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Hong Kong Johnson Holdings Co., Ltd.
香港莊臣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1955)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

The board (the "**Board**") of directors (the "**Directors**") of Hong Kong Johnson Holdings Co., Ltd. (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2020 (the "**Year**"), together with the comparative figures for the corresponding period of 2019.

FINANCIAL HIGHLIGHTS

	Year ended 31 March		
	2020	2019	Change
	HK$'000	*HK$'000*	
Revenue	**1,784,981**	1,433,383	24.5%
Gross profit	**121,146**	103,526	17.0%
Total comprehensive income for the year attributable to the equity shareholders of the Company	**28,457**	21,807	30.5%

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	3	**1,784,981**	1,433,383
Cost of services		**(1,663,835)**	(1,329,857)
Gross profit		**121,146**	103,526
Other income	4	**2,480**	327
Other gains	5	**332**	297
(Allowance)/reversal of allowance for account receivables		**(1,567)**	130
Administrative expenses		**(74,979)**	(69,136)
Profit from operations		**47,412**	35,144
Finance costs		**(10,354)**	(6,908)
Profit before tax		**37,058**	28,236
Income tax expense	6	**(8,601)**	(6,429)
Profit for the year	7	**28,457**	21,807
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year attributable to the equity shareholders of the Company		**28,457**	21,807
Earning per share			
Basic and diluted (HK cents per share)	9	**6.6**	5.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment		**84,167**	36,896
Prepaid land lease payments		**–**	17,615
Right-of-use assets		**43,179**	–
Financial assets at fair value through profit or loss ("**FVTPL**")		**19,284**	18,570
Total non-current assets		**146,630**	73,081
Current assets			
Prepaid land lease payments		**–**	652
Account receivables	*10*	**334,853**	268,763
Prepayments, deposits and other receivables		**16,578**	8,411
Current tax assets		**2,228**	1,420
Pledged bank deposits		**16,322**	16,360
Bank and cash balances		**169,010**	87,297
Total current assets		**538,991**	382,903
Current liabilities			
Account payables	*11*	**19,216**	13,840
Accruals, other payables and provisions		**211,757**	151,191
Bank and other borrowings		**106,269**	113,749
Finance lease payables		**–**	2,715
Lease liabilities		**7,013**	–
Total current liabilities		**344,255**	281,495
Net current assets		**194,736**	101,408
Total assets less current liabilities		**341,366**	174,489

	Note	**2020**	2019
		HK$'000	*HK$'000*
Non-current liabilities			
Provisions		**4,261**	3,097
Finance lease payables		**–**	7,437
Bank and other borrowings		**10,678**	–
Deferred tax liabilities		**10,092**	2,926
Lease liabilities		**16,097**	–
Total non-current liabilities		**41,128**	13,460
NET ASSETS		**300,238**	161,029
Equity			
Share capital		**5,000**	3,750
Reserves		**295,238**	157,279
TOTAL EQUITY		**300,238**	161,029

NOTES:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprises Hong Kong Financial Reporting Standards ("**HKFRS**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations. These consolidated financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are discussed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) ***New definition of a lease***

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) ***Lessee accounting and transitional impact***

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.2%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment;

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as disclosed as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	HK$'000
Operating lease commitment disclosed as at 31 March 2019	362
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(156)
	206
Less: total future interest expenses	(11)
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 April 2019	195
Add: finance lease liabilities recognised as at 31 March 2019	10,152
Lease liabilities recognised as at 1 April 2019	10,347
Of which are:	
Current lease liabilities	2,854
Non-current lease liabilities	7,493
	10,347

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had been applied since the commencement date of the leases using the relevant increment borrowing rate at the date of initial application of HKFRS16.

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Note	Carrying amount as at 31 March 2019 *HK$'000*	Effects of adoption of HKFRS 16: Re-classification *HK$'000*	Effects of adoption of HKFRS 16: Re-cognition of leases *HK$'000*	Carrying amount as at 1 April 2019 *HK$'000*
Assets					
Right-of-use assets		–	29,319	198	29,517
Prepaid land lease payments	*(i)*	18,267	(18,267)	–	–
Property, plant and equipment	*(ii)*	36,896	(11,052)	–	25,844
Liabilities					
Lease liabilities		–	10,152	195	10,347
Finance lease payables	*(iii)*	10,152	(10,152)	–	–
Equities					
Retained earnings		150,829	–	3	150,832

Note:

(i) Upfront payments for leasehold lands in Hong Kong own used properties were classified as prepaid land lease payments as at 1 April 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to HK$652,000 and HK$17,615,000 respectively were classified to right-of-use assets.

(ii) In relation to assets previously under finance leases, the Group recategorises the carrying amount of the relevant asses which were still leased as at 1 April 2019 amounting to HK$11,052,000 as right-of-use assets.

(iii) The Group reclassified the obligation under finance leases of HK$2,715,000 and HK$7,437,000 to lease liabilities as current and non-current liabilities respectively on 1 April 2019.

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profits from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial results and cash flows for the year ended 31 March 2020, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2020 instead of HKFRS 16, and by comparing these hypothetical amounts for 2020 with the actual 2019 corresponding amounts which were prepared under HKAS 17.

	2020				2019
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating lease as if under HKAS 17 *(note 1)*	Hypothetical amounts for 2020 as if under HKAS 17	Compared to amounts reported for 2019 under HKAS 17
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial results for year ended 31 March 2020 impacted by the adoption of HKFRS 16:					
Profit from operation	47,412	1,024	(989)	47,447	35,144
Finance costs	(10,354)	100	–	(10,254)	(6,908)
Profit before tax	37,058	1,124	(989)	37,193	28,236
Profit for the year	28,457	1,124	(989)	28,592	21,807

	2020			2019
	Amounts reported under HKFRS 16	Estimated amounts related to operating leases as if under HKAS 17	Hypothetical amounts for 2020 as if under HKAS 17	Compared to amounts reported for 2019 under HKAS 17
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Line items in the consolidated statement of cash flows for year ended 31 March 2020 impacted by the adoption of HKFRS 16:				
Cash generated from operations	60,965	(1,590)	59,375	43,280
Interest element of lease rentals paid	(491)	100	(391)	–
Net cash generated from operating activities	58,231	(1,490)	56,741	40,608
Capital element of lease rentals paid	(4,298)	1,490	(2,808)	(3,059)
Net cash generated from/(used in) financing activities	96,188	1,490	97,678	(11,282)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2020 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2020. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2020 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2020. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. REVENUE

(a) Disaggregation of revenue

	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Cleaning, janitorial and other related services income	**1,784,981**	1,433,383
Timing of revenue recognition		
Services transferred over time	**1,784,981**	1,433,383

(b) **Transaction price allocated to the remaining performance obligation for contracts with customers**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 March 2020 and the expected timing of recognising revenue is as follows:

	2020	2019
	HK$'000	*HK$'000*
Within one year	**1,466,792**	1,079,723
More than one year but not more than two years	**697,234**	529,822
More than two years	**57,892**	238,674
	2,221,918	1,848,219

4. OTHER INCOME

	2020	2019
	HK$'000	*HK$'000*
Interest income	**456**	125
Dividend income from financial assets at FVTPL	**100**	101
Government subsidies *(note)*	**1,575**	101
Sundry income	**349**	–
	2,480	327

Note: The amounts represented the ex-gratia payments for the retirement of certain motor vehicles and anti-epidemic cleansing subsidy received from the Government of the Hong Kong Special Administrative Region.

5. OTHER GAINS

	2020	2019
	HK$'000	*HK$'000*
Gain on disposals/written off of property, plant and equipment, net	**83**	18
Fair value gains on financial assets at FVTPL	**249**	279
	332	297

6. INCOME TAX EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**1,293**	4,532
Under-provision in prior years	**142**	–
	1,435	4,532
Deferred tax	**7,166**	1,897
	8,601	6,429

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in these jurisdictions.

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the years ended 31 March 2020 and 2019.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2020	2019
	HK$'000	*HK$'000*
Profit before tax	**37,058**	28,236
Tax at the Hong Kong Profits Tax rate of 16.5% (2019:16.5%)	**6,115**	4,659
Tax effect of income that is not taxable	**(100)**	(83)
Tax effect of expenses that are not deductible	**2,534**	2,152
Tax concession	**(20)**	(165)
Under-provision in prior year	**142**	–
Others	**(70)**	(134)
Income tax expense	**8,601**	6,429

7. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2020	2019
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**–**	652
Cost of services *(note a)*	**1,663,835**	1,329,857
Depreciation	**13,349**	6,001
Depreciation of right-of-use assets	**4,645**	–
Listing expenses	**10,861**	12,173
Allowance/(reversal of allowance) for account receivables	**1,567**	(130)
Operating lease charges		
– warehouse and parking spaces	**–**	345
Auditor's remuneration		
– Current	**1,080**	400
– Over-provision in prior year	**–**	(80)
	1,080	320
Staff costs including directors' emoluments		
Salaries, bonuses and allowances	**1,419,254**	1,158,671
Provision for employee benefits *(note b)*	**29,125**	11,566
Retirement benefit scheme contributions	**34,858**	29,854
Other benefits	**1,516**	1,391
	1,484,753	1,201,482

Notes:

(a) For the year ended 31 March 2020, the cost of services includes staff costs and depreciation totaling HK$1,460,243,000 (2019: HK$1,181,416,000).

(b) Provision for employee benefits includes unutilised annual leave, estimated long service payments, gratuity and redundancy cost.

8. DIVIDENDS

The directors do not recommend the payment of final dividends.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2020	2019
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of calculating basic earnings per share	**28,457**	21,807

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**432,377**	375,000

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for both periods has been adjusted for the effect of the Global Offering.

10. ACCOUNT RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Account receivables	**336,860**	269,203
Allowance for account receivables	**(2,007)**	(440)
	334,853	268,763

The credit terms of account receivables generally range from 14 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of account receivables, based on the invoice date, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Up to 90 days	**303,299**	244,994
91 to 180 days	**24,615**	19,812
181 days to 1 year	**7,439**	2,935
Over 1 year	**1,507**	1,462
	336,860	269,203

As at 31 March 2020, HK$55,452,000 (2019: HK$58,180,000) of account receivables were pledged to banks to secure factoring loans.

The carrying amounts of the Group's account receivables are denominated in HK$.

Transfer of financial assets

The followings were the Group's account receivables as at 31 March 2020 and 2019 that were transferred to banks by factoring account receivables on recourse basis. As the Group had not transferred the significant risks and rewards relating to these receivables, it continued to recognise the full carrying amount of the account receivables and has recognised the cash received on the transfer as secured factoring loans. These financial assets were carried at amortised cost in the Group's consolidated statements of financial position.

	2020	2019
	HK$'000	*HK$'000*
Carrying amount of transferred assets	**55,452**	58,180
Carrying amount of associated liabilities	**(49,907)**	(52,362)
Net position	**5,545**	5,818

11. ACCOUNT PAYABLES

The ageing analysis of account payables, based on the date of receipt of goods or services, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Up to 30 days	**18,693**	13,324
31 to 60 days	**493**	487
Over 90 days	**30**	29
	19,216	13,840

The carrying amounts of the Group's account payables are denominated in HK$.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

The Group is a leading environmental hygiene service provider which provides a wide range of environmental hygiene services to all major districts throughout Hong Kong including provision of building cleaning service, park and recreation center cleaning service, street cleaning service, institutional cleaning service and other cleaning services.

The Group recorded a revenue of approximately HK$1,785.0 million for the year ended 31 March 2020, representing an increase of 24.5% compared with that of last year. The Group's overall gross profit margin decreased from approximately 7.2% to 6.8%, which was mainly due to the keen competition in the market, coupled with an increase in labour costs.

Profit for the year increased by approximately HK$6.7 million or 30.5% from approximately HK$21.8 million for year ended 31 March 2019 to approximately HK$28.5 million for the year ended 31 March 2020. The increase was mainly due to the increase in gross profit by approximately HK$17.6 million from our services, partly offset by increase in administrative expense, finance costs and income tax expenses.

BUSINESS REVIEW AND PROSPECTS

The Year is a very crucial and challenging year for the Company. The Company has been successfully listed on the Main Board of the Stock Exchange, representing an important milestone for the Company. Faced with international and domestic economic instability, social upheaval and the outbreak of COVID-19 in 2019, the public environmental hygiene awareness has increased and the complexity and requirements of environmental hygiene service have escalated. As a result, the demand for environmental hygiene service soared during the year under review. The Group is confident that we are able to provide high-quality and customized environmental hygiene services to meet our customers' specific requirements with the Group's extensive operational resources.

Street cleaning service and building cleaning service are our major sources of revenue, which contributed approximately 30% and 27% of revenue for the year ended 31 March 2020 respectively. All of our revenue has been generated from service contracts, the majority of which have service period of one to three years. These service contracts bring us stable income stream. In addition to providing environmental hygiene service to various government departments, we have also maintained a long-standing and stable relationship with a number of non-government sectors such as property management companies and educational institutions. As of the date of this announcement, more than 60% of our revenue is derived from government sectors, the remaining of which is from the non-government sectors, including property management companies, transport companies, property developers, universities and other higher education institutions.

In the foreseeable future, the Group will introduce more innovative technologies and equipments to increase the quality and efficiency of our environmental hygiene services. To enhance logistic business of garbage collection and to provide advanced environmental hygiene service technology and equipment to our customers in order to maintain our position as a market leader and our competitiveness in the environmental hygiene service market, we established Johnson Environmental Company Limited and i-CLEAN LIMITED in April 2020. In the meantime, the Group is exploring the possibility to merge, acquire, establish and strategically cooperate with some vertical businesses in relation to environmental protection and environmental hygiene services. We aim to bring into full play our edges in the industry and create a long-term value of the Group. In addition to deepening and consolidating the local market, we have noticed the Chinese government has implemented a number of measures related to environmental protection and waste management. Therefore, it is foreseeable that the environmental hygiene service market in China will bring in new opportunities in response to the new policies. We will consider exploring the development of the Chinese market to seize business opportunities as and when appropriate for the growth of our business.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 March 2020 and 2019 were approximately HK$1,785.0 million and HK$1,433.4 million respectively, representing an increase of approximately 24.5%. The increase was mainly due to the increase in revenue generated from our government sector customers.

Cost of services

The cost of services primarily comprised of labour costs, cleaning materials costs and motor vehicles expenses. For the years ended 31 March 2020 and 2019, the cost of services amounted to approximately HK$1,663.8 million and HK$1,329.9 million respectively, representing approximately 93.2% and 92.8% of the Group's revenue for the corresponding years respectively. The percentage of cost of services to the Group's revenue increased by approximately 0.4% due to the keen competition in the market, coupled with an increase in labour cost.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 March 2020 was approximately HK$121.1 million, representing an increase of approximately HK$17.6 million or 17.0% from approximately HK$103.5 million for the corresponding year in 2019. The increase was mainly due to an increase in revenue.

The gross profit margins of the Group for the years ended 31 March 2020 and 2019 were approximately 6.8% and 7.2% respectively. The decrease in gross profit margin was mainly due to the keen competition in the market, coupled with an increase in labour costs. Therefore, the increment in cost of services was higher than that in revenue which resulted in a drop of gross profit margin.

Administrative expenses

The administrative expenses of the Group for the years ended 31 March 2020 and 2019 were approximately HK$75.0 million and HK$69.1 million respectively. The increase was mainly due to the increase of directors' bonus of approximately HK$1.8 million together with increase of headcounts, administrative expenses and professional fees after the Listing, including auditor's remuneration and other professional fees. The Group continued to implement its budget cost control measures for administrative expenses during the Year.

Finance costs

The finance costs represented primarily the interest expenses on bank borrowings with floating interest rates. The finance costs amounted to approximately HK$10.4 million and HK$6.9 million for the years ended 31 March 2020 and 2019 respectively, representing approximately 0.6% and 0.5% of the Group's total revenue respectively. The increase was mainly due to the increase in bank borrowings during the Year.

Profit for the year attributable to equity shareholders of the Company

The Group's profit for the year attributable to equity shareholders of the Company for the year ended 31 March 2020 and 2019 were approximately HK$28.5 million and HK$21.8 million respectively, representing an increase of approximately 30.5%. The increase was mainly due to the factors described above.

Liquidity and financial resources

The Group has funded the liquidity and capital requirements primarily through retained earnings, bank borrowings and cash inflows from the Global Offering (referred to in the prospectus issued by the Company on 27 September 2019). As at 31 March 2020, the capital structure of the Group consisted of equity of approximately HK$300.2 million (31 March 2019: HK$161.0 million), bank and other borrowings of approximately HK$116.9 million (31 March 2019: HK$113.7 million), lease liabilities of approximately HK$23.1 million (31 March 2019: finance lease payables of approximately HK$10.2 million).

Account receivables

As at 31 March 2020, the Group had total account receivables of approximately HK$334.9 million (31 March 2019: HK$268.8 million). The increase was mainly due to the increase in revenue.

Cash position and fund available

During the Year, the Group maintained a healthy liquidity position, with working capital being financed by the Global Offering and operating activities. As at 31 March 2020, the Group's cash and cash equivalents were approximately HK$169.0 million (31 March 2019: HK$87.3 million). The Group pledged bank deposits of approximately HK$16.3 million (31 March 2019: HK$16.4 million) to secure the Group's banking facilities. As at 31 March 2020, the current ratio of the Group was approximately 1.6 times (31 March 2019: 1.4 times).

Accruals, other payables and provisions

As at 31 March 2020, the Group had total accruals, other payables and provisions of approximately HK$216.0 million (31 March 2019: HK$154.3 million). The increase was mainly due to the increase in accrued staff costs. This is generally in line with the increase in revenue for the month of March 2020 when compared with that for the month of March 2019.

Bank and other borrowings

As at 31 March 2020, the Group had total bank and other borrowings of approximately HK$116.9 million (31 March 2019: HK$113.7 million). As at 31 March 2020, the Group had aggregate banking facilities, which comprised of overdraft and revolving loan facilities, factoring facility and guarantee line facility, of approximately HK$784.5 million, of which approximately HK$395.8 million was unutilised.

Gearing ratio

As at 31 March 2020, the Group's gearing ratio was approximately 46.6% (31 March 2019: 76.9%), calculated by dividing total debts by total equity and multiplying the resulting value by 100%. The Group's total debts include interest-bearing bank and other borrowings and lease liabilities (31 March 2019: interest-bearing bank and other borrowings and finance lease payables).

Foreign currency exposure

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Capital commitment

As at 31 March 2020, the Group had a total capital commitment of approximately HK$1.1 million (31 March 2019: HK$1.3 million), mainly comprising the related contracts of capital expenditure for property, plant and equipment.

Charges on the Group's assets

As at 31 March 2020 and 2019, the Group pledged certain property, plant and equipment, bank deposits, account receivables, right-of-use assets (31 March 2019: prepaid land lease payments) and financial assets at fair value through profit or loss ("**FVTPL**") to secure bank and other borrowings, performance bonds relating to deposits for cleaning, janitorial and other related service projects, and lease liabilities.

Contingent liabilities

(a) Performance bonds

At 31 March 2020, there were contingent liabilities in respect of performance bonds relating to deposits for cleaning, janitorial and other related service projects and an employment compensation insurance contract issued by banks for the Group amounting to HK$285,358,000 (31 March 2019: HK$216,438,000). The performance bonds were secured by pledged bank deposits, account receivables, buildings, right-of-use assets (31 March 2019: prepaid land lease payments) and financial assets at FVTPL.

At 31 March 2020, the performance bonds were guaranteed by the Company.

At 31 March 2019, the performance bonds were guaranteed by two Directors, Mr. CHEUNG Kam Chiu and Mr. SZETO Wing Tak, and two shareholders of the Company, Hong Kong Huafa Investment Holdings Limited and Canvest Environmental (China) Company Limited.

(b) Litigation

As at 31 March 2020 and 2019, the Group has been involved in several on-going litigations and claims concerning personal injuries of its existing or former employees with estimated claim amounts, net of estimated insurance deductibles, of approximately HK$1,116,000 and HK$1,276,000 respectively. In the opinion of the Directors of the Company, the provision of insurance deductibles had been provided based on insurance policies. The estimated costs and expenses above the insurance deductibles are expected to be adequately covered by the Group's insurance policies.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

During the Year, the Group did not make any material acquisition, disposal nor significant investment.

EVENTS AFTER THE REPORTING PERIOD

The Group does not have material events after the end of reporting period.

HUMAN RESOURCES

As at 31 March 2020, the Group had over 10,000 employees (31 March 2019: over 8,000 employees). Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward for their contributions. In addition, the Group conducted various training activities, such as training on operational safety, office and management skills, to improve the front-end quality of services and office support during the Year.

AUDIT COMMITTEE

The Company established the audit committee (the "**Audit Committee**") on 3 September 2019 with written terms of reference in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Audit Committee comprises three independent non-executive Directors, namely Mr. FAN Chiu Tat Martin, Ms. RU Tingting and Mr. LEUNG Siu Hong. Mr. FAN Chiu Tat Martin serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the internal control procedures of the Company.

The Audit Committee and management had discussed and reviewed the annual results and consolidated financial statements of the Group for the year ended 31 March 2020.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 March 2020 (2019: nil).

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

Throughout the period from 16 October 2019 (the "**Listing Date**") to 31 March 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the period from the Listing Date to 31 March 2020, the Company has complied with all applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2020 as set out in this annual results announcement have been agreed by the Group's auditor, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by RSM Hong Kong 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on this annual results announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 3 September 2020 (the "**2020 AGM**"). Notice of the 2020 AGM will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of the shareholders of the Company to attend, speak and vote at the 2020 AGM (or at any adjournment thereof), the register of members will be closed as appropriate as set out below:

Latest time to lodge transfer documents for registration with the Company's Hong Kong branch share registrar and transfer office	At 4:30 p.m. on Friday, 28 August 2020
Record date	Friday, 28 August 2020
Closure of the register of members	Monday, 31 August 2020 to Thursday, 3 September 2020 (both days inclusive)

For the above purpose, all properly completed transfer forms 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 the aforementioned latest time.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.johnsonholdings.com and the Stock Exchange's website at www.hkexnews.hk. The annual report for the year ended 31 March 2020 will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our shareholders, business partners, customers, suppliers, bankers, management and staff for their support and contribution to the Group and its business.

By order of the Board
Hong Kong Johnson Holdings Co., Ltd.
XU Jili
Chairman

Hong Kong, 26 June 2020

If there is any inconsistency or conflict between the English version and Chinese version, the English version shall prevail.

As at the date of this announcement, the executive Directors are Mr. CHEUNG Kam Chiu (Co-chief executive officer) and Mr. SZETO Wing Tak (Co-chief executive officer); the non-executive Directors are Ms. XU Jili (Chairman), Ms. LI Yanmei, Mr. XIE Hui, Mr. YE Ning, Ms. LEE Wing Yee Loretta, Ms. WONG Ling Fong Lisa and Mr. ZHOU Wenjie; and the independent non-executive Directors are Mr. FAN Chiu Tat Martin, Dr. GUAN Yuyan, Mr. HONG Kam Le, Mr. LEUNG Siu Hong and Ms. RU Tingting.