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 2023

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Review Year amounted to approximately HK$338.3 million (FY2021/22: approximately HK$548.8 million).
- Gross profit margin for the Review Year was approximately 3.5% (FY2021/22: approximately 8.4%).
- Profit and total comprehensive income attributable to owners of the Company for the Review Year amounted to approximately HK$1.0 million (FY2021/22: approximately HK$23.5 million).
- Basic and diluted earnings per share for the Review Year amounted to approximately HK cents 0.10 (FY2021/22: HK cents 2.35).
- The Board has resolved not to recommend the declaration of a final dividend for the Review Year (FY2021/22: 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 2023 (the "**Review Year**" or "**FY2022/23**"), together with the comparative figures for the corresponding year ended 31 March 2022 (the "**FY2021/22**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
REVENUE	3	**338,318**	548,839
Cost of sales		**(326,408)**	(502,672)
Gross profit		**11,910**	46,167
Other income and gains	4	**6,337**	1,538
Administrative expenses		**(11,074)**	(11,409)
Fair value gain on a financial asset at fair value through profit or loss		**128**	147
Expected credit losses ("**ECL**") on contract assets		**(7,428)**	(6,976)
Reversal of ECL/(ECL) on trade receivables		**641**	(665)
Finance costs	6	**(667)**	(541)
(LOSS)/PROFIT BEFORE INCOME TAX	5	**(153)**	28,261
Income tax credit/(expense)	7	**1,154**	(4,742)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,001**	23,519
		HK cents	*HK cents*
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic and diluted	9	**0.10**	2.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**56,049**	62,904
Right-of-use assets		**690**	1,360
Prepayments and deposits		**232**	232
Financial asset at fair value through profit or loss		**4,625**	4,497
Total non-current assets		**61,596**	68,993
CURRENT ASSETS			
Contract assets		**199,610**	171,938
Trade receivables	10	**4,131**	22,257
Prepayments and deposits		**19**	63
Current tax assets		**1,997**	4,170
Cash and cash equivalents		**25,361**	42,646
Total current assets		**231,118**	241,074
CURRENT LIABILITIES			
Trade and retention payables	11	**27,772**	22,527
Accruals and other payables		**5,958**	8,318
Secured bank loans		**511**	20,040
Lease liabilities		**605**	561
Total current liabilities		**34,846**	51,446
NET CURRENT ASSETS		**196,272**	189,628
TOTAL ASSETS LESS CURRENT LIABILITIES		**257,868**	258,621

		As at 31 March	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT LIABILITIES			
Accruals and other payables		**263**	263
Secured bank loans		**1,966**	2,466
Lease liabilities		**44**	649
Deferred tax liabilities		**6,474**	7,123
Total non-current liabilities		**8,747**	10,501
Net assets		**249,121**	248,120
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	**10,000**	10,000
Reserves		**239,121**	238,120
Total equity		**249,121**	248,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands 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**"), 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 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.

2.2 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 2023 and 31 March 2022.

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:

	2023	2022
	HK$'000	*HK$'000*
Customer A	**184,632**	80,175
Customer B	**92,316**	352,291

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:

	2023	2022
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Provision of construction services	**338,318**	548,839

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

	2023	2022
	HK$'000	*HK$'000*
Type of construction service provided		
Residential	**149,825**	420,645
Non-residential	**188,493**	128,194
Total	**338,318**	548,839
Type of customer		
From private sector	**153,429**	418,924
From public sector	**184,889**	129,915
Total	**338,318**	548,839
Timing of revenue recognition		
Services transferred over time	**338,318**	548,839

4. OTHER INCOME AND GAINS

	2023	2022
	HK$'000	*HK$'000*
Other income and gains		
Government grants from Employment Support Scheme *(Note a)*	**5,911**	–
Government grants from Construction Innovation and Technology Fund ("**CITF**") *(Note b)*	**53**	282
Gain on disposal of property, plant and equipment, net	**113**	–
Interest income	**12**	–
One-off miscellaneous works	**223**	1,248
Others	**25**	8
	6,337	1,538

Notes:

(a) During the year ended 31 March 2023, the Group received funding support amounting to HK$5,911,000 (2022: Nil) 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 2023, the Group received funding support amounting to HK$53,000 (2022: 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. LOSS/(PROFIT) BEFORE INCOME TAX

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

	2023	2022
	HK$'000	*HK$'000*
Depreciation included in cost of sales:		
– Owned assets	**12,108**	12,915
– Right-of-use assets	**108**	108
Depreciation included in administrative expenses:		
– Owned assets	**1,553**	817
– Right-of-use assets	**562**	666
Lease charges on short-term leases	**9,624**	11,803
Employee benefit expense (excluding directors' remuneration):		
– Wages, salaries, allowances and benefits in kind	**57,196**	51,966
– Pension scheme contributions *(note a)*	**1,532**	1,629
	58,728	53,595
Auditor's remuneration	**1,000**	950
(Gain)/loss on disposal of property, plant and equipment, net	**(113)**	2,042

Note:

(a) As at 31 March 2023, the Group had no forfeited contributions under the MPF Scheme which may be used by the Group to reduce the existing levels of contributions (2022: Nil).

6. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest charges on bank loans and overdrafts	**637**	495
Finance charges on lease liabilities	**30**	46
	667	541

7. INCOME TAX (CREDIT)/EXPENSE

	2023	2022
	HK$'000	*HK$'000*
Current tax – Hong Kong		
– current year	**–**	1,998
– over-provision in respect of prior years	**(505)**	(7)
Deferred tax	**(649)**	2,751
Total income tax (credit)/expense	**(1,154)**	4,742

For the year ended 31 March 2023, Hong Kong Profits Tax has not been provided as the Group has incurred losses for taxation purpose.

For the year ended 31 March 2022, the provision for Hong Kong Profits Tax is calculated at 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%.

8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2023 (2022: 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$1,001,000 (2022: HK$23,519,000) and the weighted average number of ordinary shares in issue of 1,000,000,000 (2022: 1,000,000,000).

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2023 and 2022 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2023 and 2022.

10. TRADE RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**4,233**	23,000
Less: ECL allowance	**(102)**	(743)
	4,131	22,257

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 (2022: 15 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:

	2023	2022
	HK$'000	*HK$'000*
0–30 days	**–**	22,257
31–60 days	**4,131**	–
	4,131	22,257

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

	2023	2022
	HK$'000	*HK$'000*
Balance as at beginning of year	**743**	78
ECL allowance (reversed)/recognised during the year	**(641)**	665
Balance as at end of year	**102**	743

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

		2023	2022
	Notes	***HK$'000***	*HK$'000*
Trade payables	(a)	**15,688**	12,420
Retention payables	(b)	**12,084**	10,107
		27,772	22,527

Notes:

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

	2023	2022
	HK$'000	*HK$'000*
0–30 days	**13,430**	12,420
31–90 days	**2,193**	–
91–180 days	**53**	–
181–365 days	**12**	–
	15,688	12,420

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

The Company's share capital is as follows:

	Number of shares of issue	Share capital
		HK$'000
Authorised:		
As at 31 March 2022 and 2023	10,000,000,000	100,000
Issued and fully paid:		
As at 31 March 2022 and 2023	1,000,000,000	10,000

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The construction industry and foundation industry in Hong Kong have been negatively affected by the COVID-19 continuously. Hong Kong has experienced the fifth wave of outbreak of COVID-19 in the first half of 2022. The scale and impact of the fifth wave of outbreak has been much more severe than the previous waves. According to the Census and Statistic Department, the gross value of construction works performed by main contractors for 2022 increased by 5.7%, as compared to 2021. The Directors of the Group believe that the demand for Hong Kong's foundation industry will improve in the foreseeable future.

The Hong Kong economy showed a year-on-year contraction in 2022. According to the Government of Hong Kong (the "**Government**"), the worsened external environment and tightened financial conditions have hampered Hong Kong's economy. The real GDP of Hong Kong has fell by 3.5% for 2022, as compared to a year earlier.

The outbreak of COVID-19 has affected both Hong Kong and the PRC. The fifth wave of outbreak of COVID-19 attributable to SARS-CoV-2 Omicron variant has affected Hong Kong in the first half of 2022, resulting in (i) delays in certification process by the Government and affecting cash flow of construction contractors; (ii) labour shortage and slowdown of the work progress of projects; and (iii) reduction in supply of raw materials and short term surge in price of raw materials. COVID-19 has also continuously affected the PRC starting from the second quarter of 2022. The PRC Government has imposed active coronavirus controls in various cities, such as regularly testing, shutdown of non-essential businesses and temporary lockdowns, which has inevitably cause disruption in the supply chain in Hong Kong. Contractors in Hong Kong have experienced severe disruption in supply of raw materials and increase in price of raw materials.

Despite the aforementioned difficulties, the Group expects that there are upsides to the industry. In particular (i) the Government targets to increase the overall supply of transitional housing in the coming few years as set out in the Chief Executive's Policy Address; (ii) the launch of the Northern Metropolis Development Strategy by the Government in 2021; (iii) the "Land Sharing Pilot Scheme" proposed which seeks to unleash the development of privately owned agricultural lots for housing purposes; and (iv) the labour import plan proposed by the Government in June 2023 may help ease labour crunch. There are still ample room of growth for the construction industry when the economy of Hong Kong improves.

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 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.

During the Review Year, the construction industry and foundation industry in Hong Kong was hampered by the COVID-19 outbreak. The Group has recorded decrease in revenue and gross profit margin, mainly attributable to (i) the increase in cost of sales as a result of increase in price of raw materials; and (ii) stagnation in economic growth of Hong Kong, as demonstrated by the contraction in gross domestic product of Hong Kong for each of the four quarters of 2022 and the reduction of private residential development from 21,300 units in 2021 to 11,000 in 2022, leading to increased competition, reduction in tender opportunities and decrease in gross profit margin of projects awarded.

Looking into the future, COVID-19's effect on Hong Kong is expected to diminish but Hong Kong will continue to be affected by the macro-economic situation. The Group will continue leverage its solid track record in the foundation industry and the favourable government policies to explore different options in this difficult time.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased to approximately HK$338.3 million for the Review Year by approximately HK$210.5 million or 38.4%, from approximately HK$548.8 million for the FY2021/22. This was principally due to the decrease in revenue contributed by two sizable projects awarded during the year ended 31 March 2021. 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. These projects were in the midst of their major construction phase during the FY2021/22 whereas the major construction phase has passed for both projects during the Review Year. The revenue contribution from the project commenced in August 2020 and the project commenced in March 2021 were approximately HK$59.9 million (FY2021/22: approximately HK$215.2 million) and HK$9.3 million (FY2021/22: approximately HK$109.9 million) respectively, for the Review Year.

Gross profit and gross profit margin

The Group's cost of sales decreased from approximately HK$502.7 million for the year ended 31 March 2022 to approximately HK$326.4 million for the Review Year, representing a decrease of approximately HK$176.3 million or 35.1%, mainly attributable to the decrease in revenue.

The Group's overall gross profit decreased from approximately HK$46.2 million for the year ended 31 March 2022 to approximately HK$11.9 million for the Review Year, representing a decrease of approximately 74.2%. 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, mainly attributable to the outbreak of COVID-19 SARS-CoV-2 Omicron variant in Hong Kong in early 2022 and mainland China in the second and third quarter of 2022; and (ii) stagnation in economic growth of Hong Kong, as demonstrated by the contraction in gross domestic product of Hong Kong for each of the four quarters of 2022 and the reduction of private residential development from 21,300 units in 2021 to 11,000 in 2022, leading to increased competition, reduction in tender opportunities and decrease in gross profit margin of projects awarded. As a result, the Group's overall gross profit margin decreased from 8.4% for the year ended 31 March 2022 to 3.5% for the Review Year.

Other income and gains

Other income and gains of the Group increased by approximately HK$4.8 million from approximately HK$1.5 million for the year ended 31 March 2022 to approximately HK$6.3 million for the Review Year. The increase was mainly due to government grants of approximately HK$5.9 million received from the Employment Support Scheme of the Government for the purpose to retain employment and combat the COVID-19 for the Review Year.

Administrative expenses

The administrative expenses of the Group decreased from approximately HK$11.4 million for the year ended 31 March 2022 to approximately HK$11.1 million for the Review Year, representing a decrease of approximately HK$0.3 million or approximately 2.6%. The decrease during the Review Year was mainly due to the decrease of approximately HK$0.3 million in the professional and consultancy fee, from approximately HK$1.8 million for the FY2021/22 to approximately HK$1.5 million for the Review Year.

Expected credit losses on contract assets

The ECL on contract assets of the Group increased from approximately HK$7.0 million for the year ended 31 March 2022 to approximately HK$7.4 million for the Review Year, representing an increase of approximately HK$0.4 million or approximately 5.7%. The increase during the Review Year was mainly due to the individual assessment of 2 contract assets arising from construction contracts as at 31 March 2023 (with an aggregate total gross carrying amount of approximately HK$5.8 million before measurement of the ECL), which were assigned with a loss rate of 100%. Such impairment of contract assets were recorded mainly because (i) the contract assets were aged over one year; (ii) there was increase in price of raw material during the outbreak of COVID-19 which led to the increase in cost incurred for the performance of contract but the Group was unable to receive the full amount of the contract assets from the relevant customers; and (iii) the Directors had negotiated with the relevant customers and were given the understanding that the contract assets would not be recoverable.

The Directors of the Group assessed the recoverability of contract assets as at 31 March 2023 and believed that the ECL allowances were adequate because:

- For contract assets arisen from projects which were close to or at the final stage, it generally takes longer period of time for customers in the foundation works industry to proceed with the final review and approval for the relevant work done of the entire project before issuing the relevant completion certificate. On such occasion, the recovery of contract assets generally takes a longer period of time but are generally recoverable;

- A substantial portion of the contract assets were from customers which the Group has established long business relationship with. The Directors regularly meet and discuss with the relevant customers to monitor the recoverability of the contract assets and are not aware of any difficulties in the recoverability of the contract assets; and

- The retention receivables are generally released (i) upon completion of works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. In general, the retention receivables are fully recoverable in accordance to the contract once the final account is confirmed by the customer. As the contract works of most projects which recorded retention receivables as at 31 March 2023 are still ongoing (the duration of the projects may be up to three years), a portion of the retention receivables have yet to be recovered as at the date of the enquiry. The Directors are not aware of any circumstances that would raise question on the recoverability of the retention receivables.

Finance costs

The finance costs of the Group increased from approximately HK$541,000 for the year ended 31 March 2022 to approximately HK$667,000 for the Review Year, representing an increase of approximately HK$126,000 or 23.3%. The increase in our finance costs was primarily attributable to the increase in bank import loan interest rate range from approximately 2.9%–3.2% during the FY2021/22 to approximately 3.5%–7.8% during the Review Year.

Income tax credit/(expense)

The income tax expenses of the Group decreased from tax expense of approximately HK$4.7 million for the year ended 31 March 2022 to tax credit of approximately HK$1.2 million for the Review Year, representing a decrease of approximately HK$5.9 million or 124.3%. The decrease was due to the decrease in the Group's gross profit as discussed above, over provision of current tax in respect of prior years and movement of deferred tax during the Review Year.

Profit and total comprehensive income for the year

The profit and total comprehensive income for the year of the Group decreased from approximately HK$23.5 million for the year ended 31 March 2022 to approximately HK$1.0 million for the Review Year, representing a decrease of approximately HK$22.5 million or 95.7%. The decrease was primarily attributable to the decrease in the Group's gross profit 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 2023, 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 2023, the Group had total cash and cash equivalents of approximately HK$25.4 million (31 March 2022: approximately HK$42.6 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 increased to approximately 6.6 times as at 31 March 2023 from approximately 4.7 times as at 31 March 2022. The increase was mainly due to the increase in contract assets.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including secured bank loans and lease liabilities) divided by the total equity as at the respective reporting dates.

The gearing ratio of the Group decreased to approximately 1.3% as at 31 March 2023 from approximately 9.6% as at 31 March 2022. The decrease was mainly due to the decrease in secured bank loans.

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 2023, a life insurance policy with a carrying amount of approximately HK$4,625,000 (FY2021/22: HK$4,497,000) 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 2023 and 2022, the Group had the following capital commitments:

	2023	2022
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and machinery	**–**	296

As at 31 March 2022, the Group had 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 in relation to the Accident on various offences under the Factories and Industrial Undertakings Ordinance. Based on the status of the legal proceedings for the Summons at the time and independent legal advice obtained, the management of the Group considered it was premature to conclude on whether the Group was probable to be liable for offences alleged in the Summons at the time, and therefore a contingent liability existed.

During the year ended 31 March 2023, prosecutions were initiated by the Labour Department. On 22 February 2023, Kwong Luen Engineering was fined HK$120,000 at the Kowloon City Magistrates' Courts for violation of the Factories and Industrial Undertakings Ordinance, the Factories and Industrial undertakings (Lifting Appliances and Lifting Gear) Regulations and the Factories and Industrial Undertakings (Safety Management) Regulation and the case was closed.

The above fine of HK$120,000 was included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 March 2023.

As at 31 March 2023, 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 2023.

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

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 2023 and the date of this announcement, the proceeds were fully utilised according to the use of proceeds described in the Prospectus.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2023, we employed a total of 136 employees (including three executive Directors but excluding three independent non-executive Directors), as compared to a total of 123 employees as at 31 March 2022. 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, excluding three independent non-executive Directors, incurred by the Group for the Review Year was approximately HK$60.3 million compared to approximately HK$55.0 million for FY2021/22.

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 (FY2021/22: 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 2023.

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 2023 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 FY2022/23 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, 28 June 2023

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