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## **KNK Holdings Limited**

**中國卓銀國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8039)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020**

#### **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This announcement, for which the directors (the “Directors”) of KNK Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading; and all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.*

## SUMMARY

- The revenue of the Company and its subsidiaries (collectively the “**Group**”) amounted to approximately HK\$29.8 million for the year ended 31 March 2020 (2019: approximately HK\$45.8 million), representing a decrease of approximately 34.9% as compared to that of the same period in 2019.
- The net loss of the Group amounted to approximately HK\$34.3 million for the year ended 31 March 2020 (2019: HK\$5.2 million) representing an increase of approximately 559.6% as compared to that of the same period in 2019.
- The Directors do not recommend any dividend for the year ended 31 March 2020 (2019: HK\$Nil).

## ANNUAL RESULTS

The board of Directors (the “**Board**”) of the Company hereby announces the audited consolidated results of the Group for the financial year ended 31 March 2020 together with the comparative figures for the financial year ended 31 March 2019.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2020*

	Note	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>	4	<b>29,779</b>	45,848
Cost of services		<u>(35,501)</u>	<u>(40,664)</u>
Gross (loss) profit		<b>(5,722)</b>	5,184
Other income	5	<b>344</b>	376
Administrative expenses		<b>(13,572)</b>	(10,500)
Finance costs	6	<b>(673)</b>	(199)
Share of results of associates		<b>(2,484)</b>	(9)
Write-off of loan receivables		<b>(10,159)</b>	–
Loss allowance on contract assets		<b>(2,003)</b>	–
Loss on derecognition of subsidiaries		<u><b>(41)</b></u>	–
<b>Loss before tax</b>	6	<b>(34,310)</b>	(5,148)
Income tax expenses	7	<u><b>(24)</b></u>	<u>(7)</u>
<b>Loss and total comprehensive loss for the year attributable to owners of the Company</b>		<u><b>(34,334)</b></u>	<u>(5,155)</u>
<b>Loss per share</b>			
Basic	9	<u><b>HK(8.21) cents</b></u>	<u>HK(1.23) cents</u>
Diluted	9	<u><b>HK(8.21) cents</b></u>	<u>HK(1.23) cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Note</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>568</b>	1,451
Right-of-use assets		<b>514</b>	–
Interests in associates		<b>7,847</b>	7,831
Deposits and prepayment		–	1,200
		<u><b>8,929</b></u>	<u>10,482</u>
<b>Current assets</b>			
Trade and other receivables	<i>10</i>	<b>9,945</b>	9,656
Loan receivables	<i>11</i>	–	4,092
Tax recoverable		<b>1,988</b>	1,460
Bank balances and cash		<b>11,149</b>	29,419
		<u><b>23,082</b></u>	<u>44,627</u>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>3,775</b>	652
Other borrowings	<i>13</i>	<b>5,500</b>	4,092
Term loan		<b>5,350</b>	–
Bond payable		<b>5,000</b>	–
Lease liabilities		<b>715</b>	–
Tax payable		<b>77</b>	27
		<u><b>20,417</b></u>	<u>4,771</u>
<b>Net current assets</b>		<u><b>2,665</b></u>	<u>39,856</u>
<b>Total asset less current liabilities</b>		<u><b>11,594</b></u>	<u>50,338</u>
<b>Non-current liabilities</b>			
Bond payable		–	5,000
Lease liabilities		<b>616</b>	–
Deferred tax liabilities		–	26
		<u><b>616</b></u>	<u>5,026</u>
<b>NET ASSETS</b>		<u><b>10,978</b></u>	<u>45,312</u>
<b>Capital and reserves</b>			
Share capital		<b>4,180</b>	4,180
Reserves		<b>6,798</b>	41,132
<b>TOTAL EQUITY</b>		<u><b>10,978</b></u>	<u>45,312</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Attributable to owners of the Company				Total equity <i>HK\$'000</i>
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	
At 1 April 2018	4,180	33,785	5,000	7,502	50,467
Loss and total comprehensive loss for the year	–	–	–	(5,155)	(5,155)
At 31 March 2019	<u>4,180</u>	<u>33,785</u>	<u>5,000</u>	<u>2,347</u>	<u>45,312</u>
At 1 April 2019	<b>4,180</b>	<b>33,785</b>	<b>5,000</b>	<b>2,347</b>	<b>45,312</b>
Loss and total comprehensive loss for the year	–	–	–	(34,334)	(34,334)
At 31 March 2020	<u><b>4,180</b></u>	<u><b>33,785</b></u>	<u><b>5,000</b></u>	<u><b>(31,987)</b></u>	<u><b>10,978</b></u>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended 31 March 2020*

### **1. GENERAL INFORMATION**

KNK Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited. The addresses of its registered office and principal place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit E, 33/F., Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in provision of comprehensive architectural and structural engineering consultancy services.

In the opinion of the directors, the ultimate holding company of the Company is Energetic Way Limited, a company incorporated in the British Virgin Islands.

### **2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 3 to the consolidated financial statements.

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. 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.

During the year, the Group has lost contact of the directors of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited (the “Deconsolidated Subsidiaries”). The Deconsolidated Subsidiaries are indirectly held by the Company via Golden Legend Consortium Limited whose director has left the Group. The Group has not yet completed the change of the director of Golden Legend Consortium Limited. Without the completion of the change of director of Golden Legend Consortium Limited, the Group is unable to exercise its control over the Deconsolidated Subsidiaries. As such, the results, assets and liabilities of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited have not been included into the consolidated financial statements of the Group since 3 October 2019 and 1 October 2019 respectively. The deconsolidation of the Deconsolidated Subsidiaries had resulted in a loss of approximately HK\$41,000, which was determined based on the carrying amounts of the assets and liabilities of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited as at 3 October 2019 and 1 October 2019 respectively.

### 3. ADOPTION OF NEW/REVISED HKFRSs

The HKICPA has issued a number of new/revised HKFRSs that are first effective for the current accounting period of the Group. Of these, the changes in accounting policy relevant to the consolidated financial statements are as follows:

HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases

#### **HK(IFRIC)-Int 23: Uncertainty over Income Tax Treatments**

The Interpretation supports the requirements in HKAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The adoption of the Interpretation does not have any significant impact on the consolidated financial statements.

#### **Amendments to HKAS 28 Investments in Associates and Joint Ventures**

The amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using HKFRS 9.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

#### **Amendments to HKFRS 9: Prepayment Features with Negative Compensation**

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income instead of at FVPL if specified conditions are met.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

#### **HKFRS 16: Leases**

HKFRS 16 replaces HKAS 17 and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

In accordance with the transitional provisions, the Group has applied HKFRS 16 for the first time at 1 April 2019 (i.e. the date of initial application, the “DIA”) using the modified retrospective approach in which comparative information has not been restated. Instead, the Group recognised the cumulative effect of initially applying HKFRS 16 as an adjustment to the balance of accumulated profits or other component of equity, where appropriate, at the DIA.

The Group also elected to use the transition practical expedient not to reassess whether a contract was, or contained, a lease at the DIA and the Group applied HKFRS 16 only to contracts that were previously identified as leases applying HKAS 17 and to contracts entered into or changed on or after the DIA that are identified as leases applying HKFRS 16.

## As lessee

Before the adoption of HKFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of HKFRS 16, the Group accounted for the leases in accordance with the transition provisions of HKFRS 16 and the Group's accounting policies applicable from the DIA.

### As lessee – leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and the Group applied the following practical expedients on a lease-by-lease basis.

- (a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (b) Adjusted the right-of-use assets at the DIA by the provision for onerous leases recognised immediately before the DIA by applying HKAS 37, as an alternative to performing an impairment review at the DIA.
- (c) Did not recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the DIA.
- (d) Excluded initial direct costs from the measurement of the right-of-use assets at the DIA.
- (e) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the DIA, except for those that were previously or will be accounted for as investment property using the fair value model, right-of-use assets were, on a lease-by-lease basis, measured at either,

- (a) their carrying amount as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the DIA; or
- (b) an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the DIA. The weighted average incremental borrowing rate applied to the lease liabilities at the DIA is 5.125%.

Reconciliation of operating lease commitments disclosed applying HKAS 17 at 31 March 2019 and lease liabilities recognised at the DIA is as follows.

	<i>HK\$'000</i>
Operating lease commitments at 31 March 2019	628
Discounted using the lessee's incremental borrowing rate at the DIA	616
Add: Liabilities for renewal option previously not reflected in operating lease commitments	1,531
Lease liabilities at 1 April 2019	2,147

At the DIA, all right-of-use assets were presented within the line item “right-of-use assets” on the consolidated statement of financial position. Besides, lease liabilities were shown separately on the consolidated statement of financial position. As a result, transfer was made at the DIA to reflect the changes in presentation:

	<b>31 March 2019</b>	<b>Impact on initial application of HKFRS 16</b>	<b>1 April 2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Right-of-use assets	–	2,147	2,147
	<u>–</u>	<u>2,147</u>	<u>2,147</u>
Liabilities			
Lease liabilities	–	(2,147)	(2,147)
	<u>–</u>	<u>(2,147)</u>	<u>(2,147)</u>
Equity			
Accumulated profits	2,347	–	2,347
	<u>2,347</u>	<u>–</u>	<u>2,347</u>

#### 4. REVENUE AND SEGMENT INFORMATION

	<b>2020</b>	<b>2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>

##### Revenue from contracts with customers within HKFRS 15

Contract revenue from provision for comprehensive architectural and structural engineering consultancy services recognised over time	<u>29,779</u>	<u>45,848</u>
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The Group’s operation is mainly derived from provision for comprehensive architectural and structural engineering consultancy services. For the purpose of resources allocation and performance assessment, the chief operating decision marker (i.e. the directors of the Company) reviews the overall results and financial position of the Group as a whole prepared in accordance with accounting policies which conform to HKFRSs. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

##### Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts as all contract works have an original expected duration of one year or less.



## Geographical information

All of the Group's external revenue during the year are derived from services rendered in Hong Kong, the place of domicile of the Group's operating entities.

The geographical location of the non-current assets is based on (i) the physical location of the asset in the case of property, plant and equipment and right-of-use assets; and (ii) the location of the operation to which they are allocated in the case of deposits and prepayments. In the case of interest in the associate, it is based on the location of the operation of such associate.

Since all of the property, plant and equipment and right-of-use assets employed by the Group are located in Hong Kong, the location of the operation to which deposits and prepayments are allocated and the operations of the associates are in Hong Kong, no geographical information is presented accordingly.

## Information about major customers

Revenue from customers contributing individually over 10% or more of the Group's revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ( <i>note (i)</i> )	–	16,649
Customer B	<u>5,795</u>	<u>–</u>

*Note (i):* The corresponding revenue did not contribute 10% or more of the Group's total revenue during the year ended 31 March 2020.

## 5. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Rental income from subleases of right-of-use assets/rented premises	294	294
Reversal of loss allowance on trade receivables	–	21
Sundry income	<u>50</u>	<u>61</u>
	<u>344</u>	<u>376</u>

## 6. LOSS BEFORE TAX

This is stated after charging:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Finance costs</b>		
Interest on bond payable	420	199
Interest on term loan	160	–
Interest expenses on lease liabilities	93	–
	<u>673</u>	<u>199</u>
<b>Staff costs (including directors' remuneration)</b>		
Salaries, wages and other benefits	20,541	19,144
Contributions to defined contribution plans	1,229	313
	<u>21,770</u>	<u>19,457</u>
Total staff costs	21,770	19,457
Less: Amount included in cost of services rendered	<u>(17,484)</u>	<u>(15,016)</u>
	<u>4,286</u>	<u>4,441</u>
<b>Other items</b>		
Auditor's remuneration	500	540
Depreciation of property, plant and equipment	656	657
Depreciation of right-of-use assets	781	–
Operating lease charges for office premise	–	769
Provision for impairment losses		
– Property, plant and equipment (including in administrative expenses)	227	–
– Right-of-use assets (including in administrative expenses)	852	–
	<u>852</u>	<u>–</u>

## 7. INCOME TAX EXPENSES

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2019 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and the assessable profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Hong Kong Profits Tax has been provided at the rate of 8.25% on the estimated assessable profits arising from Hong Kong in accordance with the two-tiered profits tax rates regime for qualifying Hong Kong subsidiary. (2019: Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising from Hong Kong for the non-qualifying Hong Kong subsidiaries and in accordance with the two-tiered profits tax rates regime for qualifying Hong Kong subsidiary).

The Cayman Islands levies no tax on the income of the Company and the Group.

No provision for the People's Republic of China ("PRC") Enterprise Income Tax for the PRC subsidiary in 2020 as there is no estimated profits for the year (2019: HK\$Nil).

Income tax recognised in profit or loss

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	50	40
<b>Deferred taxation</b>		
Origination and reversal of temporary differences, net	<u>(26)</u>	<u>(33)</u>
	<u>24</u>	<u>7</u>

## 8. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2020 (2019: HK\$Nil).

## 9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is as follows:

### (a) Basic loss per share

	2020	2019
Loss attributable to owners of the Company ( <i>HK\$'000</i> )	<u>(34,334)</u>	<u>(5,155)</u>
Weighted average number of ordinary shares ( <i>'000</i> )	<u>418,000</u>	<u>418,000</u>
Basic loss per share ( <i>HK cents</i> )	<u>(8.21)</u>	<u>(1.23)</u>

### (b) Diluted loss per share

Diluted loss per share equals to basic loss per share as there was no potential dilutive ordinary shares in issue during the years ended 31 March 2020 and 2019.

## 10. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Trade receivables</b>		
Trade receivables from third parties	<u>4,650</u>	<u>3,754</u>
Contract assets	4,006	4,073
Less: Loss allowance	<u>(2,003)</u>	<u>–</u>
	<u>2,003</u>	<u>4,073</u>
	<u>6,653</u>	<u>7,827</u>
<b>Other receivables</b>		
Deposits and prepayments	3,120	1,657
Due from an associate	160	160
Due from ultimate holding company	<u>12</u>	<u>12</u>
	<u>3,292</u>	<u>1,829</u>
	<u>9,945</u>	<u>9,656</u>

### Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables based on invoice date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
1 – 30 days	2,257	785
31 – 60 days	704	550
61 – 90 days	335	336
91 – 180 days	480	433
Over 180 days	<u>874</u>	<u>1,650</u>
	<u>4,650</u>	<u>3,754</u>

The Group does not allow any credit period to its customers.

## 11. LOAN RECEIVABLES

At 31 March 2019, loan receivables of HK\$4.09 million represented loan advanced to an independent third party by an indirectly owned subsidiary, Jin Hao (Shenzhen) Holdings Limited (“Jin Hao”). The loan was unsecured, interest-bearing at 5% per annum and for the period from 27 March 2019 to 26 September 2019. However, the amount has not been repaid.

During April to May 2019, another indirectly owned subsidiary, Golden Legend Capital Limited (“Golden Legend”) and Jin Hao advanced HK\$0.9 million, HK\$3.5 million and HK\$1.67 million to certain individuals, certain companies and a company connected with certain ex-directors of the Company respectively. Both Golden Legend and Jin Hao are inactive and were managed by certain ex-directors of the Company. The current management is unable to reach those ex-directors to obtain the supporting documents of those loan receivables of approximately HK\$10.16 million, in aggregate, and contact details of those debtors. The loan receivables have not been settled and no required information and supporting documents are available to allow the management to chase the debtors for the loan receivables. The management considers that the repayment of those loan receivables of HK\$10.16 million, in aggregate, is remote and the Group therefore wrote off the loan receivables.

## 12. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Trade payables</b>		
Trade payables to third parties	950	–
Contract liabilities	430	100
	<u>1,380</u>	<u>100</u>
<b>Other payables</b>		
Accrued charges and other creditors	2,015	552
Interest payables	380	–
	<u>3,775</u>	<u>652</u>

### Ageing analysis

As of the end of the reporting period, the ageing analysis of trade payables based on invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
1 – 30 days	<u>950</u>	<u>–</u>

### **13. OTHER BORROWINGS**

At 31 March 2019, other borrowings represented an advance from an independent third party. The amount was unsecured, interest-bearing at 2% per annum and for the period from 21 March 2019 to 20 September 2019. The amount has been settled during the year ended 31 March 2020.

During the year ended 31 March 2020, the Group received an advance of HK\$5.5 million. The proceeds of the Group's other borrowings were received through Golden Legend and Jin Hao. The current management is unable to reach certain ex-directors who are also the directors and management of these two subsidiaries to obtain the supporting documents, including bank statements of these two subsidiaries, loan agreements, and representations in relation to the other borrowings.

### **14. EVENTS AFTER THE REPORTING PERIOD**

Since January 2020, the outbreak of COVID-19 has certain impacts on the business operation and overall economy on the global business environment. To a certain extent, the outbreak will impact the comprehensive architectural and structural engineering consultancy services business of the Group.

Despite the challenges, governments and international organisations have implemented a series of measures to contain the epidemic. The Group stays alert to the development and situation of the COVID-19, continue to assess its impacts on the financial position and operating results of the Group, and take necessary action to maintain stability of the businesses. Up to the date of this annual report, the assessment of financial impact on COVID-19 is still in progress.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW AND OUTLOOK**

The Group is principally engaged in the provision of comprehensive architectural and structural engineering consultancy services in Hong Kong. During the financial year ended 31 March 2020, the Group has focused on developing business opportunities with existing customers as well as working on those referrals from them; at the same time, the Group plans to expand the types of architectural-related services.

The Company's shares were successfully listed on GEM on 12 December 2016 (the "Listing"). The proceed raised has strengthened the cash position of the Group and allowed the Group to expand from different aspects. After having evaluated the Group's business objectives as stated in the prospectus of the Company dated 30 November 2016 (the "Prospectus"), the Group and the Directors considered that no modification of the business objectives or the business plans as stated in the Prospectus was required.

The revenue of the Group was dropped by HK\$16.0 million or 34.9% to HK\$29.8 million; and the loss for the year was HK\$34.3 million, a HK\$29.1 million increase compared with the loss incurred for the year ended 31 March 2019. The reasons of such changes can be found under the Financial Review section below.

Going forward, while actively exploring new businesses opportunities, as mentioned above, the Group also plans to extend its business reach and expand service coverage to lay a foundation for our longterm development. These strategic directions aim to capture new business opportunities in the market and contribute satisfactory long-term returns to our shareholders. And such achievements depend on whether we can attract competent professionals to join the Group.

But under the current political and economic environment, in particular the impact of COVID-19 is still uncertain, the Group will seek to minimise risk exposure by bargaining better terms from sub-contractors, minimising expenses, securing projects and keep closer eyes on chasing receivables to keep the operations of the Group as usual.

### **FINANCIAL REVIEW**

#### **Revenue**

The Group's revenue is generated from the contract revenue from provision of comprehensive architectural and structural engineering consultancy services in Hong Kong, including licensing consultancy, alternation and addition works and minor works consultancy, inspection and certification and other architectural related consultancy.

The Group's total revenue for the financial year ended 31 March 2020 was approximately HK\$29.8 million (2019: approximately HK\$45.8 million), representing approximately HK\$16.0 million or 34.9% decrease compared to the corresponding period in 2019. Such decrease was mainly attributable to the completion of the Design and Build Project as announced in the announcement dated 18 July 2017 in 2019 such that there was no revenue contribution from this project in 2020.

The gross loss margin was approximately 19.2% (2019: gross profit margin approximately 11.3%). The gross loss was mainly due to some repair and maintenance expenses incurred in a particular project approximately \$6.6 million while the revenue was recognised fully in previous years.

### **General and administrative expenses**

The Group's total general and administrative expenses for the financial year ended 31 March 2020 was approximately HK\$13.6 million (2019: approximately HK\$10.5 million), representing an increase of approximately HK\$3.1 million or 29.5% when compared to the corresponding period in 2019. Such increase was mainly due to increase in legal and professional fees approximately HK\$1.4 million and the impairment loss of right-of-use assets approximately HK\$0.8 million.

### **Loss for the year**

The Group recorded a net loss attributable to owners of the Company of approximately HK\$34.3 million for the financial year ended 31 March 2020 (2019: HK\$5.2 million). Such change in loss was mainly due to the increase in share of loss of associates approximately HK\$2.5 million and the increase in one-off expenses approximately HK\$12.2 million including write-off of loan receivables, loss allowance on contract assets and loss on derecognition of subsidiaries, increase in general and administrative expenses of approximately HK\$3.1 million as well as the gross loss incurred for the year ended 31 March 2020.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During the financial year ended 31 March 2020, the Group financed its operations by cash balances accumulated in previous years. As at 31 March 2020, the Group had net current assets of approximately HK\$2.7 million (2019: approximately HK\$39.9 million), including cash and cash equivalents of approximately HK\$11.1 million (2019: approximately HK\$29.4 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 1.1 times as at 31 March 2020 (2019: approximately 9.4 times). The decrease in the current ratio was mainly attributable to the increase in various loans repayable within one year and classified as current liabilities.

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to approximately HK\$11.0 million as at 31 March 2020 (2019: approximately HK\$45.3 million).

## **EMPLOYEE INFORMATION**

Total staff and Directors' remuneration for the financial year ended 31 March 2020 was approximately HK\$21.8 million (2019: approximately HK\$19.5 million). Such increase was mainly due to the increase in directors' remunerations by approximately HK\$1.0 million and number of staff increased. The Group's remuneration policies are formulated on the basis of performance, qualifications and experience of individual employee and make reference to the prevailing market conditions. Our remuneration packages comprise monthly fixed salaries and discretionary year-end bonuses based on individual performance, which are paid to employees as recognition of, and reward for, their contributions.



## **CHARGES ON THE GROUP'S ASSETS**

The Group did not have any charge arranged with any financial institution in Hong Kong as at 31 March 2020 (2019: Nil).

## **FOREIGN EXCHANGE EXPOSURE**

The revenue and business costs of the Group were principally denominated in Hong Kong dollars, and as such the exposure to the risk of foreign exchange rate fluctuations for the Group was minimal. Hence, no financial instrument for hedging was employed.

## **PURCHASE, REDEMPTION OF LISTED SECURITIES**

During the financial year ended 31 March 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CONTINGENT LIABILITIES**

No material contingent liability had come to the attention of the Directors in the financial year ended 31 March 2020 and up to the date of this announcement.

## **EVENT AFTER THE REPORTING PERIOD**

Save as disclosed in Note 14, up to the date of this announcement, there was no significant event relevant to the business or financial performance of the Group that comes to the attention of the Directors after the year ended 31 March 2020.

## **USE OF PROCEEDS**

Among the net proceeds of approximately HK\$25.1 million from the placing transaction conducted in 12 December 2016, up to the latest practicable date for the purpose of this announcement, approximately HK\$2.5 million has been used as general working capital of the Group, comprising (i) approximately HK\$0.9 million as Directors' remuneration and staff salaries payment; and (ii) approximately HK\$1.6 million as compliance and professional fee and general expenses. Also approximately HK\$6.5 million was used as salaries to recruit additional staff since listing to support the expansion of business and approximately HK\$5.7 million was used to purchase new property, plant and equipment and development and upgrade of the BIM system. The remaining balance of HK\$10.4 million was kept in the Group's bank accounts. The Directors do not intend to change the intended usage of the proceed as disclosed in the Prospectus.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standard of Dealing"). Having made specific enquiries of all the Directors, all of them have confirmed that they have complied with the Required Standard of Dealings throughout the year ended 31 March 2020. No incident of non-compliance was noted by the Company during the year.

## **CORPORATE GOVERNANCE PRACTICES**

The Group is committed to promoting high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") in Appendix 15 of the GEM Listing Rules. Throughout the year ended 31 March 2020 and up to the date of this announcement, to the best knowledge of the Board, the Company has complied with all the code provisions set out in the CG Code save for the deviation from code provision A.2.1 as mentioned in the section headed "Chairman and Chief Executive Officer" in this announcement.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The annual general meeting is scheduled for Friday 25 September 2020. In order to determine entitlements to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 22 September 2020 to Friday 25 September 2020 (both dates inclusive), during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Monday 21 September 2020.

## **AUDIT COMMITTEE**

The Audit Committee has been established with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules and code provision C.3.3 and C.3.7 of the CG Code and Report. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Lee Pui Chung. The other members are Ms. Lai Pik Chi Peggy and Mr. Chan Chung Yin Victor.

The primary duties of the audit committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditors; review the financial statements of our Company and areas involving judgements in respect of financial reporting; and oversee financial reporting system, internal control procedures and continuing connected transactions of the Company. All members of the Audit Committee are appointed by the Board.

The annual results of the Company for the year ended 31 March 2020 have been reviewed by the audit committee of the Company.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)**

The Company has not yet adopted A.2.1 of the CG Code. Pursuant to A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company currently has no Chairman or CEO. The daily operation and management of the Company is monitored by the executive Directors as well as the senior management.

The Board is of the view that although there is no Chairman or CEO, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company and the Group. This arrangement can still enable the Company to make and implement decisions promptly, and thus achieve the Company’s objectives efficiently and effectively in response to the changing environment.

The Company will, at the appropriate time, arrange for the election of the new Chairman of the Board.

## **EXTRACT OF INDEPENDENT AUDITOR’S REPORT**

The below sections set out an extract of the draft report by Mazars CPA Limited, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 March 2020:

### **DISCLAIMER OF OPINION**

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **BASIS FOR DISCLAIMER OF OPINION**

### **1. Scope limitation – loan receivables**

During the year ended 31 March 2019, an indirectly owned subsidiary, Jin Hao (Shenzhen) Holdings Limited (“Jin Hao”) advanced loans to a company of approximately HK\$4.09 million. During April to May 2019, another indirectly owned subsidiary, Golden Legend Capital Limited (“Golden Legend”) and Jin Hao advanced in aggregate of approximately HK\$6.07 million to several individuals and companies and were recorded under loan receivables as set out in Note 17 to the consolidated financial statements. Both Golden Legend and Jin Hao are inactive and were managed by certain ex-directors of the Company. The current management is unable to reach those ex-directors to obtain the supporting documents of those loan receivables of approximately HK\$10.16 million, in aggregate, and contact details of those debtors. The current management has written off the loan receivables because the loan receivables were not settled and no required information and supporting documents are available to allow them to chase the debtors for the loan receivables. We were unable to obtain sufficient appropriate audit evidence and reasonable representations from management that those loan receivables represented genuine loans to independent third parties. Accordingly, we were unable to satisfy ourselves as to the original loan receivables recognised, the appropriateness of the write-off of loan receivables made and the related disclosures in the consolidated financial statements.

### **2. Scope limitation – other borrowings**

As at 31 March 2020, there were other borrowings of HK\$5.5 million as set out in Note 19 to the consolidated financial statements and on the statement of financial position of the Company as set out in Note 29 to the consolidated financial statements. During the year, all proceeds of the Group’s other borrowings were received through Golden Legend and Jin Hao. The current management is unable to reach certain ex-directors who are also the directors and management of these two subsidiaries to obtain the supporting documents, including bank statements of these two subsidiaries, loan agreements, and representations in relation to the other borrowings. As we were unable to obtain sufficient appropriate audit evidence and reasonable representations from management in respect of the amount of the other borrowings as at 31 March 2020, we were unable to determine the existence, rights, obligations and completeness on the other borrowings. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded other borrowings.

## **THE MANAGEMENT’S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION**

During the course of audit of the consolidated financial statements of the Group for the year, the auditor has raised concern on the Group’s loan receivables and other borrowings. The management of the Company (the “Management”) has considered the auditor’s rationale and understood their consideration in arriving the disclaimer of opinion. The Management is unable to reach the former Executive Directors to obtain the information and supporting documents of the loan receivables and other borrowings. The Management will continue to take all possible actions in order to retrieve all necessary information.

## AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the Audit Committee have critically reviewed the basis for disclaimer of opinion, the Management's position concerning the basis for disclaimer of opinion and actions taken by the Company for addressing the basis for disclaimer of opinion. The Audit Committee agreed with the Management's position and requested the Management to use its best endeavors to retrieve all necessary information. The Audit Committee has also discussed with the auditor regarding actions taken and to be taken by the Company, and considered the auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

By Order of the Board  
**KNK Holdings Limited**  
**Sin Pui Ying**  
*Director*

Hong Kong, 29 June 2020

*As at the date of this announcement, the executive Directors are Mr. Poon Kai Kit Joe and Ms. Sin Pui Ying; and the independent non-executive Directors are Mr. Lee Pui Chung, Ms. Lai Pik Chi Peggy and Mr. Chan Chung Yin Victor.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of 7 days from the date of its publication and on the Company's website at [www.knk.com.hk](http://www.knk.com.hk).*