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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 2021

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given the companies listed on GEM are generally small and mid-sized companies, 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 “**Board**” or “**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.*

SUMMARY

- The revenue of the Company and its subsidiaries (collectively the “**Group**”) amounted to approximately HK\$41.2 million for the year ended 31 March 2021 (2020: approximately HK\$29.8 million), representing an increase of approximately 38.3% as compared to that of the same period in 2020.
- The net loss of the Group amounted to approximately HK\$13.1 million for the year ended 31 March 2021 (2020: HK\$34.3 million) representing a decrease of approximately 61.8% as compared to that of the same period in 2020.
- The Directors do not recommend payment of any dividend for the year ended 31 March 2021 (2020: Nil).

ANNUAL RESULTS

The Board of the Company hereby announces the audited consolidated results of the Group for the financial year ended 31 March 2021 (“Year”) together with the comparative figures for the financial year ended 31 March 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	41,246	29,779
Cost of services		<u>(37,977)</u>	<u>(35,501)</u>
Gross profit/(loss)		3,269	(5,722)
Other income	5A	1,647	344
Other gains and losses	5B	963	–
Administrative expenses		(14,663)	(13,572)
Finance costs	6	(967)	(673)
Share of results of associates		(2,943)	(2,484)
Reversal of/(write-off) of loan receivables		1,250	(10,159)
Loss allowance on contract assets		(1,714)	(2,003)
Loss on derecognition of subsidiaries		<u>–</u>	<u>(41)</u>
Loss before tax	6	(13,158)	(34,310)
Income tax credit/(expenses)	7	<u>17</u>	<u>(24)</u>
Loss and total comprehensive loss for the year attributable to owners of the Company		<u>(13,141)</u>	<u>(34,334)</u>
Loss per share			
Basic	9	<u>HK(3.14) cents</u>	<u>HK(8.21) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		198	568
Right-of-use assets		122	514
Interests in associates		4,736	7,847
		5,056	8,929
Current assets			
Trade and other receivables	<i>10</i>	4,314	9,945
Loan receivables	<i>11</i>	1,250	–
Tax recoverable		–	1,988
Bank balances and cash		2,577	11,149
		8,141	23,082
Current liabilities			
Trade and other payables	<i>12</i>	1,296	3,775
Other borrowings	<i>13</i>	5,500	5,500
Term loan		8,234	5,350
Bond payable		–	5,000
Lease liabilities		208	715
Tax payable		122	77
		15,360	20,417
Net current (liabilities)/assets		(7,219)	2,665
Total asset less current liabilities		(2,163)	11,594

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		—	616
		—	616
NET (LIABILITIES)/ASSETS		<u>(2,163)</u>	<u>10,978</u>
Capital and reserves			
Share capital		4,180	4,180
Reserves		<u>(6,343)</u>	<u>6,798</u>
TOTAL EQUITY		<u>(2,163)</u>	<u>10,978</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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 2019	4,180	33,785	5,000	2,347	45,312
Loss and total comprehensive loss for the year	–	–	–	(34,334)	(34,334)
At 31 March 2020	4,180	33,785	5,000	(31,987)	10,978
At 1 April 2020	4,180	33,785	5,000	(31,987)	10,978
Loss and total comprehensive loss for the year	–	–	–	(13,141)	(13,141)
At 31 March 2021	4,180	33,785	5,000	(45,128)	(2,163)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

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**”).

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 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 result announcement.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's net current liabilities and net liabilities HK\$7,219,000 and HK\$2,163,000 respectively as at 31 March 2021.

Taking into account of the financial support of a director, the Group has sufficient working capital for its present requirements for the next twelve months from 31 March 2021. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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:

Amendments to HKFRS 3, Definition of a Business

Amendments to HKAS 1 and 8, Definition of Material

Amendments to HKFRS 7, 9, and HKAS 39, Interest Rate Benchmark Reform

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

4. REVENUE AND SEGMENT INFORMATION

	2021 <i>HK\$'000</i>	2020 <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>41,246</u>	<u>29,779</u>

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 maker (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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	16,928	5,795

5A. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Rental income from subleases of right-of-use assets/rented premises	294	294
Government grants	1,232	–
Sundry income	121	50
	1,647	344

5B. OTHER GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gain on disposal of an associate	332	–
Net gain on disposal of property, plant and equipment	234	–
Net gain on lease modification	397	–
	963	–

6. LOSS BEFORE TAX

This is stated after charging:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance costs		
Interest on bond payable	166	420
Interest on term loan	758	160
Interest expenses on lease liabilities	43	93
	<u>967</u>	<u>673</u>
Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	17,690	20,541
Contributions to defined contribution plans	1,193	1,229
	<u>18,883</u>	<u>21,770</u>
Total staff costs	18,883	21,770
Less: Amount included in cost of services rendered	<u>(13,802)</u>	<u>(17,484)</u>
	<u>5,081</u>	<u>4,286</u>
Other items		
Auditor's remuneration	500	500
Depreciation of property, plant and equipment	284	656
Depreciation of right-of-use assets	392	781
Provision for impairment losses		
– Property, plant and equipment (included in administrative expenses)	–	227
– Right-of-use assets (included in administrative expenses)	–	852
	<u>5,081</u>	<u>4,286</u>

7. TAXATION

The provision for Hong Kong Profits Tax is calculated at 16.5% (2020: 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 rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision of the Hong Kong Profits Tax for this subsidiary was calculated on the same basis in 2020.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax:		
Current year	70	50
Over-provision for prior year	(87)	–
Deferred taxation		
Origination and reversal of temporary differences, net	–	(26)
Total tax (credit)/charge for the year	<u>(17)</u>	<u>24</u>

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2021 (2020: HK\$Nil).

9. LOSS PER SHARE

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

(a) Basic loss per share

	2021	2020
Loss attributable to owners of the Company (<i>HK\$'000</i>)	<u>(13,141)</u>	<u>(34,334)</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>(3.14)</u>	<u>(8.21)</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 2021 and 2020.

10. TRADE AND OTHER RECEIVABLES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Trade receivables from third parties	<u>3,756</u>	<u>4,650</u>
Contract assets	1,714	4,006
Less: Loss allowance	<u>(1,714)</u>	<u>(2,003)</u>
	<u>–</u>	<u>2,003</u>
	<u>3,756</u>	<u>6,653</u>
Other receivables		
Deposits and prepayments	386	3,120
Due from an associate	160	160
Due from ultimate holding company	<u>12</u>	<u>12</u>
	<u>558</u>	<u>3,292</u>
	<u>4,314</u>	<u>9,945</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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
1 – 30 days	1,132	2,257
31 – 60 days	380	704
61 – 90 days	315	335
91 – 180 days	731	480
Over 180 days	1,198	874
	<u>3,756</u>	<u>4,650</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 a former 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 then management was 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 had not been settled and no required information and supporting documents were available to allow the then management to chase the debtors for the loan receivables. The then management considered that the repayment of those loan receivables of HK\$10.16 million, in aggregate, was remote and the Group therefore wrote off the loan receivables for the year ended 31 March 2020.

During the year ended 31 March 2020, the Company has issued loans to Full Rich Human Resources Limited and Goldman Holdings Limited of the amount HK\$2,500,000 and HK\$1,000,000, respectively. These loans receivables had been written off during the year ended 31 March 2020.

On 2 June 2021, the Company has entered into a settlement agreement with two of the above mentioned companies for an amount of HK\$1,250,000 repayable by ten instalments starting from 2 June 2021. Therefore, a reversal on the written off loan receivable of amount HK\$1,250,000 has been done for the year ended 31 March 2021.

12. TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables		
Trade payables to third parties	–	950
Contract liabilities	<u>276</u>	<u>430</u>
	276	1,380
Other payables		
Accrued charges and other creditors	795	2,015
Interest payables	<u>225</u>	<u>380</u>
	<u><u>1,296</u></u>	<u><u>3,775</u></u>

Ageing analysis

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
1 – 30 days	<u><u>–</u></u>	<u><u>950</u></u>

13. OTHER BORROWINGS

During the year ended 31 March 2020, the Group received an advance of HK\$5.5 million (“**Alleged Debt**”). The proceeds of the Group’s Alleged Debt was received through a subsidiary of the Company, namely Golden Legend Capital Limited. The then management had been unable to reach certain former directors of the Company who were also the directors (“**Former Directors**”) of the subsidiary, to obtain the loan agreements and representations in relation to the Alleged Debt.

On 20 July 2020, a statutory demand served on the Company by a purported creditor to demand the Company to pay for the Alleged Debt with accrued interest in an aggregate amount of approximately HK\$5.8 million within 3 weeks after service of the statutory demand. If no payment was made by the expiry of the 3-week period, the creditor might present a winding-up petition against the Company. On 23 September 2020, the Company received a writ of summons issued in the Court of First Instance of the High Court of Hong Kong by the same purported creditor. Pursuant to the writ, the plaintiff claims against the Company for the Alleged Debt with accrued interest.

On the other hand, since the current management has been unable to reach the Former Directors, on 31 July 2020 the Company issued and filed the writ of summons, together with the statement of claim dated 30 July 2020, against the Former Directors for breach of the directors' duties in the High Court of Hong Kong. Application was made to the said court to serve the writ out of jurisdiction on the Former Directors in the People Republic of China. The process of serving writs against certain former directors will take months as this will involve the corresponding court(s) in China. There is no update as at the date of this report.

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.

During the year ended 31 March 2020, the Company has issued loans to Full Rich Human Resources Limited and Goldman Holdings Limited of the amount HK\$2,500,000 and HK\$1,000,000, respectively. These loans receivables had been written off during the year ended 31 March 2020.

On 2 June 2021, the Company has entered into a settlement agreement with two of the above mentioned companies for an amount of HK\$1,250,000 repayable by ten instalments starting from 2 June 2021. Therefore, a reversal on the written off loan receivable of amount HK\$1,250,000 has been done for the year ended 31 March 2021.

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 2021, 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.

Revenue of the Group increased by approximately HK\$11.4 million or 38.3% to HK\$41.2 million; and the loss for the Year was approximately HK\$13.1 million, a HK\$21.2 million decrease as compared with the loss incurred for the year ended 31 March 2020. The reasons of such changes can be found under the Financial Review section below.

Going forward, while actively exploring new businesses opportunities, the Group also plans to extend its business reach and expand service coverage to lay a foundation for our long term development. These strategic directions aim to capture new business opportunities in the market and contribute satisfactory long-term returns to our shareholders. 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 closely monitoring recoverability of the 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, alteration and addition works and minor works consultancy, inspection and certification and other architectural related consultancy.

The Group's total revenue for the year ended 31 March 2021 was approximately HK\$41.2 million (2020: approximately HK\$29.8 million), representing approximately HK\$11.4 million or 38.3% increase compared to the corresponding period in 2020. Such increase was mainly attributable to the revenue contribution from a project with a relatively large contract sum.

The gross profit margin was approximately 7.9% (2020: gross loss margin was approximately 19.2%).

The gross loss in 2020 was mainly due to some repair and maintenance expenses incurred in a particular project of 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 year ended 31 March 2021 was approximately HK\$14.6 million (2020: approximately HK\$13.6 million), representing an increase of approximately HK\$1 million or 7.4% when compared to the corresponding period in 2020. Such increase was mainly due to increase in the listing compliance fee.

Loss for the year

The Group recorded a net loss attributable to owners of the Company of approximately HK\$13.1 million for the year ended 31 March 2021 (2020: HK\$34.3 million). The reduction of loss was mainly attributable to the absence of (i) a one-off write-off of loan receivables; and (ii) an extra direct cost on a project during the Year, which were incurred in the same period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 March 2021, the Group financed its operations by cash balances accumulated in previous years. As at 31 March 2021, the Group had net current liabilities of approximately HK\$7.2 million (2020 net current assets: approximately HK\$2.7 million), including cash and cash equivalents of approximately HK\$2.6 million (2020: approximately HK\$11.1 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 0.5 times as at 31 March 2021 (2020: approximately 1.1 times). The decrease in current ratio mainly due to decrease in bank balances and cash. The gearing ratio being total debts over the equity is not applicable the Year as the equity became negative as a result of the accumulated losses for the past two years (2020: 1.44).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to approximately HK\$2.2 million deficit as at 31 March 2021 as a result of the accumulated losses for the past two years (2020: approximately HK\$11 million).

EMPLOYEE INFORMATION

Total staff and Directors' remuneration for the year ended 31 March 2021 was approximately HK\$18.9 million (2020: approximately HK\$21.8 million). Such decrease was mainly due to the decrease in directors' remunerations by approximately HK\$2.3 million. 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 2021 (2020: 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, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 March 2021, 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 year ended 31 March 2021 and up to the date of this report.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 14, up to the date of this report, 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 2021.

USE OF PROCEEDS

With reference to the prospectus of the Company dated 30 November 2016 in relation to the listing of shares by the Company on the GEM of The Stock Exchange of Hong Kong Limited by way of placing; the annual reports of the Company for the year ended 31 March 2019 and for the year ended 31 March 2020; and the announcement of the Company dated 11 August 2020. The Company had unutilised net proceeds of approximately HK\$10.4 million ("**Unutilised Net Proceeds**") which the Board had resolved to change the use to general working capital of the Group. The Unutilised Net Proceeds has been fully utilised during the Year.

COMPLIANCE WITH CORPORATE GOVERNANCE

Corporate Governance Code

The Company is committed to achieving high standards of corporate governance to safeguard the interests of the shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code under Appendix 15 of the GEM Listing Rules (the "CG Code").

The Company had complied throughout the Year with all the code provisions as set out in the CG Code except with the following deviation:–

(1) Code provision A.2.1

The Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. No chairman nor chief executive are appointed by the Company.

All executive Directors, being Mr. Poon Kai Kit, Joe, Mr. Chung Yuk Lun and Ms. Sin Pui Ying (who resigned on 8 January 2021) provide the Board with strong and consistent leadership to ensure that the Board works effectively and acts in the interest of the Company. At the same time, they are responsible for formulation of corporate strategy and business development. The daily operation and management of the Company is monitored by the executive Directors as well as the senior management. All Directors (including the independent non-executive Directors), being experienced individuals, are encouraged to make active contributions to the Board's affairs and promoting a culture of openness and debate. Based on the above, the Board is of the view that although no chairman nor chief executive are appointed, the balance of power and authority of the Board is ensured and believes the current structure (with proper delegation authorities to the management and effective supervision by the Board and its committees) functions effectively and that no change to current structure is required.

(2) Code provision C.2.5

Code provision C.2.5 stipulates that a listed company should have an internal audit function. In the past, the Company has outsourced the internal audit function on analysis and independent appraisal of the adequacy and effectiveness of its risk management and internal control systems to independent professional firm(s).

For the Year, the Audit Committee has performed such function itself by carrying out walk through tests on the Company's risk management and internal control systems with reference to the policy and procedures manuals of the Company, interviewed and discussed with the management on their effectiveness and followed up on the rectifications of any findings from their work. The Board considers that compliance with Code provision C.2.5 has been fulfilled by the Audit Committee for the Year.

(3) Code provision E.1.3

The Code requires that notice for annual general meetings should be sent to shareholders at least 20 clear business days before the meeting. Last annual general meeting of the Company was held on 30 September 2020 and the notice of the meeting was sent on 3 September 2020. Insufficient notice was given to the shareholders in this regard. The Company will ensure proper compliance of this CG Code in future.

Model Code for Securities Transactions by Directors

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the Directors ("**Model Code**"). Having made specific enquiries to the Directors, all of them confirmed they had complied with the required standard of dealings as set out in the Model Code throughout the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

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 Mr. Lee Pui Chung (*Chairman*), Ms. Lai Pik Chi, Peggy and Ms. Chan Yuk Chun.

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 (if any) of the Company. All members of the Audit Committee are appointed by the Board.

The consolidated audited financial statements of the Company for the year ended 31 March 2021 have been reviewed by the audit committee of the Company in conjunction with the Group's auditor, ZHONGHUI ANDA CPA Limited (“ZHONGHUI”). Based on this review and discussion with the management of the Company, the Audit Committee was satisfied that the audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position as at 31 March 2021 and results for the Year.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from audited financial report of the Company prepared by ZHONGHUI for the year ended 31 March 2021.

Qualified Opinion

We have audited the consolidated financial statements of KNK Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which comprise the consolidated statement of financial position as at 31 March 2021, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

1. *Loan receivables*

Included in loan receivables on the consolidated statement of financial position as at 31 March 2020 and 31 March 2021 were loan receivables of approximately HK\$2.57 million which were advanced to several individual and companies. We were unable to obtain sufficient appropriate audit evidence and reasonable explanation to substantiate the existence and nature of the relevant transactions.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of loans receivable of approximately HK\$8.91 million and HK\$2.57 million respectively as at 31 March 2020 and 31 March 2021 respectively.

Included in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 March 2020 and 31 March 2021 there were write-off loan receivable and reversal of write-off loan receivable in the amount of HK\$10.16 million and HK\$1.25 million respectively. We were unable to obtain sufficient appropriate audit evidence and reasonable explanation to substantiate if these were appropriately recorded.

2. *Other borrowing*

There were other borrowing of HK\$5.5 million as at 31 March 2020 and 31 March 2021. We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, rights, obligation and completeness of other borrowing of HK\$5.5 million as at 31 March 2020 and 31 March 2021.

THE MANAGEMENT’S VIEW ON THE QUALIFIED 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 has considered the auditor’s rationale and understood their consideration in arriving at the qualified 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. Nevertheless, the management has successfully controlled the board of Golden Legend Capital Limited and obtained the bank statements, payment and receipt records of certain loan receivables and/or other borrowings. In addition, settlement agreement had been reached with 2 borrowers. As a result, the auditor agreed to change the disclaimer opinion on loan receivables and other borrowings from disclaimer opinion last year to qualified opinion this Year. Moreover, the amount of loan receivables being qualified has been reduced as compared to last year. The Management will continue to take all possible actions in order to retrieve all necessary information.

THE AUDIT COMMITTEE’S VIEW ON THE QUALIFIED OPINION

Members of the Audit Committee have critically reviewed the basis for qualified opinion, the Management’s position and actions taken by the Management for addressing the basis for qualified 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 Management, and considered the auditor’s rationale and understood their consideration in arriving at the qualified opinion.

By Order of the Board
KNK Holdings Limited
Chung Yuk Lun
Executive Director & Company Secretary

Hong Kong, 30 June 2021

As at the date of this announcement, the executive Directors are Mr. Poon Kai Kit, Joe and Mr. Chung Yuk Lun; and the independent non-executive Directors are Mr. Lee Pui Chung, Ms. Lai Pik Chi, Peggy and Ms. Chan Yuk Chun.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at 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.