2019, the Group had aggregate banking facilities, which comprised of overdraft, revolving loan facilities, factoring facility and guarantee line facility, of approximately HK\$661.3 million, of which approximately HK\$153.8 million was unutilised.

Gearing ratio

As at 30 September 2019, the Group's gearing ratio was approximately 167.0% (31 March 2019: 76.9%), calculated by dividing total debts by total equity and multiplying the resulting value by 100%. Our total debts include interest-bearing bank borrowings and lease liabilities (31 March 2019: finance lease payables).

INTERIM DIVIDEND

The Directors does not recommend the payment of an interim dividend for the Period.

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

Throughout the period from the Listing Date up to the date of this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE CODE

As the shares of the Company were not yet listed on the Main Board of the Stock Exchange as at 30 September 2019, the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in the Listing Rules were not applicable to the Company during the Period. Immediately following the listing of the Company’s shares on the Main Board of the Stock Exchange on the Listing Date, the Company has adopted the principles and code provisions of the CG Code contained in Appendix 14 to the Listing Rules which are applicable to the Company as the basis of its corporate governance practice. The Directors recognise the importance of good corporate governance in management and internal procedures, so as to achieve effective accountability.

The Company has complied with the code provisions of the CG Code throughout the period from the Listing Date to the date of this announcement.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

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 (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors.

Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their securities transactions throughout the period commencing from the Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee (the “**Audit Committee**”) on 3 September 2019 with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Fan Chiu Tat Martin, Ms. Ru Tingting and Mr. Leung Siu Hong. Mr. Fan Chiu Tat Martin currently serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the internal control procedures of our Company.

The Audit Committee of the Company had reviewed the Group’s interim results for the Period.

EXTERNAL AUDITOR

The unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the Company's auditor, RSM Hong Kong, certified public accountants in Hong Kong, 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.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange by way of global offering of 125,000,000 new shares at an offer price of HK\$1.0 per share on 16 October 2019. The proceeds from the global offering amounted to HK\$125 million before deduction of related expenses. Since the Listing and up to 31 October 2019, the net proceeds of approximately HK\$87.9 million from global offering remain unutilized and were deposited in licensed banks in Hong Kong.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the website of the Company at <http://www.johnsonholdings.com> and the website of the Stock Exchange at <http://www.hkexnews.hk>.

The interim report of the Company for the Period containing all the relevant information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our shareholders, business partners, customers, suppliers, bankers, the management and staff for their support and contribution to the Group and its business throughout the Period.

By order of the Board
Hong Kong Johnson Holdings Co., Ltd.
Xu Jili
Chairman

Hong Kong, 28 November 2019

As at the date of this announcement, the executive directors of the Company are Mr. CHEUNG Kam Chiu (Co-chief executive officer) and Mr. SZETO Wing Tak (Co-chief executive officer); the non-executive directors of the Company are Ms. XU Jili (Chairman), Ms. LI Yanmei, Mr. XIE Hui, Mr. YE Ning, Ms. LEE Wing Yee Loretta, Ms. WONG Ling Fong Lisa and Mr. ZHOU Wenjie; and the independent non-executive directors of the Company are Mr. FAN Chiu Tat Martin, Dr. GUAN Yuyan, Mr. HONG Kam Le, Mr. LEUNG Siu Hong and Ms. RU Tingting.