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Kwong Luen Engineering Holdings Limited

廣聯工程控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1413)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Review Year amounted to approximately HK\$481.7 million (FY2019/20: approximately HK\$404.8 million).
- Gross profit margin for the Review Year was approximately 12.6% (FY2019/20: approximately 12.9%).
- Profit attributable to the equity holders of the Company for the Review Year amounted to approximately HK\$31.1 million (FY2019/20: approximately HK\$38.4 million).
- Basic and diluted earnings per share for the Review Year amounted to approximately HK cents 4.07 (FY2019/20: HK cents 5.12).
- The Board has resolved not to recommend the declaration of a final dividend for the Review Year (FY2019/20: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Kwong Luen Engineering Holdings Limited (the “**Company**”) is pleased to present the consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2021 (the “**Review Year**” or “**FY2020/21**”), together with the comparative figures for the corresponding year ended 31 March 2020 (the “**FY2019/20**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	481,710	404,825
Cost of sales		<u>(420,887)</u>	<u>(352,608)</u>
Gross profit		60,823	52,217
Other income and gains	4	4,569	450
Administrative expenses		(7,523)	(4,157)
Fair value loss on a financial asset at fair value through profit or loss	5	(1,064)	–
Impairment of contract assets	5	(2,158)	–
Impairment of trade receivables	5	(78)	–
Finance costs	6	(289)	(195)
Listing expenses	5	<u>(14,267)</u>	<u>(1,935)</u>
PROFIT BEFORE TAX	5	40,013	46,380
Income tax expense	7	<u>(8,879)</u>	<u>(7,972)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>31,134</u>	<u>38,408</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	9	<u>4.07</u>	<u>5.12</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2021	2020
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		37,423	29,847
Right-of-use assets		448	1,118
Prepayments and deposits		–	830
Financial asset at fair value through profit or loss		4,350	–
		42,221	31,795
CURRENT ASSETS			
Contract assets		120,315	56,695
Trade receivables	10	5,936	10,397
Prepayments and deposits		6,547	1,095
Due from a director		–	7
Cash and cash equivalents		107,649	15,052
		240,447	83,246
CURRENT LIABILITIES			
Trade and retention payables	11	23,183	18,825
Accruals and other payables		3,911	3,225
Interest-bearing bank and other borrowings		14,861	3,000
Lease liabilities		333	612
Tax payable		8,228	4,225
		50,516	29,887
NET CURRENT ASSETS		189,931	53,359
TOTAL ASSETS LESS CURRENT LIABILITIES		232,152	85,154

	As at 31 March	
	2021	2020
	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Accruals and other payables	–	92
Interest-bearing bank and other borrowings	2,987	–
Lease liabilities	192	524
Deferred tax liabilities	4,372	3,716
	<hr/>	<hr/>
Total non-current liabilities	7,551	4,332
	<hr/>	<hr/>
Net assets	224,601	80,822
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	12 10,000	–
Reserves	214,601	80,822
	<hr/>	<hr/>
Total equity	224,601	80,822
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 20 May 2020 with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located at Unit 2515, 25/F, The Octagon, 6 Sha Tsui Road, Tsuen Wan, the New Territories, Hong Kong.

On 11 March 2021, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. During the year, the Group was principally engaged in the provision of construction services in Hong Kong. There has been no significant change in the Group’s principal activities during the year.

Kwong Luen Prosperity Limited (“**Kwong Luen Prosperity**”), a company incorporated in the British Virgin Islands (the “**BVI**”) on 18 May 2020, is the immediate holding company of the Company. In the opinion of the Directors, Kwong Luen Prosperity is also the ultimate holding company of the Company.

2.1 BASIS OF PRESENTATION

For the listing of the Company’s shares, the Company underwent a group reorganisation (the “**Reorganisation**”), further details of which are set out in the Company’s prospectus dated 26 February 2021. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 17 February 2021.

As the Reorganisation only involved inserting new holding companies at a top of an existing operating entity and has not resulted in any changes of economic substance, these financial statements for the year ended 31 March 2020 have been presented as a continuation of the existing group using the pooling of interests method.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 March 2020 have been prepared as if the current group structure had been in existence at the beginning of the year ended 31 March 2020. The consolidated statement of financial position as at 31 March 2020 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with 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 disclosure requirements of the Hong Kong Companies Ordinance.

All HKFRSs effective for the accounting period commencing from 1 April 2020, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements since 1 April 2017.

These financial statements have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 March 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between shareholders of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the construction segment under which the Group engages in contract work as a subcontractor. Accordingly, no segment information is presented.

Geographical information

(a) *Revenue from external customers*

No geographical information is presented as all of the Group's revenue from external customers was derived from customers located in Hong Kong during the year.

(b) *Non-current assets*

No geographical information is presented as all of the Group's non-current assets were located in Hong Kong as at 31 March 2021 and 31 March 2020.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period during the year is set out below:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	133,294	221,827
Customer B	156,250	71,735
Customer C	85,288	N/A*
Customer D	N/A*	70,165

* Less than 10% of the Group's revenue.

The revenue from the above major customers was all derived from the construction work.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers		
Provision of construction services	<u>481,710</u>	<u>404,825</u>
(i) Disaggregated revenue information		
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Type of construction service provided		
Residential	323,689	345,615
Non-residential	<u>158,021</u>	<u>59,210</u>
Total revenue from contracts with customers	<u>481,710</u>	<u>404,825</u>
Private sector	398,759	388,146
Public sector	<u>82,951</u>	<u>16,679</u>
Total revenue from contracts with customers	<u>481,710</u>	<u>404,825</u>
Timing of revenue recognition		
Services transferred over time	<u>481,710</u>	<u>404,825</u>
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other income and gains		
Interest income	–	2
Rental income from leasing of machinery	313	22
Government grants (<i>note</i>)	1,548	–
Gain on disposal of items of property, plant and equipment	1,170	–
Others	<u>1,538</u>	<u>426</u>
	<u>4,569</u>	<u>450</u>

Note: For the year ended 31 March 2021, the government grants from the Employment Support Scheme (“ESS”) of the Hong Kong Government of HK\$1,548,000 (2020: Nil) are included in “Government grants” disclosed above. The government grants from the ESS were for the purpose to retain employment and combat the COVID-19. As a condition of receiving the grants under the ESS, the Group has undertaken not to make redundancies of its Hong Kong employees from 1 June 2020 to 31 January 2021. There are no unfulfilled conditions or contingencies related to these grants.

5. PROFIT BEFORE TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of sales	420,887	352,608
Depreciation of property, plant and equipment [#]	8,207	6,964
Depreciation of right-of-use assets [#]	670	667
Lease payments not included in the measurement of lease liabilities [#]	3,665	3,411
Impairment of contract assets	2,158	–
Impairment of trade receivables	78	–
Employee benefit expense (excluding directors' remuneration):		
Wages, salaries, allowances and benefits in kind	52,030	42,920
Pension scheme contributions	1,618	1,391
	<u>53,648</u>	<u>44,311</u>
Auditor's remuneration	1,080	41
Listing expenses	14,267	1,935
(Gain)/loss on disposal of items of property, plant and equipment, net [*]	(1,170)	5
Fair value loss on a financial asset at fair value through profit or loss	<u>1,064</u>	<u>–</u>

* These items are included in "Other income and gains" on the face of the consolidated statements of profit or loss and other comprehensive income.

For the years ended 31 March 2021, depreciation of property, plant and equipment of HK\$8,202,000 (2020: HK\$6,958,000), depreciation of right-of-use assets of HK\$267,000 (2020: HK\$265,000), lease payments not included in the measurement of lease liabilities of HK\$3,665,000 (2020: HK\$3,411,000) and employee benefit expense of HK\$51,645,000 (2020: HK\$43,051,000), are included in cost of sales disclosed above.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank loans	256	156
Interest on lease liabilities	33	39
	<u>289</u>	<u>195</u>

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands. Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	8,223	7,393
Deferred	656	579
	<u>8,879</u>	<u>7,972</u>

8. DIVIDEND

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim dividend	–	9,000
	<u>–</u>	<u>9,000</u>

The Directors have decided not to declare a final dividend for the year ended 31 March 2021.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$31,134,000 (2020: HK\$38,408,000) and the weighted average number of ordinary shares in issue of 764,384,000 (2020: 750,000,000), on the assumption that the Reorganisation and the capitalisation issue had been completed on 1 April 2019.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2021 and 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2021 and 2020.

10. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	6,014	10,397
Impairment	(78)	–
	<u>5,936</u>	<u>10,397</u>

The Group's trading terms with its customers are on credit. The Group's credit periods with customers range from 14 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and has a policy to manage its risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of reporting period, based on the progress payment certificate date and net of loss allowance, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	5,936	7,223
1 to 2 months	–	3,174
	<u>5,936</u>	<u>10,397</u>

The movement in the loss allowance for impairment of trade receivable is as follows:

	<i>HK\$'000</i>
At 1 April 2020	–
Impairment losses	<u>78</u>
At 31 March 2021	<u>78</u>

An impairment analysis is performed at each reporting date using a probability of default model to measure expected credit losses. The provision rates are based on historical data adjusted by forward-looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As at 31 March 2020, the Group estimated that the expected loss rate for trade receivables was minimal.

Set out below is the information about the credit risk exposure on the Group's trade receivables as at 31 March 2021:

	Current
Expected credit loss rate	1.30%
Gross carrying amount (<i>HK\$'000</i>)	6,014
Expected credit losses (<i>HK\$'000</i>)	<u>78</u>

11. TRADE AND RETENTION PAYABLES

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	(a)	18,478	16,060
Retention payables	(b)	<u>4,705</u>	<u>2,765</u>
		<u>23,183</u>	<u>18,825</u>

Notes:

- (a) An ageing analysis of the trade payables, based on the invoice date, at the end of each reporting period, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	<u>18,478</u>	<u>16,060</u>

The trade payables are non-interest-bearing and are normally settled within one month.

- (b) Retention payables held by the Group arose from the Group's construction works and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract work by the subcontractors, as stipulated in the subcontracting contracts.

12. SHARE CAPITAL

A summary of movements in the Company's share capital is as follows:

	Number of shares of issue	Share capital HK\$'000
Authorised:		
At 20 May 2020 (date of incorporation) with par value of HK\$0.01 each (<i>note a</i>)	38,000,000	380
Increase of authorised share capital with par value of HK\$0.01 each on 19 February 2021 (<i>note b</i>)	9,962,000,000	99,620
As at 31 March 2021	10,000,000,000	100,000
Issued and fully paid:		
Issue of a new share upon incorporation of the Company (<i>note a</i>)	1	—*
Capitalisation issue of shares (<i>note c</i>)	749,999,999	7,500
Shares issued pursuant to the share offer (<i>note d</i>)	250,000,000	2,500
As at 31 March 2021	1,000,000,000	10,000

* Less than a thousand Hong Kong dollars.

Notes:

- (a) The Company was incorporated on 20 May 2020 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares at par value of HK\$0.01 each.
- (b) Pursuant to the authority given by the resolution of the sole shareholder of the Company on 19 February 2021, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01 each, to HK\$100,000,000 divided into 10,000,000,000 shares with par value of HK\$0.01 each, by the creation of an additional 9,962,000,000 shares.
- (c) Pursuant to the resolutions in writing of the shareholder of the Company passed on 19 February 2021, the directors were authorised to allot and issue a total of 749,999,999 shares credited as fully paid at par to each of the holders of the Company's shares whose names appear on the register of members of the Company at the close of business on 19 February 2021 in proportion of their shareholdings by way of capitalisation of the sum of HK\$7,499,999.99 standing to the credit of the share premium account of the Company.
- (d) The Company's shares were listed on the Main Board of the Stock Exchange on 11 March 2021 and 250,000,000 ordinary shares at par value of HK\$0.01 each were issued on 11 March 2021 in connection with the listing of the Company's shares on the Main Board of the Stock Exchange at a subscription price of HK\$0.54 per share. Among the proceeds from the issue of new shares, before issuance expenses of HK\$22,355,000, amounting to HK\$135,000,000, HK\$2,500,000 and HK\$132,500,000 were credited to issued share capital and share premium of the Company, respectively.

There was no authorised and issued capital as at 31 March 2020 since the Company has not yet been incorporated by that time.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The construction industry and foundation industry in Hong Kong were negatively affected in 2020 as some of the construction contractors have encountered interruptions in the supply of construction materials and difficulty in labour deployment in the first quarter of 2020 due to the COVID-19 outbreak, resulting in delay in the building schedules of some construction projects. The impacts were reflected from the decline in Hong Kong's total gross value of construction works performed by main contractors in 2020 according to the Census and Statistic Department, shrinking by approximately 2.8% from approximately HK\$236,438 million in 2019 to approximately HK\$229,870 million in 2020. However, the Directors believe that the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong's foundation industry in the foreseeable future due to the fact that the proposed works schedule of the general construction works in both private and public sectors in Hong Kong, ranging from roads, housings, shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected.

Despite the fact that the COVID-19 outbreak may continue, the increasing public health awareness, vaccination programme and social distancing measures have been proved to be effective in combating COVID-19 in various countries. Hence, the Directors are of the view that the outbreak of COVID-19 is expected to cause a short-term economic slowdown but may not affect the outlook of the construction industry and foundation industry of Hong Kong in the long run.

In particular, the Group sees the future demand for housing and public infrastructure investment in Hong Kong will continue to be driven by certain sizable projects and government policies, including (i) the construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che, which is expected to accommodate more than 50,000 household residential units in both public and private sectors; (ii) the housing supply target for the 10-year period from 2021/22 to 2030/31 of 430,000 units according to the Long Term Housing Strategy issued in 2020; and (iii) the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address. Hence, the prospect of construction industry in Hong Kong remains positive and the gross value of foundation works is expected to continue to grow in the forthcoming years.

BUSINESS REVIEW AND OUTLOOK

The Group is a foundation works contractor in Hong Kong. The Group has commenced its business in 1995 and has since undertaken foundation works in the role of subcontractor through Kwong Luen Engineering Holdings Limited (“**Kwong Luen Engineering**”), the Group’s principal operating subsidiary. The Group’s foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, the Group has established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. In the Review Year, the majority of the Group’s revenue was derived from foundation works in residential developments.

During the Review Year, the construction industry and foundation industry in Hong Kong was negatively affected as some of the construction contractors have encountered interruptions in the supply of construction materials and difficulty in labour deployment in early-2020 due to the COVID-19 outbreak. That said, the Group has continued to outperform with a healthy project pipeline despite unfavorable economic environment.

Looking into the future, the declining number of COVID-19 confirmed cases and the adoption of vaccines in Hong Kong since the first quarter of 2021 offer hope for a controllable and stabilised COVID-19 situation. Under an improved social condition, the Group believes that a recovery in economic activities should ramp up the developments in residential and commercial building construction works, offering plenty of opportunities for the Group to capture.

FINANCIAL REVIEW

Revenue and cost of sales

The Group’s revenue increased to approximately HK\$481.7 million for the Review Year by approximately HK\$76.9 million or 19.0%, from approximately HK\$404.8 million for the year ended 31 March 2020. This was principally due to the revenue contributed by two sizable projects awarded during the Review Year. The estimated contract sum of these two projects were approximately HK\$328.5 million and HK\$50.4 million, respectively. One of these projects commenced in August 2020 whereas another commenced in January 2021 with revenue contribution of approximately HK\$64.1 million and HK\$20.4 million, respectively, for the Review Year.

The Group’s cost of sales increased from approximately HK\$352.6 million for the year ended 31 March 2020 to approximately HK\$420.9 million for the Review Year, representing an increase of approximately HK\$68.3 million or 19.4%. Such increase was generally in line with the growth of our revenue of approximately 19.0% for the Review Year.

Gross profit and gross profit margin

The Group's overall gross profit increased from approximately HK\$52.2 million for the year ended 31 March 2020 to approximately HK\$60.8 million for the Review Year, representing an increase of approximately 16.5%. Such increase in our Group's overall gross profit was mainly attributable to the revenue growth during the Review Year as discussed above. Meanwhile, as the increase in our cost of sales was comparable to the increase in our revenue for the corresponding financial year, the Group's overall gross profit margin has remained relatively stable at approximately 12.9% and 12.6% for the year ended 31 March 2020 and the Review Year, respectively.

Other income and gains

Other income and gains of the Group increased by approximately HK\$4.1 million from approximately HK\$0.5 million for the year ended 31 March 2020 to approximately HK\$4.6 million for the Review Year. The increase was mainly due to (i) the government grants of approximately HK\$1.5 million received from the Employment Support Scheme of the Hong Kong Government for the purpose to retain employment and combat the COVID-19 during the Review Year; (ii) the gain on disposal of items of property, plant and equipment of approximately HK\$1.2 million during the Review Year; and (iii) the increase in the income of approximately HK\$1.1 million generated from other one-off miscellaneous works, such as removal of debris and other minor concrete works, etc..

Administrative expenses

The administrative expenses of the Group increased from approximately HK\$4.2 million for the year ended 31 March 2020 to approximately HK\$7.5 million for the Review Year, representing an increase of approximately HK\$3.4 million or approximately 81.0%. The increase during the Review year was mainly due to (i) the professional and consultancy fee of HK\$1.4 million incurred during the Review Year; (ii) the Group's audit fee of HK\$1.1 million after listing; (iii) the increase in our staff cost mainly due to the hiring of our Group's financial controller since December 2019; and (iv) the directors & officer insurances expense incurred after the listing.

Finance costs

The finance costs of the Group increased from approximately HK\$195,000 for the year ended 31 March 2020 to approximately HK\$289,000 for the Review Year, representing an increase of approximately HK\$94,000 or 48.2%. The increase in our finance costs was primarily attributable to the approximate HK\$38.2 million drawdown of bank loans during the Review Year.

Listing expenses

During the Review Year, the Group recognised non-recurring listing expenses of approximately HK\$14.3 million (FY2019/20: HK\$1.9 million) in connection with the listing.

Income tax expenses

The income tax expenses of the Group increased from approximately HK\$8.0 million for the year ended 31 March 2020 to approximately HK\$8.9 million for the Review Year, representing an increase of approximately HK\$0.9 million or 11.4%. The increase was due to the increase in the Group's revenue and gross profit as discussed above, while the effective tax rate of the Group increased from approximately 17.2% for the year ended 31 March 2020 to approximately 22.2% for the Review Year mainly due to the non-deductible listing expenses of approximately HK\$14.3 million incurred during the Review Year as discussed above.

Profit and total comprehensive income for the year

The profit and total comprehensive income for the year of the Group decreased from approximately HK\$38.4 million for the year ended 31 March 2020 to approximately HK\$31.1 million for the Review Year, representing a decrease of approximately HK\$7.3 million or 18.9%. The decrease was primarily attributable to the non-recurring listing expenses of approximately HK\$14.3 million incurred during the Review Year as discussed above.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL STRUCTURE

There has been no change in the capital structure of the Group since the date of listing (the "**Listing Date**") and up to the date of this announcement.

As at 31 March 2021, the Company's issued capital was HK\$10.0 million and the number of its issued ordinary shares was 1,000,000,000 shares of HK\$0.01 each.

As at 31 March 2021, the Group had total cash and cash equivalents of approximately HK\$107.6 million (31 March 2020: approximately HK\$15.1 million).

CURRENT RATIO

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

The current ratio of the Group increased to approximately 4.8 times as at 31 March 2021 from approximately 2.8 times at 31 March 2020. The increase was mainly due to increase in cash and cash equivalents from net proceeds from the listing.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including interest-bearing bank and other borrowings and lease liabilities) divided by the total equity as at the respective reporting dates.

The gearing ratio of the Group increased to approximately 8.2% as at 31 March 2021 from approximately 5.1% as at 31 March 2020. The increase was mainly due to increase in interest-bearing bank borrowings.

TREASURY POLICY

The Group has adopted a conservative approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Review Year. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

PLEDGE OF ASSETS

As at 31 March 2021, a life insurance policy with a carrying amount of approximately HK\$4,350,000 (FY2019/20: Nil) was pledged to secure certain bank loans granted to the Group.

FOREIGN EXCHANGE EXPOSURE

As the Group only operates in Hong Kong and all of the revenue and transactions arising from its operations were settled in Hong Kong dollars, the Directors are of the view that the Group's foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for the Review Year.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2021 and 2020, Group incurred capital commitments of nil and approximately HK\$5.8 million, respectively.

At 31 March 2021, the Group did not have any significant contingent liabilities.

At 31 March 2020, the Group provided a corporate guarantee in relation to a bank facility granted to a related company, Fortune Dragon, and the bank facility was utilised in amount of HK\$7,594,000 by Fortune Dragon. The Group did not hold any collateral or other credit enhancements over the guarantee. On 2 June 2020, the Group and the bank entered into an agreement to release the corporate guarantee in relation to the bank facility granted to Fortune Dragon.

At 31 March 2020, the Group provided a corporate guarantee in relation to a bank facility granted to Ms. Yip Wing Wai and the bank facility was utilised in amount of HK\$3,589,000 by Ms. Yip Wing Wai. The Group did not hold any collateral or other credit enhancements over the guarantee. On 2 June 2020, the Group and the bank entered into an agreement to release the corporate guarantee in relation to the bank facility granted to Ms. Yip Wing Wai.

As at 31 March 2020, the Group had been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances. The directors of the Company were of the opinion that such claims were well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Apart from the reorganisation in relation to the Listing (as set out under the section headed “History, reorganisation and corporate structure” of the prospectus of the Company dated 26 February 2021 (the “**Prospectus**”)), there were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies by the Group during the Review Year. Save for the business plan as disclosed in the Prospectus, there was no plan for material investments or capital assets as at 31 March 2021.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have any other plans for material investments or capital assets during the Review Year.

USE OF PROCEEDS

Up to 31 March 2021, we utilised the net proceeds raised from the Listing in accordance with the designated uses set out in the section headed “Future plans and use of proceeds” to the Prospectus. Such uses include: (i) financing the up-front costs of projects; (ii) purchasing additional machinery, (iii) further expanding and strengthening manpower by recruiting additional staff; and (iv) purchasing a building information modelling software together with certain ancillary supporting hardware device. Details of the use of proceeds are listed as below:

	Planned use of proceeds <i>HK\$'million</i>	Planned use of proceeds from Listing Date to 31 March 2021 <i>HK\$'million</i>	Actual use of proceeds from Listing Date to 31 March 2021 <i>HK\$'million</i>	Unutilised proceeds as at 31 March 2021 <i>HK\$'million</i>
Financing the up-front costs of projects	39.9	3.1	3.1	36.8
Purchasing additional machinery	36.5	–	–	36.5
Further expanding and strengthening manpower by recruiting additional staff	15.5	–	–	15.5
Purchasing a building information modelling software together with certain ancillary supporting hardware device	5.2	–	–	5.2
Total	<u>97.1</u>	<u>3.1</u>	<u>3.1</u>	<u>94.0</u>

The net proceeds from the Listing, after deducting related expenses, were approximately HK\$97.1 million. After the Listing, a part of these proceeds has been applied in accordance with the future plans and use of proceeds as set out in the Prospectus. As at 31 March 2021 and the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong. The Directors regularly evaluate the Group's business objectives and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the Review Year, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

As the Listing Date is close to the year end date (31 March 2021) of the Group, the Company is in its preliminary stage of implementing its business objectives and strategies as disclosed in the Prospectus. The Group will strive to achieve the milestone events as stated in the Prospectus.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2021, we employed a total of 133 employees (including two executive Directors but excluding three independent non-executive Directors), as compared to a total of 121 employees as at 31 March 2020. The remuneration packages that the Group offers to employees includes salaries, allowances, discretionary bonuses, and/or other benefits in kind. In general, the Group determines employees' salaries based on their qualifications, position and seniority. The Group also adopted a share option scheme whereby qualified participants may be granted options to acquire shares in the Company. The total staff cost incurred by the Group for the Review Year was approximately HK\$55.1 million compared to approximately HK\$45.5 million for FY2019/20.

The remuneration of the Directors is decided by the Board upon the recommendation from the remuneration committee of the Company having regard to the Group's operating results, individual performance and comparable market statistics.

DIVIDENDS

The Board has resolved not to recommend the declaration of final dividend for the Review Year (FY2019/20: Nil).

CORPORATE GOVERNANCE CODE/OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Group's Shareholders. Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Yip Kwong Cheung ("**Mr. Yip**") is currently performing these two roles. Throughout the Group's history of operations, Mr. Yip, being a founder of the Group and a Controlling Shareholder, has held the key leadership position of the Group and has been deeply involved in the overall management, strategic planning and development of the Group's business operation since its establishment. Taking into account the consistent leadership within the Group since 1995, the Board believes that it is in the best interest of the Group to have Mr. Yip taking up both roles for effective management and business development. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

Save as disclosed above, the Board considers that during the Review Year, the Company has complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of the Directors, all of the Directors have confirmed that they have complied with the requirements of the Model Code during the period from the Listing Date and up to the date of this announcement.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on 19 February 2021. The purpose of the Share Option Scheme is to reward the participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and the Shares for the benefit of the Company and shareholders as a whole, and to maintain or attract business relationships with the participants whose contributions are or may be beneficial to the growth of the Group.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 19 February 2021, and there is no outstanding share option as at 31 March 2021.

COMPETING INTERESTS

The Directors confirm that neither the controlling shareholders of the Company nor their respective close associates is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business during the Review Year, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Review Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

EVENTS AFTER THE REVIEW YEAR

There have been no other material events occurring after 31 March 2021 and up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules since the Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

The Company established an Audit Committee on 19 February 2021 with written terms of reference in compliance with the CG code. The primary duties of the Audit Committee are to, among other things, review and approve the Group's financial reporting process and internal control and risk management system, oversee the Group's audit process and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three members who are all independent non-executive Directors, namely, Ms. Cheng Shing Yan, Mr. Wong Yiu Kit Ernest and Mr. Tang Sher Kin. Ms. Cheng Shing Yan is the chairlady of the Audit Committee.

REVIEW OF ANNUAL RESULTS

The Group's consolidated financial statements for the Review Year have been reviewed and approved by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the Review Year have been agreed by the Company's auditor, Ernst & Young ("EY"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.kwong-luen.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The FY2020/21 Annual Report will be despatched to shareholders of the Company and made available on the same websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to the management team and staff for their hard work and contributions, and to the Group's shareholders, investors and business partners for their trust and support.

By order of the Board
Kwong Luen Engineering Holdings Limited
YIP Kwong Cheung
Chairman and Executive Director

Hong Kong, 29 June 2021

As at the date of this announcement, the executive directors are Mr. YIP Kwong Cheung and Ms. KWAN Chui Ling; and the independent non-executive directors are Ms. CHENG Shing Yan, Mr. WONG Yiu Kit Ernest and Mr. TANG Sher Kin.