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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 2022

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Review Year amounted to approximately HK\$548.8 million (FY2020/21: approximately HK\$481.7 million).
- Gross profit margin for the Review Year was approximately 8.4% (FY2020/21: approximately 12.6%).
- Profit and total comprehensive income attributable to owners of the Company for the Review Year amounted to approximately HK\$23.5 million (FY2020/21: approximately HK\$31.1 million).
- Basic and diluted earnings per share for the Review Year amounted to approximately HK cents 2.35 (FY2020/21: HK cents 4.07).
- The Board has resolved not to recommend the declaration of a final dividend for the Review Year (FY2020/21: 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 2022 (the “**Review Year**” or “**FY2021/22**”), together with the comparative figures for the corresponding year ended 31 March 2021 (the “**FY2020/21**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	3	548,839	481,710
Cost of sales		<u>(502,672)</u>	<u>(420,887)</u>
Gross profit		46,167	60,823
Other income and gains	4	1,538	4,569
Administrative expenses		(11,409)	(7,523)
Fair value gain/(loss) on a financial asset at fair value through profit or loss		147	(1,064)
Expected credit losses on contract assets		(6,976)	(2,158)
Expected credit losses on trade receivables		(665)	(78)
Finance costs	6	(541)	(289)
Listing expenses		<u>–</u>	<u>(14,267)</u>
PROFIT BEFORE INCOME TAX	5	28,261	40,013
Income tax expense	7	<u>(4,742)</u>	<u>(8,879)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>23,519</u>	<u>31,134</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic and diluted	9	<u>2.35</u>	<u>4.07</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2022	2021
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		62,904	37,423
Right-of-use assets		1,360	448
Prepayments and deposits		232	–
Financial asset at fair value through profit or loss		4,497	4,350
		<hr/>	<hr/>
Total non-current assets		68,993	42,221
CURRENT ASSETS			
Contract assets		171,938	120,315
Trade receivables	10	22,257	5,936
Prepayments and deposits		63	6,547
Current tax assets		4,170	–
Cash and cash equivalents		42,646	107,649
		<hr/>	<hr/>
Total current assets		241,074	240,447
CURRENT LIABILITIES			
Trade and retention payables	11	22,527	23,183
Accruals and other payables		8,318	3,911
Secured bank loans		20,040	14,861
Lease liabilities		561	333
Current tax liabilities		–	8,228
		<hr/>	<hr/>
Total current liabilities		51,446	50,516
NET CURRENT ASSETS		<hr/> 189,628 <hr/>	<hr/> 189,931 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 258,621 <hr/>	<hr/> 232,152 <hr/>

		As at 31 March	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Accruals and other payables		263	–
Secured bank loans		2,466	2,987
Lease liabilities		649	192
Deferred tax liabilities		7,123	4,372
		<hr/>	<hr/>
Total non-current liabilities		10,501	7,551
		<hr/>	<hr/>
Net assets		248,120	224,601
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	10,000	10,000
Reserves		238,120	214,601
		<hr/>	<hr/>
Total equity		248,120	224,601
		<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 P.O. Box 500, 71 Fort Street, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located at Unit 2909–2910, 29/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.

The consolidated financial statements are presented in Hong Kong dollars (“**HKD**”) and all values are rounded to the nearest thousand (“**HK\$’000**”), unless otherwise stated.

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 consolidated financial statements for the year ended 31 March 2021 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 March 2021 have been prepared as if the current group structure had been in existence at the beginning of the year ended 31 March 2021.

2.2 BASIS OF PREPARATION

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

The consolidated financial statements have been prepared on the historical cost basis except for a financial asset at fair value through profit or loss which has been measured at fair value.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

3. REVENUE AND SEGMENT INFORMATION

3.1 Segment information

The executive directors of the Company, being the chief operating decision maker, have identified that the Group has only one reportable operating segment, 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 2022 and 31 March 2021.

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	N/A*	133,294
Customer B	N/A*	156,250
Customer C	352,291	85,288
Customer D	80,175	N/A*
	<u>548,839</u>	<u>481,710</u>

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

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

3.2 Revenue

The Group's revenue recognised during the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers		
Provision of construction services	548,839	481,710
	<u>548,839</u>	<u>481,710</u>

Disaggregation of revenue from contracts with customers within the scope of HKFRS 15 is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Type of construction service provided		
Residential	420,645	323,689
Non-residential	128,194	158,021
Total	548,839	481,710
Type of customer		
From private sector	418,924	398,759
From public sector	129,915	82,951
Total	548,839	481,710
Timing of revenue recognition		
Services transferred over time	548,839	481,710

4. OTHER INCOME AND GAINS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income and gains		
Rental income from leasing of machinery	–	313
Government grants from Employment Support Scheme (<i>Note a</i>)	–	1,548
Government grants from Construction Innovation and Technology Fund (“CITF”) (<i>Note b</i>)	282	–
Gain on disposal of property, plant and equipment, net	–	1,170
One-off miscellaneous works	1,248	1,508
Others	8	30
	1,538	4,569

Notes:

- (a) During the year ended 31 March 2021, the Group received funding support amounting to HK\$1,548,000 from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.
- (b) During the year ended 31 March 2022, the Group received funding support amounting to HK\$282,000 from the CITF set up by the Hong Kong Government. The purpose of the funding is to support the enterprises and practitioners of the construction industry to wider adoption of innovative constructive methods and new technologies in the construction industry with a view to promoting productivity, uplifting built quality, improving site safety and enhancing environmental performance.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation included in cost of sales:		
– Owned assets	12,915	8,202
– Right-of-use assets	108	267
Depreciation included in administrative expenses:		
– Owned assets	817	5
– Right-of-use assets	666	403
Lease charges on short term leases	11,803	3,665
Employee benefit expense (excluding directors' remuneration):		
– Wages, salaries, allowances and benefits in kind	51,966	52,030
– Pension scheme contributions (<i>note a</i>)	1,629	1,618
	<u>53,595</u>	<u>53,648</u>
Auditor's remuneration	950	1,080
Loss/(gain) on disposal of property, plant and equipment, net	<u>2,042</u>	<u>(1,170)</u>

Note:

- (a) As at 31 March 2022, the Group had no forfeited contributions under the MPF Scheme which may be used by the Group to reduce the existing levels of contributions (2021: Nil).

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest charges on bank loans and overdrafts	495	256
Finance charges on lease liabilities	46	33
	<u>541</u>	<u>289</u>

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – Hong Kong		
– current year	1,998	8,223
– over-provision in respect of prior years	(7)	–
Deferred tax	<u>2,751</u>	<u>656</u>
Total income tax expense	<u>4,742</u>	<u>8,879</u>

The provision for Hong Kong Profits Tax for the year ended 31 March 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2,000,000 are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at 16.5% of the estimated assessable profits for the year ended 31 March 2021.

8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2022 (2021: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the Company of HK\$23,519,000 (2021: HK\$31,134,000) and the weighted average number of ordinary shares in issue of 1,000,000,000 (2021: 764,384,000) on the assumption that the Reorganisation and the capitalisation issue had been completed on 1 April 2020.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2022 and 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2022 and 2021.

10. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	23,000	6,014
Less: ECL allowance	(743)	(78)
	<u>22,257</u>	<u>5,936</u>

The directors of the Group consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The Group's trading terms with its customers are on credit. The Group's credit periods with customers range from 15 to 60 days (2021: 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 ECL allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	<u>22,257</u>	<u>5,936</u>

The movement in the ECL allowance of trade receivables is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance as at beginning of year	78	–
ECL allowance recognised during the year	<u>665</u>	<u>78</u>
Balance as at end of year	<u><u>743</u></u>	<u><u>78</u></u>

An impairment analysis is performed at each reporting date using a probability of default model to measure ECL. 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.

11. TRADE AND RETENTION PAYABLES

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	(a)	12,420	18,478
Retention payables	(b)	<u>10,107</u>	<u>4,705</u>
		<u><u>22,527</u></u>	<u><u>23,183</u></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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	<u>12,420</u>	<u>18,478</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 and 2022	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 and 2022	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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW/BUSINESS OUTLOOK

In 2021, the number of cases of COVID-19 in Hong Kong has remained relatively stable and the foundation industry has been recovering from the impact of COVID-19. The recovery were reflected from the small increase in Hong Kong's total gross value of construction works performed by main contractors in 2021 according to the Census and Statistic Department, increasing by approximately 0.7% from approximately HK\$229,870 million in 2020 to approximately HK\$231,404 million in 2021.

Despite the increasing public health awareness, vaccination programme and enhanced social distancing measures, Hong Kong has recorded the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant since January 2022. The daily number of confirmed cases reached over 50,000 in late-February/early-March 2022. On 5 January 2022, the Government announced measures to tighten social distancing in view of the development of the fifth wave of outbreak. According to the press release of the Hong Kong Construction Association dated 6 March 2022, a significant number of workers had contracted COVID-19 or were required to be quarantined, resulting in severe labor shortage. The labor crunch has given rise to widespread delays in project schedule. Moreover, in light of tightening of the cross-border quarantine requirements and increasing number of truck drivers being tested positive for COVID-19, contractors have experienced disruption in supply of raw materials. There has been a reduction in supply of raw materials, resulting in a short term surge in price. Some contractors were forced to suspend their business operations temporarily consequential to the shortage of manpower and supply chain disruption.

As such, the Directors consider that projects' progress or tendering process has been hampered by the pandemic. The Group's business operation has also been impeded by the fifth wave of outbreak of COVID-19. A number of the Group's employees have been tested positive for COVID-19 in the first quarter of 2022. Coupled with the increasing difficulty in hiring construction workers out of their fear of being infected with COVID-19, the Group experienced labour shortage and slowdown of the work progress of projects. Moreover, there have been occasions where the operation of the relevant sites had to be suspended temporarily for disinfection, which resulted in certain disruptions to the project schedule. The Group is prepared for challenging times in 2022. In May 2022, the fifth wave of outbreak has subsided and the business condition is gradually improving. Under an improved economic condition, the Group believes that a recovery in economic activities, together with favourable government policies, should ramp up the demand of foundation works and offer plenty of opportunities for the Group to capture. The Directors are cautious on the Group's business outlook in 2022.

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, as proposed in the Chief Executive's 2021 Policy Address, including (i) the 10-year public housing production, especially the target of 330,000 units for 2027-2032; (ii) the Northern Metropolis Development Strategy to revamp the northern part of Hong Kong; (iii) the near-shore reclamation projects at Lung Kwu Tan and Ma Liu Shui; (iv) redevelopment of multiple public housing estates of the Housing Authority; and (v) the investment of HK\$100 billion on average annually in infrastructure in the next few years. 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.

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 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 due to the fifth wave of outbreak of COVID-19 as mentioned above. Looking into the future, the declining number of COVID-19 confirmed cases 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

The Group's revenue increased to approximately HK\$548.8 million for the Review Year by approximately HK\$67.1 million or 13.9%, from approximately HK\$481.7 million for the year ended 31 March 2021. This was principally due to the revenue contributed by two sizable projects awarded during the FY2020/21. The estimated contract sum of these two projects were approximately HK\$328.5 million and HK\$121.3 million, respectively. One of these projects commenced in August 2020 whereas another commenced in March 2021 with revenue contribution of approximately HK\$215.2 million (FY2020/21: HK\$64.1 million) and HK\$109.9 million (FY2020/21: HK\$10.5 million), respectively, for the Review Year.

Gross profit and gross profit margin

The Group's cost of sales increased from approximately HK\$420.9 million for the year ended 31 March 2021 to approximately HK\$502.7 million for the Review Year, representing an increase of approximately HK\$81.8 million or 19.4%.

The Group's overall gross profit decreased from approximately HK\$60.8 million for the year ended 31 March 2021 to approximately HK\$46.2 million for the Review Year, representing a decrease of approximately 24.1%. Such decrease in our Group's overall gross profit was mainly attributable to (i) the increase in cost of sales as a result of increase in price of the raw materials; and (ii) delays in project schedule due to the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant since January 2022. As a result, the Group's overall gross profit margin decreased from 12.6% for the year ended 31 March 2021 to 8.4% for the Review Year.

Other income and gains

Other income and gains of the Group decreased by approximately HK\$3.1 million from approximately HK\$4.6 million for the year ended 31 March 2021 to approximately HK\$1.5 million for the Review Year. The decrease was mainly due to (i) no government grants 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 (FY2020/21: approximately HK\$1.5 million); (ii) no gain on disposal of items of property, plant and equipment during the Review Year (FY2020/21: approximately HK\$1.2 million); and (iii) no rental income from leasing of machinery during the Review Year (FY2020/21: approximately HK\$313,000).

Administrative expenses

The administrative expenses of the Group increased from approximately HK\$7.5 million for the year ended 31 March 2021 to approximately HK\$11.4 million for the Review Year, representing an increase of approximately HK\$3.9 million or approximately 51.7%. The increase during the Review year was mainly due to (i) the increase in the professional and consultancy fee to approximately HK\$1.8 million during the Review Year (FY2020/21: approximately HK\$1.4 million); (ii) the increase in the depreciation expense to approximately HK\$1.5 million during the Review Year (FY2020/21: approximately HK\$0.4 million); (iii) the increase in the directors' fees to the independent non-executive directors to HK\$432,000 during the Review Year (FY2020/21: HK\$36,000); and (iv) the loss on disposal of property, plant and equipment of approximately HK\$2.0 million during the Review Year (FY2020/21: Nil).

Finance costs

The finance costs of the Group increased from approximately HK\$289,000 for the year ended 31 March 2021 to approximately HK\$541,000 for the Review Year, representing an increase of approximately HK\$252,000 or 87.2%. The increase in our finance costs was primarily attributable to the increase in drawdown of bank loans from approximately HK\$38.2 million during the FY2020/21 to approximately HK\$60.5 million during the Review Year.

Listing expenses

During the year ended 31 March 2021, the Group recognised non-recurring listing expenses of approximately HK\$14.3 million in connection with the listing.

No such expense was recognised during the Review Year.

Income tax expenses

The income tax expenses of the Group decreased from approximately HK\$8.9 million for the year ended 31 March 2021 to approximately HK\$4.7 million for the Review Year, representing a decrease of approximately HK\$4.2 million or 46.6%. The decrease was due to the decrease in the Group's gross profit as discussed above, while the effective tax rate of the Group decreased from approximately 22.2% for the year ended 31 March 2021 to approximately 16.8% for the Review Year mainly due to the non-deductible listing expenses of approximately HK\$14.3 million incurred during the year ended 31 March 2021 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\$31.1 million for the year ended 31 March 2021 to approximately HK\$23.5 million for the Review Year, representing a decrease of approximately HK\$7.6 million or 24.5%. The decrease was primarily attributable to the decrease in the Group's gross profit and the increase in the administrative expenses 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 2022, 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 2022, the Group had total cash and cash equivalents of approximately HK\$42.6 million (31 March 2021: approximately HK\$107.6 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 has remained relatively stable at approximately 4.7 times and 4.8 times as at 31 March 2022 and 31 March 2021 respectively.

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 9.6% as at 31 March 2022 from approximately 8.2% as at 31 March 2021. The increase was mainly due to the 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 2022, a life insurance policy with a carrying amount of approximately HK\$4,497,000 (FY2020/21: HK\$4,350,000) 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 2022 and 2021, the Group had the following capital commitments:

	2022	2021
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Property, plant and machinery	296	–

As at 31 March 2022, the Group has a contingent liability in relation to a fatal accident (the “**Accident**”) occurred at a worksite, whereby a subcontractor’s worker allegedly sustained fatal injury during the course of work. In October 2021, five summonses (the “**Summons**”) were issued against Kwong Luen Engineering Limited in relation to the Accident on various offences under the Factories and Industrial Undertakings Ordinance. Based on the current status of the legal proceedings for the Summons and independent legal advice obtained, the management of the Group considered it is premature to conclude on whether the Group is probable to be liable for offences alleged in the Summons, and therefore a contingent liability exists.

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

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 2022.

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 2022, 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 2022 <i>HK\$'million</i>	Actual use of proceeds from Listing Date to 31 March 2022 <i>HK\$'million</i>	Unutilised proceeds as at 31 March 2022 <i>HK\$'million</i>	Expected timeline of full utilisation of the remaining proceeds
Financing the up-front costs of projects	39.9	39.9	39.9	–	N/A
Purchasing additional machinery	36.5	26.0	26.0	10.5	31 March 2023
Further expanding and strengthening manpower by recruiting additional staff	15.5	11.3	7.3	8.2	31 March 2023
Purchasing a building information modelling software together with certain ancillary supporting hardware device	5.2	5.2	5.2	–	N/A
Total	<u>97.1</u>	<u>82.4</u>	<u>78.4</u>	<u>18.7</u>	

Due to the outbreak of the fifth wave of COVID-19 attributable to the SARS-CoV-2 Omicron variant since January 2022, the Group encountered difficulty in hiring construction workers and experienced temporary labour shortage. The utilisation of proceeds for expanding and strengthening manpower by recruiting additional staff was therefore postponed temporarily. The Directors confirmed that the utilisation of proceeds has been resumed and estimated that the remaining proceeds will be fully utilised by 31 March 2023.

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 2022 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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2022, we employed a total of 123 employees (including two executive Directors but excluding three independent non-executive Directors), as compared to a total of 133 employees as at 31 March 2021. 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\$55.5 million compared to approximately HK\$55.1 million for FY2020/21.

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 (FY2020/21: 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 2022.

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 2022 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, Grant Thornton Hong Kong Limited ("GT"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by GT 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 GT 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 FY2021/22 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, 24 June 2022

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.