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Kwong Luen Engineering Holdings Limited

廣聯工程控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1413)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period amounted to approximately HK\$336.3 million (six months ended 30 September 2020: approximately HK\$262.7 million).
- Gross profit margin for the Reporting Period was approximately 12.5% (six months ended 30 September 2020: approximately 12.8%).
- Profit attributable to the equity holders of the Company for the Reporting Period amounted to approximately HK\$32.2 million (six months ended 30 September 2020: approximately HK\$17.2 million).
- Basic and diluted earnings per share for the Reporting Period amounted to approximately HK cents 3.22 (six months ended 30 September 2020: HK cents 2.29).
- The Board has resolved not to recommend the declaration of an interim dividend for the Reporting Period (six months ended 30 September 2020: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Kwong Luen Engineering Holdings Limited (the “**Company**”) is pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2021 (the “**Reporting Period**”), together with the comparative unaudited figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		Six months ended 30 September	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
REVENUE	4	336,293	262,701
Cost of sales		<u>(294,242)</u>	<u>(229,205)</u>
Gross profit		42,051	33,496
Other income and gains	4	1,088	1,822
Fair value gain (loss) on a financial asset at fair value through profit or loss	5	93	(1,139)
Administrative expenses		(4,453)	(2,630)
Impairment of contract assets	5	–	(1,341)
Impairment of trade receivables	5	–	(168)
Finance costs	6	(267)	(43)
Listing expenses		<u>–</u>	<u>(7,833)</u>
PROFIT BEFORE TAX	5	38,512	22,164
Income tax expense	7	<u>(6,331)</u>	<u>(4,981)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>32,181</u>	<u>17,183</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	9	<u>3.22</u>	<u>2.29</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		63,922	37,423
Right-of-use assets		1,695	448
Prepayments and deposits		232	–
Financial asset at fair value through profit or loss		4,443	4,350
		<hr/>	<hr/>
Total non-current assets		70,292	42,221
		<hr/>	<hr/>
CURRENT ASSETS			
Contract assets		177,132	120,315
Trade receivables	10	1,260	5,936
Prepayments and deposits		6,839	6,547
Cash and cash equivalents		83,104	107,649
		<hr/>	<hr/>
Total current assets		268,335	240,447
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and retention payables	11	39,480	23,183
Accruals and other payables		4,260	3,911
Interest-bearing bank and other borrowings		22,081	14,861
Lease liabilities		554	333
Tax payable		4,478	8,228
		<hr/>	<hr/>
Total current liabilities		70,853	50,516
		<hr/>	<hr/>
NET CURRENT ASSETS		197,482	189,931
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		267,774	232,152
		<hr/>	<hr/>

		As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
NON-CURRENT LIABILITIES			
Accruals and other payables		263	–
Interest-bearing bank and other borrowings		2,727	2,987
Lease liabilities		954	192
Deferred tax liabilities		7,048	4,372
		<hr/>	<hr/>
Total non-current liabilities		10,992	7,551
		<hr/>	<hr/>
Net assets		256,782	224,601
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	12	10,000	10,000
Reserves		246,782	214,601
		<hr/>	<hr/>
Total equity		256,782	224,601
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2021

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 20 May 2020 with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located at Unit 2909–2910, 29/F, The Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

On 11 March 2021, the shares of the Company (the “**Shares**”) were listed on the Main Board (the “**Listing**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. During the six months ended 30 September 2021, the Company and its subsidiaries (collectively the “**Group**”) were principally engaged in the provision of construction services in Hong Kong. There has been no significant change in the Group’s principal activities during the six months ended 30 September 2021.

Kwong Luen Prosperity Limited (“**Kwong Luen Prosperity**”), a company incorporated in the British Virgin Islands (the “**BVI**”) on 18 May 2020, is the immediate holding company of the Company. In the opinion of the Directors, Kwong Luen Prosperity is also the ultimate holding company of the Company.

2.1 BASIS OF PRESENTATION

For the listing of the Company’s shares, the Company underwent a group reorganisation (the “**Reorganisation**”), further details of which are set out in the Company’s prospectus dated 26 February 2021. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 17 February 2021.

As the Reorganisation only involved inserting new holding companies at a top of an existing operating entity and has not resulted in any changes of economic substance, these condensed consolidated interim financial statements for the six months ended 30 September 2020 have been presented as a continuation of the existing group using the pooling of interests method.

Accordingly, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 September 2020 have been prepared as if the current group structure had been in existence at the beginning of the six months ended 30 September 2020.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2021.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the construction segment under which the Group engages in contract work as a subcontractor. Accordingly, no segment information is presented.

Geographical information

(a) *Revenue from external customers*

No geographical information is presented as all of the Group's revenue from external customers was derived from customers located in Hong Kong during the period.

(b) *Non-current assets*

No geographical information is presented as all of the Group's non-current assets were located in Hong Kong as at 30 September 2021 and 31 March 2021.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period during the period is set out below:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Customer A	252,403	N/A*
Customer B	N/A*	99,799
Customer C	N/A*	90,018
	<u> </u>	<u> </u>

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

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Provision of construction services	336,293	262,701
	<u> </u>	<u> </u>

Disaggregated revenue information

	Six months ended 30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Type of construction service provided		
Residential	311,126	182,546
Non-residential	25,167	80,155
	<u>336,293</u>	<u>262,701</u>
Total revenue from contracts with customers	<u>336,293</u>	<u>262,701</u>
Private sector	309,957	219,522
Public sector	26,336	43,179
	<u>336,293</u>	<u>262,701</u>
Total revenue from contracts with customers	<u>336,293</u>	<u>262,701</u>
Timing of revenue recognition		
Services transferred over time	<u>336,293</u>	<u>262,701</u>
	Six months ended 30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Other income and gains		
Interest income	—*	—*
Rental income from leasing of machinery	—	291
Government grants (<i>note</i>)	—	360
Others	1,088	1,171
	<u>1,088</u>	<u>1,822</u>

* Less than HK\$500.

Note: For the six months ended 30 September 2020, the government grants from the Employment Support Scheme (“ESS”) of the Hong Kong Government of HK\$360,000 were included in “Government grants” disclosed above. The government grants from the ESS were for the purpose to retain employment and combat the COVID-19. As a condition of receiving the grants under the ESS, the Group has undertaken not to make redundancies of its Hong Kong employees from 1 June 2020 to 31 January 2021. There were no unfulfilled conditions or contingencies related to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of sales	294,242	229,205
Depreciation of property, plant and equipment [#]	6,436	3,792
Depreciation of right-of-use assets [#]	439	335
Lease payments not included in the measurement of lease liabilities [#]	4,682	1,951
Impairment of contract assets	–	1,341
Impairment of trade receivables	–	168
Employee benefit expense (excluding directors' remuneration) [#] :		
Wages, salaries, allowances and benefits in kind	27,185	25,094
Pension scheme contributions*	885	760
	28,070	25,854
Auditor's remuneration	559	17
Listing expenses	–	7,833
Fair value (gain)/loss on a financial asset at fair value through profit or loss	(93)	1,139

[#] For the six months ended 30 September 2021, depreciation of property, plant and equipment of HK\$6,396,000 (six months ended 30 September 2020 (unaudited): HK\$3,789,000), depreciation of right-of-use assets of HK\$54,000 (six months ended 30 September 2020 (unaudited): HK\$134,000), lease payments not included in the measurement of lease liabilities of HK\$4,682,000 (six months ended 30 September 2020 (unaudited): HK\$1,951,000) and employee benefit expense of HK\$27,086,000 (six months ended 30 September 2020 (unaudited): HK\$24,991,000), are included in cost of sales disclosed above.

* The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. At the date of this announcement, the Group had no forfeited contributions under the MPF Scheme and the retirement benefits scheme utilised to reduce the existing levels of contributions. As at 30 September 2021 and 2020, there was no forfeited contribution under the MPF Scheme which may be used by the Group to reduce the contribution payable in the future years.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank loans and overdrafts	243	24
Interest on lease liabilities	24	19
	<u>267</u>	<u>43</u>

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2020 (unaudited): 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2021.

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current – Hong Kong		
Charge for the period	3,655	4,949
Deferred	2,676	32
	<u>6,331</u>	<u>4,981</u>

8. DIVIDEND

No interim dividend was paid or declared by the Company during the six months ended 30 September 2021 and 2020.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the six months ended 30 September 2021 attributable to ordinary equity holders of the Company of HK\$32,181,000 (six months ended 30 September 2020 (unaudited): HK\$17,183,000) and the weighted average number of ordinary shares in issue of 1,000,000,000 (six months ended 30 September 2020 (unaudited): 750,000,000), on the assumption that the Reorganisation and the capitalisation issue had been completed on 1 April 2020.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2021 and 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2021 and 2020.

10. TRADE RECEIVABLES

	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
Trade receivables	1,338	6,014
Impairment	(78)	(78)
	<u>1,260</u>	<u>5,936</u>

The Group's trading terms with its customers are on credit. The Group's credit periods with customers range from 14 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and has a policy to manage its risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of reporting period, based on the progress payment certificate date and net of loss allowance, is as follows:

	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
Within 1 month	714	5,936
1 to 2 months	546	–
	<u>1,260</u>	<u>5,936</u>

The movement in the loss allowance for impairment of trade receivable is as follows:

	Six months ended 30 September	
	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited)
At 1 April	78	–
Impairment losses (<i>note 5</i>)	–	168
At 30 September (unaudited)	<u>78</u>	<u>168</u>
At 31 March 2021 (audited) and 2020 (audited)	<u>78</u>	–

An impairment analysis is performed at each reporting date using a probability of default model to measure expected credit losses. The provision rates are based on historical data adjusted by forward-looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As at 1 April 2020, the Group estimated that the expected loss rate for trade receivables was minimal.

Set out below is the information about the credit risk exposure on the Group's trade receivables as at 30 September 2021:

	Current
Expected credit loss rate	1.30%
Gross carrying amount (<i>HK\$'000</i>)	1,338
Expected credit losses (<i>HK\$'000</i>)	78
	<u><u> </u></u>

11. TRADE AND RETENTION PAYABLES

	<i>Notes</i>	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
Trade payables	(a)	33,871	18,478
Retention payables	(b)	<u>5,609</u>	<u>4,705</u>
		<u><u>39,480</u></u>	<u><u>23,183</u></u>

Notes:

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

	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
Within 1 month	<u>33,871</u>	<u>18,478</u>

The trade payables are non-interest-bearing and are normally settled within one month.

- (b) Retention payables held by the Group arose from the Group's construction works and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract work by the subcontractors, as stipulated in the subcontracting contracts.

12. SHARE CAPITAL

A summary of movements in the Company's share capital is as follows:

	Number of Shares in issue	Share capital <i>HK\$'000</i>
Authorised:		
As at 30 September 2021 (unaudited) and 31 March 2021 (audited)	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
As at 30 September 2021 (unaudited) and 31 March 2021 (audited)	<u>1,000,000,000</u>	<u>10,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The construction industry and foundation industry in Hong Kong were negatively affected in 2020 due to the COVID-19 outbreak. Entering into 2021, the construction industry has been recovering from the impact of COVID-19, which is reflected in the increase in the gross value of construction works performed by main contractors in the six months ended 30 June 2021 according to the Census and Statistic Department from HK\$109,172 million for the six months ended 30 June 2020 to HK\$111,619 million for the six months ended 30 June 2021, representing an increase of 2.2%. The directors (the “**Directors**”) of Kwong Luen Engineering Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) believe that the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong’s foundation industry in the foreseeable future due to the fact that the proposed works schedule of the general construction works in both private and public sectors in Hong Kong, ranging from roads, housings, shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected.

Despite the fact that the COVID-19 outbreak may continue, the increasing public health awareness, vaccination programme and social distancing measures have been proved to be effective in combating COVID-19 in Hong Kong. Hence, the Directors are of the view that the outbreak of COVID-19 is expected to cause a short-term economic slowdown but may not affect the outlook of the construction industry and foundation industry of Hong Kong in the long run.

In particular, the Group expects the future demand for housing and public infrastructure investment in Hong Kong will continue to be driven by certain sizable projects and government policies. In particular, the Chief Executive has proposed in the Policy Address 2021 in October 2021 the Northern Metropolis Development Strategy (the “**Strategy**”), which is expected to cover a total land area of about 300 square kilometers in the Yuen Long District and North District. Projects covered by the Strategy includes (i) transport infrastructure-led development such as construction of multiple railways between the Northern Metropolis and Shenzhen, extension of the East Rail Line and construction of the Northern Link; (ii) construction of the New Territories North Modern Services Centre in Hung Shui Kiu/Ha Tsuen, including building sizeable landmark information and technology facilities; and (iii) increase in land supply for housing, which is expected to provide an additional 350,000 to 536,000 residential units in the Northern Metropolis in the coming two decades. The prospect of construction industry in Hong Kong is positive and the gross value of foundation works is expected to continue to grow in the forthcoming years.

BUSINESS REVIEW AND OUTLOOK

The Group is a foundation works contractor in Hong Kong. The Group has commenced its business in 1995 and has since undertaken foundation works in the role of subcontractor through Kwong Luen Engineering Limited (“**Kwong Luen Engineering**”), the Group’s principal operating subsidiary. The Group’s foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, the Group has established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. In the Reporting Period, the majority of the Group’s revenue was derived from foundation works in residential developments.

During the Reporting Period, the construction industry and foundation industry in Hong Kong was recovering from the impact of the COVID-19 outbreak. The Group has continued to maintain healthy growth in revenue and gross profit despite unfavorable economic environment.

Looking into the future, the declining number of COVID-19 confirmed cases and the adoption of vaccines in Hong Kong since the first quarter of 2021 offer hope for a controllable and stabilised COVID-19 situation. Under an improved social condition, the Group believes that a recovery in economic activities, together with favourable government policies such as the Northern Metropolis Development Strategy, should ramp up the developments in residential and commercial building construction works, offering plenty of opportunities for the Group to capture.

FINANCIAL REVIEW

Revenue and cost of sales

The Group’s revenue increased to approximately HK\$336.3 million for the Reporting Period by approximately HK\$73.6 million or 28.0%, from approximately HK\$262.7 million for the six months ended 30 September 2020. This was principally due to the revenue contributed by one sizable project awarded in June 2020. The estimated contract sum of this project was approximately HK\$328.5 million. This project commenced in August 2020 with revenue contribution of approximately HK\$138.8 million for the Reporting Period (six months ended 30 September 2020: HK\$7.2 million).

The Group’s cost of sales increased from approximately HK\$229.2 million for the six months ended 30 September 2020 to approximately HK\$294.2 million for the Reporting Period, representing an increase of approximately HK\$65.0 million or 28.4%. Such increase was generally in line with the growth of our revenue of approximately 28.0% for the Reporting Period.

Gross profit and gross profit margin

The Group's overall gross profit increased from approximately HK\$33.5 million for the six months ended 30 September 2020 to approximately HK\$42.1 million for the Reporting Period, representing an increase of approximately 25.5%. Such increase in the Group's overall gross profit was mainly attributable to the revenue growth during the Reporting Period as discussed above. Meanwhile, as the increase in our cost of sales was comparable to the increase in our revenue for the corresponding period, the Group's overall gross profit margin has remained relatively stable at approximately 12.8% and 12.5% for the six months ended 30 September 2020 and the Reporting Period, respectively.

Other income, gains and losses

Other income and gains of the Group decreased by approximately HK\$0.7 million from approximately HK\$1.8 million for the six months ended 30 September 2020 to approximately HK\$1.1 million for the Reporting Period. The decrease was mainly due to (i) the government grants of approximately HK\$0.3 million received from the Employment Support Scheme of the Hong Kong Government for the purpose to retain employment and combat the COVID-19 for the six months ended 30 September 2020 whereas there was no such grant for the Reporting Period; and (ii) the decrease in the income of approximately HK\$0.4 million generated from other one-off miscellaneous works, such as removal of debris and other minor concrete works, etc..

Administrative expenses

The administrative expenses of the Group increased from approximately HK\$2.6 million for the six months ended 30 September 2020 to approximately HK\$4.4 million for the Reporting Period, representing an increase of approximately HK\$1.8 million or approximately 69.3%. The increase during the Reporting Period was mainly due to the provision of (i) annual listing fee; (ii) professional fee, mainly including share registry service fee, legal adviser service fee, compliance adviser service fee and financial printing service fee; and (iii) audit fee after the listing of the shares of the Company on the Stock Exchange on 11 March 2021 (the "**Listing**") during the Reporting Period.

Finance costs

The finance costs of the Group increased from approximately HK\$43,000 for the six months ended 30 September 2020 to approximately HK\$267,000 for the Reporting Period, representing an increase of approximately HK\$224,000 or 520.9%. The increase in our finance costs was primarily attributable to the drawdown of bank loans of approximate HK\$31.1 million during the Reporting Period.

Listing expenses

During the Reporting Period, no non-recurring listing expenses under accrual basis was recognised (six months ended 30 September 2020: HK\$7.8 million), in connection with the Listing.

Income tax expenses

The income tax expenses of the Group increased from approximately HK\$5.0 million for the six months ended 30 September 2020 to approximately HK\$6.3 million for the Reporting Period, representing an increase of approximately HK\$1.3 million or 27.1%. The increase was due to the increase in the Group's revenue and gross profit as discussed above, while the effective tax rate of the Group decreased from approximately 22.5% for the six months ended 30 September 2020 to approximately 16.4% for the Reporting Period mainly due to the non-deductible listing expenses of approximately HK\$7.8 million incurred for the six months ended 30 September 2020 as discussed above.

Profit and total comprehensive income for the Reporting Period

The profit and total comprehensive income for the Reporting Period of the Group increased from approximately HK\$17.2 million for the six months ended 30 September 2020 to approximately HK\$32.2 million for the Reporting Period, representing an increase of approximately HK\$15.0 million or 87.3%. The increase was primarily attributable to the increase in the Group's revenue and gross profit as discussed above.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL STRUCTURE

There has been no change in the capital structure of the Group since the date of Listing (the "Listing Date") and up to the date of this announcement.

As at 30 September 2021, the Company's issued capital was HK\$10.0 million and the number of its issued ordinary Shares was 1,000,000,000 Shares of HK\$0.01 each.

As at 30 September 2021, the Group had total cash and cash equivalents of approximately HK\$83.1 million (31 March 2021: approximately HK\$107.6 million).

As at 30 September 2021, the Group had short-term bank borrowing amounting to approximately HK\$21.6 million (31 March 2021: HK\$14.4 million), representing an increase of 50.0% from 31 March 2021. As at 30 September 2021, the Group had interest-bearing bank and other borrowings of approximately HK\$24.8 million (31 March 2021: HK\$17.8 million).

The gearing ratio of the Group as at 30 September 2021, calculated by dividing total borrowings (including interest-bearing bank and other borrowings and lease liabilities) by total equity was approximately 10.2% (31 March 2021: approximately 8.2%).

TREASURY POLICY

The Group has adopted a conservative approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Reporting Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the board of Directors (the “**Board**”) closely monitors the Group’s liquidity position to ensure that the liquidity structure of the Group’s assets, liabilities and other commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

Except for a bank loan of approximately HK\$3.2 million (31 March 2021: HK\$3.5 million) which is denominated in United States dollars, all borrowings are in Hong Kong dollars. As the Group only operates in Hong Kong and all of the revenue and transactions arising from its operations were settled in Hong Kong dollars, the Directors are of the view that the Group’s foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for the Reporting Period.

CAPITAL EXPENDITURE

During the Reporting Period, the Group invested approximately HK\$32.9 million in the purchase of property, plant and equipment, among which approximately HK\$26.0 million was financed with the proceeds raised from the Listing and approximately HK\$6.9 million was financed by internal resources.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2021, the Group did not have any capital commitment.

As at 30 September 2020, the Group incurred capital commitments of approximately HK\$1.7 million.

At 30 September 2021, the Group has a contingent liability in relation to a fatal accident (the “**Accident**”) occurred at a worksite during the Reporting period, whereby a subcontractor’s worker allegedly sustained fatal injury during the course of work. In October 2021, five summonses (the “**Summons**”) were issued against Kwong Luen Engineering Limited in relation to the Accident on various offences under the Factories and Industrial Undertakings Ordinance. Kwong Luen Engineering Limited is in the course of seeking legal advice in respect of the Summons. Based on the current status of the legal proceedings for the Summons and independent legal advice obtained, the management of the Group considered it is premature to conclude on whether the Group is probable to be liable for offences alleged in the Summons, and therefore a contingent liability exists.

Save as disclosed above, the Group did not have any significant contingent liabilities for the Reporting Period.

As at 30 September 2020, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies by the Group during the Reporting Period. Save for the business plan as disclosed in the prospectus of the Company dated 26 February 2021 (the “**Prospectus**”), there was no plan for material investments or capital assets as at 30 September 2021.

INTERIM DIVIDEND

The Board has resolved not to recommend the declaration of interim dividend for the Reporting Period (six months ended 30 September 2020: Nil).

USE OF PROCEEDS

Up to 30 September 2021, we utilised the net proceeds raised from the Listing in accordance with the designated uses set out in the section headed “Future plans and use of proceeds” to the Prospectus. Such uses include: (i) financing the up-front costs of projects; (ii) purchasing additional machinery; (iii) further expanding and strengthening manpower by recruiting additional staff; and (iv) purchasing a building information modelling software together with certain ancillary supporting hardware device. Details of the use of proceeds are listed as below:

Description	Planned use of proceeds from Listing Date to 30 September 2021 HK\$'million	Planned use of proceeds from Listing Date to 30 September 2021 HK\$'million	Actual use of proceeds from Listing Date to 30 September 2021 HK\$'million	Unutilised proceeds as at 30 September 2021 HK\$'million	Expected timeline for utilising the unutilised proceeds	
					From 1 October 2021 to 31 March 2022 HK\$'million	From 1 April 2022 to 31 March 2023 HK\$'million
Financing the up-front costs of our projects	39.9	39.9	39.9	–	–	–
Purchasing additional machinery	36.5	26.0	26.0	10.5	–	10.5
Further expanding and strengthening our manpower by recruiting additional staff	15.5	4.1	4.1	11.4	7.2	4.2
Purchasing a building information modelling software together with certain ancillary supporting hardware device	5.2	5.2	5.2	–	–	–
Total	97.1	75.2	75.2	21.9	7.2	14.7

The net proceeds from the Listing, after deducting related expenses, were approximately HK\$97.1 million. After the Listing, a part of these proceeds has been applied in accordance with the future plans and use of proceeds as set out in the Prospectus. As at 30 September 2021 and the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong. The Directors regularly evaluate the Group's business objectives and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the Reporting Period, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2021, we employed a total of 140 full-time employees (including two executive Directors but excluding three independent non-executive Directors), as compared to a total of 144 full-time employees as at 30 September 2020. The remuneration packages that the Group offers to employees includes salary, discretionary bonuses, pension scheme and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotions. The total staff costs incurred by the Group for the Reporting Period was approximately HK\$29.0 million compared to approximately HK\$26.5 million for the corresponding period in 2020. Various on-the-job trainings were provided to the employees.

The remuneration of the Directors is decided by the Board upon the recommendation from the remuneration committee of the Company having regard to the Group's operating results, individual performance and comparable market statistics.

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events from the end of the Reporting Period to the date of this announcement.

CORPORATE GOVERNANCE/OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, THE UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the required standard of dealings as referred to in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

I. Long position in the ordinary shares of the Company

Name of Director	Nature of interest	Number of shares held/ interested	Percentage of shareholding
Mr. Yip Kwong Cheung (“Mr. Yip”)	Interest in a controlled corporation; Interest held jointly with another person; Interest of spouse (<i>Note</i>)	750,000,000	75%
Ms. Kwan Chui Ling (“Ms. Kwan”)	Interest in a controlled corporation; Interest held jointly with another person; Interest of spouse (<i>Note</i>)	750,000,000	75%

Note: Kwong Luen Prosperity holding 750,000,000 Shares is beneficially owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. By virtue of the SFO, Mr. Yip and Ms. Kwan are deemed to be interested in the Shares held by Kwong Luen Prosperity. Ms. Kwan is the spouse of Mr. Yip. Accordingly, each of them is deemed or taken to be interested in all the Shares which the other is interested for the purpose of the SFO.

II. Long position in the ordinary shares of associated corporation – Kwong Luen Prosperity

Name of Director	Nature of interest	Number of shares held/ interested	Percentage of shareholding
Mr. Yip	Beneficial owner	2	50%
Ms. Kwan	Beneficial owner	2	50%

Saved as disclosed above, as at 30 September 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2021, the following parties (other than the Directors or the chief executive of the Company) had interests of 5% or more in the Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of substantial shareholder	Nature of interest	Number of Shares held/ interested	Percentage of shareholding
Kwong Luen Prosperity	Beneficial owner (<i>Note</i>)	750,000,000	75%

Note: Kwong Luen Prosperity is beneficially owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. By virtue of the SFO, Mr. Yip and Ms. Kwan are deemed to be interested in the Shares held by Kwong Luen Prosperity.

Save as disclosed above, as at 30 September 2021, the Company is not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “**Share Option Scheme**”) on 19 February 2021. The purpose of the Share Option Scheme is to reward the participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and the Shares for the benefit of the Company and shareholders as a whole, and to maintain or attract business relationships with the participants whose contributions are or may be beneficial to the growth of the Group.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 19 February 2021, and there is no outstanding share option as at 30 September 2021.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S SECURITIES

The Board confirms that during the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract that is significant in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a person who at any time during the Reporting Period was a Director or his connected entity had, directly or indirectly, a material interest subsisted at any time during the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this announcement, based on the information that is publicly available to the Company and within the best knowledge of the Directors, the Company maintained a sufficient amount of public float for its Shares as required under the Listing Rules.

COMPETING INTERESTS

None of the Directors, the controlling shareholders of the Company, or any of their respective close associates (as defined in the Listing Rules) is interested in a business apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the Group’s business during the Reporting Period, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of corporate transparency and accountability. The Company is committed to achieving and maintaining a high standard of corporate governance, as the Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

The Company's corporate governance practices are based on the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. To the best knowledge of the Board, the Company has complied with the CG Code for the Reporting Period and up to the date of this announcement, with the exception of the deviation from code provision A.2.1. The code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

Mr. Yip currently assumes the role of both chairman of the Board and chief executive officer of the Company. The Board considers that both roles being held by Mr. Yip will provide a strong and consistent leadership to the Company which will facilitate effective planning and efficient management of the Company. Furthermore, having considered Mr. Yip's extensive experience in the foundation industry, the relationships Mr. Yip has built with customers and the historical development of the Group, the Board considers that it is beneficial for the Group to have Mr. Yip continue to act as both chairman and chief executive officer of the Company. In order to maintain good corporate governance and fully comply with the code provision A.2.1 of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares (the "**Code of Conduct**"). After specific enquires by the Company, all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the Reporting Period.

AUDIT COMMITTEE

The Group established the audit committee (the “**Audit Committee**”) on 19 February 2021 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to, among other things, review and approve the Group’s financial reporting process and internal control and risk management system, oversee the Group’s audit process and perform other duties and responsibilities as assigned by the Board. The Audit Committee consists of three members, namely Ms. Cheng Shing Yan, Mr. Wong Yiu Kit Ernest and Mr. Tang Sher Kin. The chairlady of the Audit Committee is Ms. Cheng Shing Yan.

REVIEW OF INTERIM RESULTS

The Group’s condensed consolidated interim results for the Reporting Period have not been audited, but have been reviewed by the Audit Committee. Based on their review and discussions with the management, there is no disagreement by the Audit Committee with the accounting treatment adopted by the Group, the Audit Committee was satisfied that the interim results were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the Reporting Period.

PUBLICATION OF THE UNAUDITED INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement of the Company is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.kwong-luen.com.hk). The interim report of the Company for the Reporting Period containing all the relevant information required by the Listing Rules 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

The Board would like to take this opportunity to express its sincere gratitude to the management team and staff for their hard work and contributions, and to our shareholders, investors and business partners for their trust and support.

By order of the Board
Kwong Luen Engineering Holdings Limited
YIP Kwong Cheung
Chairman and Executive Director

Hong Kong, 26 November 2021

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