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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)

INSIDE INFORMATION

This announcement is made by Deson Construction International Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the joint announcement made by Deson Development International Holdings Limited (“**DDIHL**”), the Company and Energy Luck Limited (“**Energy Luck**”) dated 12 April 2019 (the “**Joint Announcement**”) in relation to, among other things, the disposal of 31.18% shareholding in the Company to Energy Luck (“**Disposal**”) and the announcement made by DDIHL on 7 May 2019 in relation to the delay in despatch of circular approving the resolution(s) in respect of the Disposal (“**Circular**”).

As the Disposal constitutes a very substantial disposal for DDIHL under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), it is subject to the Circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules. It is expected that the Circular will be despatched to the shareholders of DDIHL on or before 24 May 2019.

FINANCIAL INFORMATION OF THE GROUP

The Appendix II to the Circular is expected to contain the published audited financial information of the Group for each of the three years ended 31 March 2016, 2017 and 2018 and the published unaudited financial information of the Group for the nine months ended 31 December 2017 and 2018, which are supposed to be extracted from the

unqualified audited financial statements of the Company for the relevant years as contained in the relevant annual reports of the Company or the unaudited quarterly report for the nine months ended 31 December 2018.

THE ADOPTION OF HKFRS 9 AND HKFRS 15 BY THE GROUP

As disclosed in the third quarterly report 2018 of the Group dated 11 February 2019 (“**Third Quarterly Report**”), the Group has adopted Hong Kong Financial Reporting Standard (“**HKFRS**”) 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* for the first time for the nine months ended 31 December 2018 (“**Nine Months Financial Statement**”) which resulted in changes in accounting policies and adjustments to the amounts recognised and published in the Nine Months Financial Statement as contained in the Third Quarterly Report.

However, after further review of the Nine Months Financial Statement by the reporting accountants of DDIHL and the Directors, the Nine Months Financial Statement was further revised and the Nine Months Financial Statement which is expected to be contained in the Circular in accordance with the requirements of the Listing Rules would be different from those as contained in the Third Quarterly Report.

Save for the other new and revised HKFRSs which had no significant financial effect on the Nine Months Financial Statement, the following sets out the revised adjustments that were made to the Nine Months Financial Statement at the date of initial application on 1 April 2018 together with the reiteration of the financial impact.

(a) Impacts on adoption of HKFRS 9

HKFRS 9 replaces Hong Kong Accounting Standards (“**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: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 April 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39’s incurred credit loss calculations with HKFRS 9’s expected credit losses (“**ECLs**”).

A reconciliation between the changes in carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 April 2018 is as follows:

	<i>Note</i>	HKAS 39 measurement		HKFRS 9 measurement	
		Category	Amount <i>HK\$'000</i>	ECL <i>HK\$'000</i>	Amount <i>HK\$'000</i>
Financial assets					
Accounts receivable	(i)	L&R ¹	<u>44,868</u>	<u>(11,387)</u>	<u>33,481</u> AC ²

¹L&R: Loans and receivables

²AC: Financial assets at amortised cost

Note:

- (i) The gross carrying amounts of the accounts receivable under the column “HKAS 39 measurement — Amount” represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note (b) below.

As of 1 April 2018, other financial assets previously classified as loans and receivables under HKAS 39 were reclassified to financial assets at amortised cost under HKFRS 9 at their original carrying values, and there have been no changes to the classification or measurement of financial liabilities as a result of the adoption of HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 March 2018 <i>HK\$'000</i>	Re- measurement <i>HK\$'000</i>	ECL allowances under HKFRS 9 at 1 April 2018 <i>HK\$'000</i>
Accounts receivable	<u>6,034</u>	<u>11,387</u>	<u>17,421</u>

Impact on retained profits and non-controlling interests

The impact of transition to HKFRS 9 on retained profits and non-controlling interests is as follows:

	Retained profits <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>
Balance as at 31 March 2018 under HKAS 39	84,046	(2,774)
Recognition of expected credit losses for accounts receivable under HKFRS 9	<u>(8,209)</u>	<u>(3,178)</u>
Balance as at 1 April 2018 under HKFRS 9	<u>75,837</u>	<u>(5,952)</u>

(b) Impacts on adoption of HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 April 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 April 2018. Therefore, the financial information for the years ended 31 March 2016, 2017 and 2018 and for the nine months ended 31 December 2017 was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 April 2018 as a result of the adoption of HKFRS 15:

	<i>Notes</i>	Increase/ (decrease) <i>HK\$'000</i>
Assets		
Gross amount due from contract customers	(i)	(44,055)
Accounts receivable	(i)	(55,116)
Contract assets	(i)	<u>111,791</u>
		<u><u>12,620</u></u>
Liabilities		
Gross amount due to contract customers	(i)	(113,898)
Other payables and accruals	(i)	<u>132,782</u>
		<u><u>18,884</u></u>
Equity		
Retained profits	(ii)	(6,116)
Non-controlling interests		<u>(148)</u>
		<u><u>(6,264)</u></u>

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the nine months ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the nine months ended 31 December 2018:

	Amounts prepared under		
	HKFRS 15	previous	Increase/
	<i>HK\$'000</i>	<i>HK\$'000</i>	(decrease)
			<i>HK\$'000</i>
Revenue	503,446	533,710	(30,264)
Cost of sales	<u>(489,200)</u>	<u>(521,085)</u>	<u>31,885</u>
Gross profit	<u>14,246</u>	<u>12,625</u>	<u>1,621</u>
Loss before tax	(15,514)	(17,135)	1,621
Income tax expense	<u>(84)</u>	<u>(84)</u>	<u>—</u>
Loss for the period	<u>(15,598)</u>	<u>(17,219)</u>	<u>1,621</u>
Attributable to:			
Owners of the Company	(13,128)	(14,866)	1,738
Non-controlling interests	<u>(2,470)</u>	<u>(2,353)</u>	<u>(117)</u>
	<u>(15,598)</u>	<u>(17,219)</u>	<u>1,621</u>

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		Increase/
	<i>Notes</i>	HKFRS 15	previous	(decrease)
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	(i)	—	9,306	(9,306)
Accounts receivable	(i)	72,658	134,689	(62,031)
Contract assets	(i)	83,017	—	83,017
Total assets		414,622	402,942	11,680
Gross amount due to contract customers	(i)	—	122,767	(122,767)
Other payables and accruals	(i)	213,962	74,872	139,090
Total liabilities		310,960	294,637	16,323
Net assets		103,662	108,305	(4,643)
Retained profits	(ii)	56,903	61,281	(4,378)
Non-controlling interests	(ii)	(8,118)	(7,853)	(265)
Total equity		103,662	108,305	(4,643)

The nature of the adjustments as at 1 April 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the nine months ended 31 December 2018 are described below:

Notes:

(i) *Construction services*

Before the adoption of HKFRS 15, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under “gross amount due from contract customers” or “gross amount due to contract customers”. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK\$44,055,000 from gross amount due from contract customers to contract assets with profits of HK\$12,620,000 recognised as contract assets as at 1 April 2018. The Group also reclassified HK\$113,898,000 from gross amount due to contract customers to other payables and accruals including the recognition of contract liabilities in relation to the consideration received from customers in advance and retention monies payable with loss of HK\$18,884,000 as at 1 April 2018 as the Group had obligation to transfer goods and services to a customer for which the Group had received consideration.

Before the adoption of HKFRS 15, retention monies receivables arising from construction contracts, that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in accounts receivables. Upon adoption of HKFRS 15, retention monies receivables is reclassified to contract assets. Accordingly, the Group reclassified HK\$55,116,000 from account receivables to contract assets as at 1 April 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in an increase in contract assets of HK\$83,017,000 and decreases in gross amount due from contract customers and accounts receivable of HK\$9,306,000 and HK\$62,031,000, respectively. It also resulted in an increase in contract liabilities by HK\$139,090,000 and a decrease in gross amount due to contract customers by HK\$122,767,000.

(ii) Other adjustments

In addition to the adjustments described above, other items of primary financial statements such as non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

Set out below are the unaudited Nine Months Financial Statement after taking into account the Revised Adjustments that is expected to be disclosed in the Circular, together with the unaudited comparative figures for the corresponding period in 2017:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 31 December 2018

	(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	146,326	144,747	503,446	615,967
Cost of sales	<u>(140,020)</u>	<u>(145,692)</u>	<u>(489,200)</u>	<u>(552,973)</u>
Gross profit/(loss)	6,306	(945)	14,246	62,994
Other income and gains	164	278	3,057	935
Fair value gain/(loss) on investment properties	639	(1,740)	747	(1,740)
Administrative expenses	(10,070)	(10,808)	(26,103)	(26,585)
Other operating expenses, net	(4,896)	(22,011)	(4,637)	(22,018)
Finance costs	<u>(947)</u>	<u>(845)</u>	<u>(2,824)</u>	<u>(2,513)</u>
PROFIT/(LOSS) BEFORE TAX	(8,804)	(36,071)	(15,514)	11,073
Income tax credit/(expense)	<u>(106)</u>	<u>448</u>	<u>(84)</u>	<u>(409)</u>
PROFIT/(LOSS) FOR THE PERIOD	<u>(8,910)</u>	<u>(35,623)</u>	<u>(15,598)</u>	<u>10,664</u>
Attributable to:				
Owners of the Company	(6,520)	(24,613)	(13,128)	20,847
Non-controlling interests	<u>(2,390)</u>	<u>(11,010)</u>	<u>(2,470)</u>	<u>(10,183)</u>
	<u>(8,910)</u>	<u>(35,623)</u>	<u>(15,598)</u>	<u>10,664</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
Basic	<u>HK(0.65) cent</u>	<u>HK(2.46) cents</u>	<u>HK(1.31) cents</u>	<u>HK2.08 cents</u>
Diluted	<u>HK(0.65) cent</u>	<u>HK(2.46) cents</u>	<u>HK(1.31) 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>(8,910)</u>	<u>(35,623)</u>	<u>(15,598)</u>	<u>10,664</u>
OTHER COMPREHENSIVE INCOME/ (LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	<u>799</u>	<u>136</u>	<u>(611)</u>	<u>1,599</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:				
Surplus on revaluation of leasehold land and buildings	2,612	—	2,612	—
Income tax effect	<u>(431)</u>	<u>—</u>	<u>(431)</u>	<u>—</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>2,181</u>	<u>—</u>	<u>2,181</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>2,980</u>	<u>136</u>	<u>1,570</u>	<u>1,599</u>
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD	<u>(5,930)</u>	<u>(35,487)</u>	<u>(14,028)</u>	<u>12,263</u>
Attributable to:				
Owners of the Company	(3,861)	(24,333)	(12,010)	22,280
Non-controlling interests	<u>(2,069)</u>	<u>(11,154)</u>	<u>(2,018)</u>	<u>(10,017)</u>
	<u>(5,930)</u>	<u>(35,487)</u>	<u>(14,028)</u>	<u>12,263</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2018

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity	
	Issued capital	Share premium account	Contribution surplus	Property revaluation reserve	Share option reserve	Exchange fluctuation reserve	Reserve funds				Retained profits
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'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	25,000	9,381	(5,372)	15,592	1,183	3,384	5,581	63,034	117,783	(2,989)	114,794
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	—	—	—	—	—	—	—	(6,116)	(6,116)	(148)	(6,264)
Adjustment on adoption of HKFRS 9, net of tax	—	—	—	—	—	—	—	(8,209)	(8,209)	(3,178)	(11,387)
At 1 April 2018 (restated)	25,000	9,381	(5,372)	13,906	1,183	4,390	5,581	69,721	123,790	(6,100)	117,690
Loss for the period	—	—	—	—	—	—	—	(13,128)	(13,128)	(2,470)	(15,598)
Other comprehensive income for the period:											
Surplus on revaluation of leasehold land and buildings, net of tax	—	—	—	2,181	—	—	—	—	2,181	—	2,181
Exchange differences on translation of foreign operations	—	—	—	—	—	(1,063)	—	—	(1,063)	452	(611)
Total comprehensive income/(loss) for the period	—	—	—	2,181	—	(1,063)	—	(13,128)	(12,010)	(2,018)	(14,028)
Release of revaluation reserve	—	—	—	(310)	—	—	—	310	—	—	—
At 31 December 2018	25,000	9,381	(5,372)	15,777	1,183	3,327	5,581	56,903	111,780	(8,118)	103,662

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 20 May 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.

This announcement, for which the directors of 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 of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, 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.

This announcement will remain on the GEM website at “www.hkgem.com” on the “Latest Company Announcements” for a minimum period of seven days from the date of its publication and on the website of the Company at “www.deson-c.com”.