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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2024 AND RESUMPTION OF TRADING**

### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the Review Year amounted to approximately HK\$618.2 million (FY2022/23: approximately HK\$338.3 million).
- Gross profit margin for the Review Year was approximately 5.6% (FY2022/23: approximately 3.5%).
- Profit and total comprehensive income attributable to owners of the Company for the Review Year amounted to approximately HK\$17.3 million (FY2022/23: approximately HK\$1.0 million).
- Basic and diluted earnings per share for the Review Year amounted to approximately HK cents 1.73 (FY2022/23: HK cents 0.10).
- The Board has resolved not to recommend the declaration of a final dividend for the Review Year (FY2022/23: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Kwong Luen Engineering Holdings Limited (the “**Company**”) is pleased to present the consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2024 (the “**Review Year**” or “**FY2023/24**”), together with the comparative figures for the corresponding year ended 31 March 2023 (the “**FY2022/23**”).

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

		<b>Year ended 31 March</b>	
		<b>2024</b>	2023
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>REVENUE</b>	3	<b>618,193</b>	338,318
Cost of sales		<u>(583,434)</u>	<u>(326,408)</u>
<b>Gross profit</b>		<b>34,759</b>	11,910
Other income and gains	4	<b>1,338</b>	6,337
Administrative expenses		<b>(11,425)</b>	(11,074)
Fair value gain on a financial asset at fair value through profit or loss		<b>128</b>	128
Expected credit losses (“ECL”) on contract assets		<b>(1,027)</b>	(7,428)
(ECL)/Reversal of ECL on trade receivables		<b>(1,466)</b>	641
Finance costs	6	<u>(1,144)</u>	<u>(667)</u>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	5	<b>21,163</b>	(153)
Income tax (expense)/credit	7	<u>(3,903)</u>	<u>1,154</u>
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<u><b>17,260</b></u>	<u>1,001</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
– Basic and diluted	9	<u><b>1.73</b></u>	<u>0.10</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2024	2023
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		40,712	56,049
Right-of-use assets		1,407	690
Prepayments and deposits	10	5,153	232
Financial asset at fair value through profit or loss		4,753	4,625
		<u>52,025</u>	<u>61,596</u>
<b>CURRENT ASSETS</b>			
Contract assets		239,869	199,610
Trade receivables	11	63,871	4,131
Prepayments and deposits	10	259	19
Current tax assets		–	1,997
Cash and cash equivalents		25,148	25,361
		<u>329,147</u>	<u>231,118</u>
<b>CURRENT LIABILITIES</b>			
Trade and retention payables	12	63,732	27,772
Accruals and other payables		9,348	5,958
Bond	13	11,928	–
Secured bank loans		16,277	511
Lease liabilities		421	605
Tax payable		5,255	–
		<u>106,961</u>	<u>34,846</u>
<b>NET CURRENT ASSETS</b>		<u>222,186</u>	<u>196,272</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>274,211</u>	<u>257,868</u>

		<b>As at 31 March</b>	
		<b>2024</b>	2023
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT LIABILITIES</b>			
Accruals and other payables		<b>263</b>	263
Secured bank loans		<b>1,471</b>	1,966
Lease liabilities		<b>974</b>	44
Deferred tax liabilities		<b>5,122</b>	6,474
		<hr/>	<hr/>
Total non-current liabilities		<b>7,830</b>	8,747
		<hr/>	<hr/>
<b>Net assets</b>		<b>266,381</b>	249,121
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	14	<b>10,000</b>	10,000
Reserves		<b>256,381</b>	239,121
		<hr/>	<hr/>
Total equity		<b>266,381</b>	249,121
		<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE AND GROUP INFORMATION

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

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

The Company is an investment holding company. During the year, the Group was principally engaged in the provision of construction services in Hong Kong. There has been no significant change in the Group’s principal activities during the year.

The consolidated financial statements are presented in Hong Kong dollars (“**HKD**”) and all values are rounded to the nearest thousand (“**HK\$’000**”), unless otherwise stated.

#### 2.1 BASIS OF PREPARATION

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

The consolidated financial statements have been prepared on the historical cost basis except for a financial asset at fair value through profit or loss which has been measured at fair value.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

#### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre- or post-acquisition profits are recognised in the Company's profit or loss.

### 3. REVENUE AND SEGMENT INFORMATION

#### 3.1 Segment information

The executive directors of the Company, being the chief operating decision maker, have identified that the Group has only one reportable operating segment, which the Group engages in contract work as a subcontractor. Accordingly, no segment information is presented.

##### *Geographical information*

##### *(a) Revenue from external customers*

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

##### *(b) Non-current assets*

No geographical information is presented as all of the Group's non-current assets were located in Hong Kong as at 31 March 2024 and 31 March 2023.

##### *Information about major customers*

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

	2024 HK\$'000	2023 HK\$'000
Customer A	464,519	184,632
Customer B	124,834	92,316
	<u>618,193</u>	<u>338,318</u>

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

#### 3.2 Revenue

The Group's revenue recognised during the year is as follows:

	2024 HK\$'000	2023 HK\$'000
<b>Revenue from contracts with customers</b>		
Provision of construction services	618,193	338,318
	<u>618,193</u>	<u>338,318</u>

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

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
<b>Type of construction service provided</b>		
Residential	123,765	149,825
Non-residential	494,428	188,493
<b>Total</b>	<b>618,193</b>	<b>338,318</b>
<b>Type of customer</b>		
From private sector	153,674	153,429
From public sector	464,519	184,889
<b>Total</b>	<b>618,193</b>	<b>338,318</b>
<b>Timing of revenue recognition</b>		
Services transferred over time	618,193	338,318

#### 4. OTHER INCOME AND GAINS

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
<b>Other income and gains</b>		
Government grants from Employment Support Scheme ( <i>Note a</i> )	–	5,911
Government grants from Construction Innovation and Technology Fund (“CITF”) ( <i>Note b</i> )	–	53
Gain on disposal of property, plant and equipment, net	1,293	113
Interest income	45	12
One-off miscellaneous works	–	223
Others	–	25
	<b>1,338</b>	<b>6,337</b>

*Notes:*

- (a) During the year ended 31 March 2023, the Group received funding support amounting to HK\$5,911,000 from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.
- (b) During the year ended 31 March 2023, the Group received funding support amounting to HK\$53,000 from the CITF set up by the Hong Kong Government. The purpose of the funding is to support the enterprises and practitioners of the construction industry to wider adoption of innovative constructive methods and new technologies in the construction industry with a view to promoting productivity, uplifting built quality, improving site safety and enhancing environmental performance.

## 5. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Depreciation included in cost of sales:		
– Owned assets	12,413	12,108
– Right-of-use assets	81	108
Depreciation included in administrative expenses:		
– Owned assets	1,550	1,553
– Right-of-use assets	553	562
Lease charges on short-term leases	53,567	9,624
Employee benefit expense (excluding directors' remuneration):		
– Wages, salaries, allowances and benefits in kind	83,394	57,196
– Pension scheme contributions ( <i>note a</i> )	2,076	1,532
	<u>85,470</u>	<u>58,728</u>
Auditor's remuneration	1,000	1,000
Gain on disposal of property, plant and equipment, net	<u>(1,293)</u>	<u>(113)</u>

*Note:*

- (a) As at 31 March 2024, the Group had no forfeited contributions under the MPF Scheme which may be used by the Group to reduce the existing levels of contributions (2023: Nil).

## 6. FINANCE COSTS

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Interest charges on bank loans and overdrafts	1,128	637
Finance charges on lease liabilities	11	30
Finance charges on bond	5	–
	<u>1,144</u>	<u>667</u>

## 7. INCOME TAX EXPENSE/(CREDIT)

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Current tax – Hong Kong		
– current year	5,255	–
– over-provision in respect of prior years	–	(505)
Deferred tax	<u>(1,352)</u>	<u>(649)</u>
Total income tax expense/(credit)	<u>3,903</u>	<u>(1,154)</u>



For the year ended 31 March 2024, the provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2,000,000 are taxed at 16.5%.

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

## 8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2024 (2023: Nil).

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the Company of HK\$17,260,000 (2023: HK\$1,001,000) and the weighted average number of ordinary shares in issue of 1,000,000,000 (2023: 1,000,000,000).

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2024 and 2023 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2024 and 2023.

## 10. PREPAYMENTS AND DEPOSITS

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Prepayments	9	12
Deposits	<u>5,403</u>	<u>239</u>
	5,412	251
Less: Non-current portion ( <i>note</i> )	<u>(5,153)</u>	<u>(232)</u>
	<u><u>259</u></u>	<u><u>19</u></u>

Prepayments and deposits mainly represent construction deposit, rental deposits, utility deposits and other deposits. The ECL are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The ECL rate for the Group's financial assets included in deposits is minimal.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 March 2024 and 2023, the loss allowance was assessed to be minimal.

*Note:* In March 2024, the Company's wholly-owned subsidiary, 深圳廣聯興商貿科技有限公司 (“**Shenzhen Guanglianxing Trading Technology Co., Ltd.**”, “**Shenzhen Guanglianxing**”) entered into a construction service agreement with a construction company in the PRC (“**Customer Z**”) and a co-operation agreement with a supply chain management company (“**Supply Chain Management Company**”) in the PRC for the sub-contracting and management of construction services in the PRC (collectively, the “**Arrangements**”). As at 31 March 2024, Shenzhen Guanglianxing paid a partial deposit of RMB4,754,500 (equivalent to approximately HK\$5,153,000) to the Supply Chain Management Company, which was included in “prepayments and deposits” under non-current assets in the consolidated statement of financial position.

Subsequent to the end of reporting period, Shenzhen Guanglianxing paid the remaining partial deposit of RMB3,808,000 (equivalent to approximately HK\$4,127,000) to the Supply Chain Management Company (note 15(b)).

For the year ended 31 March 2024, no revenue or cost of services in respect of the Arrangements have been recognised in the consolidated financial statements as the construction works are scheduled to commence in September 2024.

## 11. TRADE RECEIVABLES

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Trade receivables	65,439	4,233
Less: ECL allowance	<u>(1,568)</u>	<u>(102)</u>
	<u><b>63,871</b></u>	<u><b>4,131</b></u>

The directors of the Group consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The Group's trading terms with its customers are on credit. The Group's credit periods with customers range from 15 to 60 days (2023: 15 to 60 days). The Group seeks to maintain strict control over its outstanding receivables and has a policy to manage its risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
0–30 days	41,855	–
31–60 days	<u>22,016</u>	<u>4,131</u>
	<u><b>63,871</b></u>	<u><b>4,131</b></u>

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

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Balance as at beginning of year	102	743
ECL allowance recognised/(reversed) during the year	<u>1,466</u>	<u>(641)</u>
Balance as at end of year	<u><b>1,568</b></u>	<u><b>102</b></u>

An impairment analysis is performed at each reporting date using a probability of default model to measure ECL. The provision rates are based on historical data adjusted by forward-looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 12. TRADE AND RETENTION PAYABLES

	<i>Notes</i>	<b>2024</b> <b>HK\$'000</b>	2023 <i>HK\$'000</i>
Trade payables	(a)	<b>38,720</b>	15,688
Retention payables	(b)	<b>25,012</b>	12,084
		<b>63,732</b>	27,772

*Notes:*

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

	<b>2024</b> <b>HK\$'000</b>	2023 <i>HK\$'000</i>
0–30 days	<b>32,259</b>	13,430
31–90 days	<b>6,084</b>	2,193
91–180 days	<b>377</b>	53
181–365 days	<b>–</b>	12
	<b>38,720</b>	15,688

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.

## 13. BOND

	<b>2024</b> <b>HK\$'000</b>	2023 <i>HK\$'000</i>
Bond	<b>11,928</b>	–

In March 2024, the Company entered into an agreement to issue a bond with a principal amount of RMB11,000,000 (equivalent to HK\$11,923,000) to an independent third party. The bond is unsecured, interest bearing of 3.65% per annum and repayable in July 2024.

#### 14. SHARE CAPITAL

The Company's share capital is as follows:

	Number of shares of issue	Share capital <i>HK\$'000</i>
<b>Authorised:</b>		
As at 31 March 2023 and 2024	<u>10,000,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>		
As at 31 March 2023 and 2024	<u>1,000,000,000</u>	<u>10,000</u>

#### 15. EVENTS AFTER THE REPORTING PERIOD

- (a) On 10 April 2024, the Company and a placing agent entered into a placing agreement, pursuant to which the placing agent has conditionally agreed to act as the placing agent of the Company for the purpose of procuring, on a best effort basis, the placing of a maximum of 200,000,000 placing shares to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons at the placing price of HK\$0.180 per placing share (the “**Placing**”). The Directors intend to use the net proceeds from the Placing as the general working capital of the Group.

Further details of the Placing are set out in the announcement of the Company dated 10 April 2024 and the supplemental announcements of the Company dated 24 April 2024, 14 May 2024, 4 June 2024 and 21 June 2024.

- (b) Subsequent to the end of reporting period, Shenzhen Guanglianxing paid the remaining partial deposit of RMB3,808,000 (equivalent to approximately HK\$4,127,000) to the Supply Chain Management Company (Note 10).
- (c) In July 2024, Shenzhen Guanglianxing has entered into termination agreements with Customer Z and the Supply Chain Management Company to terminate the Arrangements (Note 10), and received the full refund of the deposits paid of RMB8,562,500 (equivalent to approximately HK\$9,280,000) from the Supply Chain Management Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

Hong Kong has experienced economic slowdown in recent years, leading to a range of unstable factors that pose challenges to the residential and commercial property market. In particular, individuals and property investors have become more hesitant in purchasing property and property developers have become more cautious in tendering residential developments. This leads to a decrease in demand for property developments as well as the overall demand for foundation works in residential and commercial developments. However, the Government of Hong Kong (the “**Government**”) has been actively developing lands, leading a surge in number of infrastructure developments.

The construction industry and foundation industry in Hong Kong have been negatively affected by the COVID-19 continuously. Hong Kong’s business activity has resumed normal since the end of COVID-19 since the end of 2022. Led by inbound tourism and private consumption, the Hong Kong economy continued to recover during the Review Year. According to the Government, the GDP of Hong Kong in 2023 increased by 3.3% in real terms compared with the previous year.

Since early-2023, the business activities in Hong Kong have resumed normal. However, the outbreak of COVID-19 has completely reshaped the construction industry and brought along continuous consequences. In particular, shortage of construction-related professions resulting in continuous difficulty in recruiting sufficient construction staff to commence new construction projects. According to the “Manpower Forecast for Hong Kong Construction Industry (February 2023)” published by the Construction Industry Council, the Construction Industry has a shortage of 17,500 to 24,000 workers and professionals, and the number is expected to increase to 48,500 to 55,000 in 2027.

Despite the aforementioned difficulties, the Directors of the Company expect that there are upsides to the industry. In June 2023, the Government proposed to import workers to alleviate the labour crunch in various industries, including the construction industry. The construction industry may hire up to 12,000 non-local workers, which the Government aims to ease manpower shortfalls in the short term. There are still ample room of growth for the construction industry when the economy of Hong Kong improves.

### BUSINESS REVIEW AND OUTLOOK

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

During the Review Year, the construction industry and foundation industry in Hong Kong was affected by labour crunch in the construction industry. According to the Chief Executive's 2023 Policy Address, it was proposed that (i) the Government will build about 410,000 public housing units in the next decade; (ii) the Government has published the Hong Kong Major Transport Infrastructure Development Blueprint, enhancing the three railways and three major roads proposals and pursuing new projects of two railways and one major road; and (iii) new smart and green mass transit in east Kowloon, Kai Tak and Hung Shui Kiu/Ha Tsuen will be constructed.

Looking into the future, the local economy of Hong Kong is expected to improve. The Group will continue leverage its solid track record in the foundation industry and the favourable government policies to explore different options in this difficult time.

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

The following is an extract from the auditor's report of the Company prepared by Grant Thornton Hong Kong Limited, the auditor of the Company, for the year ended 31 March 2024.

### **“Qualified Opinion**

We have audited the consolidated financial statements of Kwong Luen Engineering Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on ..., which comprise the consolidated statement of financial position as at 31 March 2024, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2024, 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 (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **Basis for Qualified Opinion**

### ***Deposits paid for a construction contract***

As described in Note 10 to the consolidated financial statements, in March 2024, the Group entered into the Arrangements with Customer Z and the Supply Chain Management Company. As at 31 March 2024, the Group paid a partial deposit of RMB4,754,500 (equivalent to approximately HK\$5,153,000) to the Supply Chain Management Company, which was included in “prepayments and deposits” under non-current assets in the consolidated statement of financial position.

Subsequent to the end of reporting period, in July 2024, the Group entered into termination agreements to terminate the Arrangements, and received the full refund of the deposits paid from the Supply Chain Management Company.

Based on the audit procedures we performed on the Arrangements, we observed the following:

- We were not provided with certain documents normally associated with the Arrangements, including but not limited to the tender documents and proof of qualifications; and
- For the construction agreement with Customer Z of contract sum of RMB29,465,000 (equivalent to approximately HK\$31,936,000), Shenzhen Guanglianxing budgeted a thin gross profit margin under the Arrangements.

We were not able to obtain sufficient appropriate audit evidence or satisfactory explanations from management involved to ascertain the nature, business rationale and commercial substance of the Arrangements, including but not limited to the business rationale to enter into the Arrangements, given the lack of above-mentioned documentary evidence and the reasonableness of the budgeted gross profit margin.

Because of the above scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to:

- (a) the nature, business rationale and commercial substance of the Arrangements; and
- (b) the classification and accounting treatment of the amount of RMB4,755,000 (equivalent to approximately HK\$5,153,000) paid to the Supply Chain Management Company as at 31 March 2024, which is classified as “deposits” and included in “prepayments and deposits” under non-current assets in the consolidated statement of financial position.”

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue increased to approximately HK\$618.2 million for the Review Year by approximately HK\$279.9 million or 82.7%, from approximately HK\$338.3 million for the FY2022/23. This was principally due to the increase in revenue contributed by two sizable projects awarded during the year ended 31 March 2022. The estimated contract sum of these two projects were approximately HK\$305.4 million and HK\$200.9 million, respectively. These two projects commenced in April 2022. These projects were in the midst of their major construction phase during the FY2023/24 whereas the major construction phase has passed for both projects during the Review Year. The revenue contribution from these two projects were approximately HK\$239.1 million (FY2022/23: approximately HK\$66.2 million) and HK\$162.9 million (FY2022/23: approximately HK\$37.1 million) respectively, for the Review Year.

### **Gross profit and gross profit margin**

The Group's cost of sales increased from approximately HK\$326.4 million for the year ended 31 March 2023 to approximately HK\$583.4 million for the Review Year, representing an increase of approximately HK\$257.0 million or 78.7%, mainly attributable to the increase in revenue.

The Group's overall gross profit increased from approximately HK\$11.9 million for the year ended 31 March 2023 to approximately HK\$34.8 million for the Review Year, representing an increase of approximately 192.4%. Such increase in our Group's overall gross profit was mainly attributable to the revenue growth during the Review Year as discussed above. As the increase in revenue was greater than the increase in cost of sales, the Group's overall gross profit margin increased from 3.5% for the year ended 31 March 2023 to 5.6% for the Review Year.

### **Other income and gains**

Other income and gains of the Group decreased by approximately HK\$5.0 million from approximately HK\$6.3 million for the year ended 31 March 2023 to approximately HK\$1.3 million for the Review Year. The decrease was mainly due to government grants of approximately HK\$5.9 million received from the Employment Support Scheme of the Government for the purpose to retain employment and combat the COVID-19 for the year ended 31 March 2023, but there was no such government grants for the Review Year.



## **Administrative expenses**

The administrative expenses of the Group slightly increased from approximately HK\$11.1 million for the year ended 31 March 2023 to approximately HK\$11.4 million for the Review Year, representing an increase of approximately HK\$0.3 million or approximately 2.7%. The increase during the Review Year was mainly due to the increase of approximately HK\$0.6 million in directors' remuneration.

## **Expected credit losses on contract assets**

The ECL on contract assets of the Group decreased from approximately HK\$7.4 million for the year ended 31 March 2023 to approximately HK\$1.0 million for the Review Year, representing a decrease of approximately HK\$6.4 million or approximately 86.5%. The decrease during the Review Year was mainly due to the individual assessment of 2 contract assets arising from construction contracts as at 31 March 2023 (with an aggregate total gross carrying amount of approximately HK\$5.8 million before measurement of the ECL), which were assigned with a loss rate of 100% for the year ended 31 March 2023, but there was no contract with such high loss rate for the Review year.

The Directors of the Group assessed the recoverability of contract assets as at 31 March 2024 and believed that the ECL allowances were adequate because:

- For contract assets arisen from projects which were close to or at the final stage, it generally takes longer period of time for customers in the foundation works industry to proceed with the final review and approval for the relevant work done of the entire project before issuing the relevant completion certificate. On such occasion, the recovery of contract assets generally takes a longer period of time but are generally recoverable;
- A substantial portion of the contract assets were from customers which the Group has established long business relationship with. The Directors regularly meet and discuss with the relevant customers to monitor the recoverability of the contract assets and are not aware of any difficulties in the recoverability of the contract assets; and
- The retention receivables are generally released (i) upon completion of works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. In general, the retention receivables are fully recoverable in accordance to the contract once the final account is confirmed by the customer. As the contract works of most projects which recorded retention receivables as at 31 March 2024 are still ongoing (the duration of the projects may be up to three years), a portion of the retention receivables have yet to be recovered as at the date of the enquiry. The Directors are not aware of any circumstances that would raise question on the recoverability of the retention receivables.

## **Finance costs**

The finance costs of the Group increased from approximately HK\$667,000 for the year ended 31 March 2023 to approximately HK\$1.1 million for the Review Year, representing an increase of approximately HK\$0.5 million or 71.5%. The increase in our finance costs was primarily attributable to the increase in bank import loan interest rate range from approximately 3.5%–7.8% during the FY2022/23 to approximately 6.5%–8.2% and also the increase in average bank import loan amount during the Review Year.

## **Income tax (expense)/credit**

The income tax expenses of the Group increased from tax credit of approximately HK\$1.2 million for the year ended 31 March 2023 to tax expense of approximately HK\$3.9 million for the Review Year, representing an increase of approximately HK\$5.1 million. The increase was due to the increase in the Group's gross profit as discussed above during the Review Year.

## **Profit and total comprehensive income for the year**

The profit and total comprehensive income for the year of the Group increased from approximately HK\$1.0 million for the year ended 31 March 2023 to approximately HK\$17.3 million for the Review Year, representing an increase of approximately HK\$16.3 million or 1,630%. The increase was primarily attributable to the increase in the Group's gross profit as discussed above.

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

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

As at 31 March 2024, the Company's issued capital was HK\$10.0 million and the number of its issued ordinary shares was 1,000,000,000 shares of HK\$0.01 each.

As at 31 March 2024, the Group had total cash and cash equivalents of approximately HK\$25.1 million (31 March 2023: approximately HK\$25.4 million).

## **CURRENT RATIO**

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

The current ratio of the Group decreased to approximately 3.1 times as at 31 March 2024 from approximately 6.6 times as at 31 March 2023. The decrease was mainly due to the increase in trade and retention payables, secured bank loans and bond.

## **GEARING RATIO**

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

The gearing ratio of the Group increased to approximately 11.7% as at 31 March 2024 from approximately 1.3% as at 31 March 2023. The increase was mainly due to the increase in secured bank loans and bond.

## **TREASURY POLICY**

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

## **PLEDGE OF ASSETS**

As at 31 March 2024, a life insurance policy with a carrying amount of approximately HK\$4,753,000 (FY2022/23: HK\$4,625,000) was pledged to secure certain bank loans granted to the Group.

## **FOREIGN EXCHANGE EXPOSURE**

As the Group mainly operated in Hong Kong and all of the revenue and transactions arising from its Hong Kong operations were settled in Hong Kong dollars for the Review Year, the Directors are of the view that the Group's foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for the Review Year.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 March 2024 and 2023, the Group did not have any capital commitment and significant contingent liabilities.

## **SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

Apart from the reorganisation in relation to the Listing (as set out under the section headed "History, reorganisation and corporate structure" of the prospectus of the Company dated 26 February 2021 (the "**Prospectus**")), there were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies by the Group during the Review Year. Save for the business plan as disclosed in the Prospectus, there was no plan for material investments or capital assets as at 31 March 2024.

## **FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

Save as disclosed in the Prospectus, the Group did not have any other plans for material investments or capital assets during the Review Year.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 March 2024, we employed a total of 197 employees (including four executive Directors but excluding three independent non-executive Directors), as compared to a total of 136 employees as at 31 March 2023. The remuneration packages that the Group offers to employees includes salaries, allowances, discretionary bonuses, and/or other benefits in kind. In general, the Group determines employees' salaries based on their qualifications, position and seniority. The Group also adopted a share option scheme whereby qualified participants may be granted options to acquire shares in the Company. The total staff cost, excluding three independent non-executive Directors, incurred by the Group for the Review Year was approximately HK\$88.1 million compared to approximately HK\$60.8 million for FY2022/23.

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

## **DIVIDENDS**

The Board has resolved not to recommend the declaration of final dividend for the Review Year (FY2022/23: Nil).

## **CORPORATE GOVERNANCE CODE/OTHER INFORMATION**

### **Compliance with the Corporate Governance Code**

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Group's Shareholders. Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should not be performed by the same individual. Prior to 15 March 2024, the chairman and chief executive officer of the Company were held by Mr. Yip Kwong Cheung ("**Mr. Yip**") who was the founder of the Group and has extensive experience in the industry. During the period from 1 April 2023 to 15 March 2024, the Board believed that Mr. Yip could provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board also considered that the past structure of vesting the roles of chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. In order to further comply with the code provision A.2.1 of the CG Code, the Board approved and announced on 15 March 2024 that Mr. Lin Rida has been appointed as the chairman of the Company with effect from 15 March 2024. The Board will review this

structure from time to time to ensure appropriate and timely action are to be taken to meet the changing circumstances.

Save as disclosed above, the Board considers that during the Review Year, the Company has complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of the Directors, all of the Directors have confirmed that they have complied with the requirements of the Model Code during the period from the Listing Date and up to the date of this announcement.

### **SHARE OPTION SCHEME**

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

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 19 February 2021, and there is no outstanding share option as at 31 March 2024.

### **COMPETING INTERESTS**

The Directors confirm that neither the controlling shareholders of the Company nor their respective close associates is interested in a business apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the Group’s business during the Review Year, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES**

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

### **EVENTS AFTER THE REVIEW YEAR**

Except the events disclosed in Note 15 of this announcement, there have been no other material events occurring after 31 March 2024 and up to the date of this announcement.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules since the Listing Date and up to the date of this announcement.

## **AUDIT COMMITTEE**

The Company established an Audit Committee on 19 February 2021 with written terms of reference in compliance with the CG code. The primary duties of the Audit Committee are to, among other things, review and approve the Group's financial reporting process and internal control and risk management system, oversee the Group's audit process and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three members who are all independent non-executive Directors, namely, Ms. Cheng Shing Yan, Mr. Wong Yiu Kit Ernest and Mr. Tang Man Joe. Ms. Cheng Shing Yan is the chairlady of the Audit Committee.

## **REVIEW OF ANNUAL RESULTS**

The Group's consolidated financial statements for the Review Year have been reviewed and approved by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT**

The figures in respect of the preliminary announcement of the Group's results for the Review Year have been agreed by the Company's auditor, Grant Thornton Hong Kong Limited ("GT"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by GT in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by GT on the preliminary announcement.

## **PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the Company's website at [www.kwong-luen.com.hk](http://www.kwong-luen.com.hk) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk). The FY2023/24 Annual Report will be made available on the same websites in due course.

## **APPRECIATION**

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

## **RESUMPTION OF TRADING**

At the request of the Company, trading of the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 2 July 2024. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 12 July 2024.

By order of the Board  
**Kwong Luen Engineering Holdings Limited**  
**LIN Rida**  
*Chairman and Executive Director*

Hong Kong, 11 July 2024

*As at the date of this announcement, the executive directors are Mr. LIN Rida, Mr. YIP Kwong Cheung, Mr. BU Lei and Ms. LUO Tingting; and the independent non-executive directors are Ms. CHENG Shing Yan, Mr. WONG Yiu Kit Ernest and Mr. TANG Man Joe.*