

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

## **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 2022**

### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the Reporting Period amounted to approximately HK\$206.0 million (six months ended 30 September 2021: approximately HK\$336.3 million).
- Gross profit margin for the Reporting Period was approximately 2.5% (six months ended 30 September 2021: approximately 12.5%).
- Loss attributable to the owners of the Company for the Reporting Period amounted to approximately HK\$3.7 million (six months ended 30 September 2021: profit approximately HK\$32.2 million).
- Basic and diluted loss per share for the Reporting Period amounted to approximately HK cents 0.37 (six months ended 30 September 2021: earnings per share approximately HK cents 3.22).
- The Board has resolved not to recommend the declaration of an interim dividend for the Reporting Period (six months ended 30 September 2021: 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 2022 (the “**Reporting Period**”), together with the comparative unaudited figures for the corresponding period in 2021.

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

		<b>Six months ended 30 September</b>	
		<b>2022</b>	2021
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>REVENUE</b>	3	<b>205,964</b>	336,293
Cost of sales		<u><b>(200,893)</b></u>	<u>(294,242)</u>
<b>Gross profit</b>		<b>5,071</b>	42,051
Other income and gains	4	<b>2,130</b>	1,088
Administrative expenses		<b>(5,182)</b>	(4,453)
Fair value gain on a financial asset at fair value through profit or loss		<b>75</b>	93
Expected credit losses on contract assets		<b>(5,511)</b>	–
Finance costs	6	<u><b>(271)</b></u>	<u>(267)</u>
<b>(LOSS)/PROFIT BEFORE INCOME TAX</b>	5	<b>(3,688)</b>	38,512
Income tax credit/(expense)	7	<u><b>20</b></u>	<u>(6,331)</u>
<b>(LOSS)/PROFIT AND TOTAL COMPREHENSIVE (EXPENSES)/ INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<u><b>(3,668)</b></u>	<u>32,181</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
– Basic and diluted	9	<u><b>(0.37)</b></u>	<u>3.22</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at <b>30 September</b> <b>2022</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 March 2022 <i>HK\$'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>62,162</b>	62,904
Right-of-use assets		<b>1,025</b>	1,360
Prepayments and deposits		<b>232</b>	232
Financial asset at fair value through profit or loss		<b>4,572</b>	4,497
		<hr/>	<hr/>
Total non-current assets		<b>67,991</b>	68,993
<b>CURRENT ASSETS</b>			
Contract assets		<b>212,438</b>	171,938
Trade receivables	10	<b>757</b>	22,257
Prepayments and deposits		<b>7</b>	63
Current tax assets		<b>6,226</b>	4,170
Cash and cash equivalents		<b>16,673</b>	42,646
		<hr/>	<hr/>
Total current assets		<b>236,101</b>	241,074
<b>CURRENT LIABILITIES</b>			
Trade and retention payables	11	<b>24,205</b>	22,527
Accruals and other payables		<b>5,945</b>	8,318
Secured bank loans		<b>18,968</b>	20,040
Lease liabilities		<b>340</b>	561
		<hr/>	<hr/>
Total current liabilities		<b>49,458</b>	51,446
<b>NET CURRENT ASSETS</b>		<b>186,643</b>	189,628
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>254,634</b>	258,621
		<hr/>	<hr/>

		<b>As at</b> <b>30 September</b> <b>2022</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 March 2022 <i>HK\$'000</i> (audited)
<b>NON-CURRENT LIABILITIES</b>			
Accruals and other payables		<b>263</b>	263
Secured bank loans		<b>2,202</b>	2,466
Lease liabilities		<b>614</b>	649
Deferred tax liabilities		<b>7,103</b>	7,123
		<hr/>	<hr/>
Total non-current liabilities		<b>10,182</b>	10,501
		<hr/>	<hr/>
<b>Net assets</b>		<b>244,452</b>	248,120
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	12	<b>10,000</b>	10,000
Reserves		<b>234,452</b>	238,120
		<hr/>	<hr/>
<b>Total equity</b>		<b>244,452</b>	248,120
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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 PO 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, 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 2022, 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 six months ended 30 September 2022.

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.

The condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with HKAS 34 *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2022.

The condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September 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 condensed consolidated interim 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 condensed consolidated interim 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 six months ended 30 September 2022.

##### *(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 2022 and 31 March 2022.

### 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	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Customer A	91,581	252,403
Customer B	76,163	–
Customer C	28,498	N/A*

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

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

### 3.2 Revenue

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Revenue from contracts with customers</b>		
Provision of construction services	205,964	336,293

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Type of construction service provided</b>		
Residential	125,252	311,126
Non-residential	80,712	25,167
<b>Total</b>	<b>205,964</b>	<b>336,293</b>
<b>Type of customer</b>		
From private sector	129,527	309,957
From public sector	76,437	26,336
<b>Total</b>	<b>205,964</b>	<b>336,293</b>
<b>Timing of revenue recognition</b>		
Services transferred over time	205,964	336,293

#### 4. OTHER INCOME AND GAINS

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Other income and gains</b>		
Government grants from Employment Support Scheme ( <i>Note a</i> )	2,032	–
Government grants from Construction Innovation and Technology Fund (“CITF”) ( <i>Note b</i> )	53	49
One-off miscellaneous works	20	1,038
Others	25	1
	<u>2,130</u>	<u>1,088</u>

*Notes:*

- (a) During the six months ended 30 September 2022, the Group received funding support amounting to HK\$2,032,000 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 six months ended 30 September 2022, the Group received funding support amounting to HK\$53,000 (six months ended 30 September 2021: HK\$49,000) 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. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation included in cost of sales:		
– Owned assets	6,024	6,396
– Right-of-use assets	54	54
Depreciation included in administrative expenses:		
– Owned assets	777	40
– Right-of-use assets	281	385
Lease charges on short-term leases	6,575	4,682
Employee benefit expense (excluding directors' remuneration):		
– Wages, salaries, allowances and benefits in kind	30,023	27,185
– Pension scheme contributions ( <i>Note a</i> )	822	885
	<u>30,845</u>	<u>28,070</u>
Auditor's remuneration	<u>494</u>	<u>559</u>

*Note:*

- (a) As at 30 September 2022, the Group had no forfeited contributions under the MPF Scheme which may be used by the Group to reduce the existing levels of contributions (as at 31 March 2022: Nil).

## 6. FINANCE COSTS

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest charges on bank loans and overdrafts	254	243
Finance charges on lease liabilities	17	24
	<u>271</u>	<u>267</u>

## 7. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax – Hong Kong		
– current year	–	(3,655)
Deferred tax	<u>20</u>	<u>(2,676)</u>
Total income tax credit/(expense)	<u><u>20</u></u>	<u><u>(6,331)</u></u>

The provision for Hong Kong Profits Tax for the six months ended 30 September 2022 is calculated at 16.5% (six months ended 30 September 2021: 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%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at 16.5% of the estimated assessable profits for the six months ended 30 September 2021.

## 8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the six months ended 30 September 2022 (six months ended 30 September 2021: Nil).

## 9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share amounts is based on the loss for the six months ended 30 September 2022 attributable to owners of the Company of HK\$3,668,000 (six months ended 30 September 2021 (unaudited): profit of HK\$32,181,000) and the weighted average number of ordinary shares in issue of 1,000,000,000 (six months ended 30 September 2021 (unaudited): 1,000,000,000).

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 September 2022 and 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2022 and 2021.

## 10. TRADE RECEIVABLES

	As at	As at
	30 September	31 March
	2022	2022
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables	1,500	23,000
Less: expected credit losses (“ECL”) allowance	<u>(743)</u>	<u>(743)</u>
	<u><u>757</u></u>	<u><u>22,257</u></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 45 days (six months ended 30 September 2021: 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 ECL allowance, is as follows:

	<b>As at 30 September 2022 HK\$'000 (unaudited)</b>	<b>As at 31 March 2022 HK\$'000 (audited)</b>
0–30 days	<u><b>757</b></u>	<u>22,257</u>

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

	<b>Six months ended 30 September 2022 HK\$'000 (unaudited)</b>	<b>2021 HK\$'000 (unaudited)</b>
Balance as at beginning of the period	<b>743</b>	78
ECL allowance recognised during the six months	<u>–</u>	<u>–</u>
Balance as at end of the period (unaudited)	<u><b>743</b></u>	<u>78</u>
At 31 March 2022 (audited) and 2021 (audited)	<u><b>743</b></u>	<u>78</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.

## 11. TRADE AND RETENTION PAYABLES

	<b>As at 30 September 2022 HK\$'000 (unaudited)</b>	<b>As at 31 March 2022 HK\$'000 (audited)</b>
Trade payables	<b>16,787</b>	12,420
Retention payables	<u><b>7,418</b></u>	<u>10,107</u>
	<u><b>24,205</b></u>	<u>22,527</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:

	<b>As at 30 September 2022 HK\$'000 (unaudited)</b>	<b>As at 31 March 2022 HK\$'000 (audited)</b>
0-30 days	<b><u>16,787</u></b>	<b><u>12,420</u></b>

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:

	<b>Number of Shares in issue</b>	<b>Share capital HK\$'000</b>
<b>Authorised:</b>		
As at 30 September 2022 (unaudited) and 31 March 2022 (audited)	<b><u>10,000,000,000</u></b>	<b><u>100,000</u></b>
<b>Issued and fully paid:</b>		
As at 30 September 2022 (unaudited) and 31 March 2022 (audited)	<b><u>1,000,000,000</u></b>	<b><u>10,000</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

The construction industry and foundation industry in Hong Kong have been negatively affected by the COVID-19 continuously. Hong Kong has experienced the fifth wave of outbreak of COVID-19 in the first half of 2022. The scale and impact of the fifth wave of outbreak has been much more severe than the previous waves. According to the Census and Statistic Department, the gross value of construction works performed by main contractors for the six months ended 30 June 2022 remained stagnant, as compared to 2021. 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 continuously affect the demand for Hong Kong’s foundation industry in the foreseeable future.

The Hong Kong economy showed a year-on-year contraction in the first three quarters of 2022. According to the Government of Hong Kong (the “**Government**”), the worsened external environment and tightened financial conditions have hampered Hong Kong’s economy. In the third quarter of 2022, the real GDP of Hong Kong fell by 4.5% from a year earlier, further to a 1.3% decline in the second quarter of 2022. The real GDP of Hong Kong has decrease for a consecutive three quarters and the real GDP fell by 3.3% for the first three quarters as a whole, as compared to a year earlier.

The outbreak of COVID-19 has continued to affect both Hong Kong and the PRC. The fifth wave of outbreak of COVID-19 attributable to SARS-CoV-2 Omicron variant has affected Hong Kong in the first half of 2022, resulting in (i) delays in certification process by the Government and affecting cash flow of construction contractors; (ii) labour shortage and slowdown of the work progress of projects; and (iii) reduction in supply of raw materials and short term surge in price of raw materials. COVID-19 has also continuously affected the PRC starting from the second quarter of 2022. The PRC Government has imposed active coronavirus controls in various cities, such as regularly testing, shutdown of non-essential businesses and temporary lockdowns, which has inevitably cause disruption in the supply chain in Hong Kong. Contractors in Hong Kong have experienced severe disruption in supply of raw materials and increase in price of raw materials.

Despite the aforementioned difficulties, the Group expects that there are upsides to the industry. In particular (i) the Government targets to increase the overall supply of transitional housing in the coming few years as set out in the Chief Executive’s Policy Address; (ii) the launch of the Northern Metropolis Development Strategy by the Government in 2021; and (iii) the “Land Sharing Pilot Scheme” proposed which seeks to unleash the development of privately owned agricultural lots for housing purposes. 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. 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 hampered by the COVID-19 outbreak. The Group has recorded decrease in revenue and gross profit margin, mainly attributable to (i) the increase in cost of sales as a result of increase in price of raw materials; and (ii) stagnation in economic growth of Hong Kong, leading to reduction in tender opportunities and decrease in gross profit margin of projects awarded.

Looking into the future, COVID-19 is expected to continue to affect Hong Kong for a prolonged period. 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.

## **FINANCIAL REVIEW**

### **Revenue**

The Group’s revenue decreased to approximately HK\$206.0 million for the Reporting Period by approximately HK\$130.3 million or 38.8%, from approximately HK\$336.3 million for the six months ended 30 September 2021. This was principally due to the decrease in revenue contributed by two sizable projects awarded during the year ended 31 March 2021. The estimated contract sum of these two projects were approximately HK\$328.5 million and HK\$121.3 million, respectively. One of these projects commenced in August 2020 whereas another commenced in March 2021. These projects were in the midst of the major construction phase during the six months ended 30 September 2021 whereas the major construction phase has passed for both projects during the Reporting Period. The revenue contribution from the project commenced in August 2020 and the project commenced in March 2021 were approximately HK\$77.2 million (six months ended 30 September 2021: approximately HK\$138.8 million) and HK\$12.1 million (six months ended 30 September 2021: approximately HK\$98.0 million) respectively, for the Reporting Period.

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

The Group's cost of sales decreased from approximately HK\$294.2 million for the six months ended 30 September 2021 to approximately HK\$200.9 million for the Reporting Period, representing a decrease of approximately HK\$93.3 million or 31.7%.

The Group's overall gross profit decreased from approximately HK\$42.1 million for the six months ended 30 September 2021 to approximately HK\$5.1 million for the Reporting Period, representing a decrease of approximately 87.9%. Such decrease in the Group's overall gross profit was mainly attributable to (i) the increase in cost of sales as a result of increase in price of the raw materials, mainly attributable to the outbreak of COVID-19 SARS-CoV-2 Omicron variant in Hong Kong in early 2022 and mainland China in the second and third quarter of 2022; and (ii) stagnation in economic growth of Hong Kong, as demonstrated by the contraction in gross domestic product of Hong Kong for the first three quarters of 2022, leading to reduction in tender opportunities and decrease in gross profit margin of projects awarded. As a result, the Group's overall gross profit margin decreased from 12.5% for the six months ended 30 September 2021 to 2.5% for the Reporting Period.

## **Other income and gains**

Other income and gains of the Group increased by approximately HK\$1.0 million from approximately HK\$1.1 million for the six months ended 30 September 2021 to approximately HK\$2.1 million for the Reporting Period. The increase was mainly due to the government grants of approximately HK\$2.0 million received from the Employment Support Scheme of the Government for the purpose to retain employment and combat the COVID-19 for the Reporting Period.

## **Administrative expenses**

The administrative expenses of the Group increased from approximately HK\$4.5 million for the six months ended 30 September 2021 to approximately HK\$5.2 million for the Reporting Period, representing an increase of approximately HK\$0.7 million or approximately 16.4%. The increase during the Reporting Period was mainly due to the increase in depreciation of building information modelling software of approximately HK\$0.7 million.

## **Finance costs**

The finance costs of the Group have remained relatively stable at approximately HK\$0.3 million for the six months ended 30 September 2021 and the Reporting Period.

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

The Group recorded income tax credit of approximately HK\$20,000 for the Reporting Period whilst the Group recorded income tax expenses of approximately HK\$6.3 million for the six months ended 30 September 2021. The decrease in income tax expenses was due to the operating loss recorded by the Group for the Reporting Period which was mainly attributable to the decrease in the Group's revenue and gross profit as discussed above.

### **(Loss)/profit and total comprehensive (expense)/income**

The Group recorded loss and total comprehensive expense of approximately HK\$3.7 million for the Reporting Period whilst the Group recorded profit and total comprehensive income of approximately HK\$32.2 million for the six months ended 30 September 2021. The decrease in profit and total comprehensive income was due to the operating loss recorded by the Group for the Reporting Period which was mainly attributable to the decrease 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 2022, 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 2022, the Group had total cash and cash equivalents of approximately HK\$16.7 million (31 March 2022: approximately HK\$42.6 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 has remained relatively stable at approximately 4.8 times and 4.7 times as at 30 September 2022 and 31 March 2022 respectively.

### **GEARING RATIO**

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

The gearing ratio of the Group decreased to approximately 9.1% as at 30 September 2022 from approximately 9.6% as at 31 March 2022. The decrease was mainly due to the decrease in secured bank loans.



## 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 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 30 September 2022, a life insurance policy with a carrying amount of approximately HK\$4,572,000 (31 March 2022: approximately HK\$4,497,000) was pledged to secure certain bank loans granted to the Group.

## FOREIGN EXCHANGE EXPOSURE

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\$6.1 million in the purchase of property, plant and equipment which was fully financed with the proceeds raised from the Listing.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following capital commitments:

	<b>As at 30 September 2022 HK\$'000 (unaudited)</b>	<b>As at 31 March 2022 HK\$'000 (audited)</b>
Contracted, but not provided for:		
Property, plant and machinery	—	296

As at 30 September 2022 and 31 March 2022, the Group has a contingent liability in relation to a fatal accident (the "Accident") occurred at a worksite, 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. 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.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSAL 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 Reporting Period. Save for the business plan as disclosed in the Prospectus, there was no plan for material investments or capital assets as at 30 September 2022.

## INTERIM DIVIDEND

The Board has resolved not to recommend the declaration of interim dividend for the Reporting Period (six months ended 30 September 2021: Nil).

## USE OF PROCEEDS

Up to 30 September 2022, 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:

	Planned use of proceeds from Listing Date to 30 September 2022 <i>HK\$'million</i>	Planned use of proceeds from Listing Date to 30 September 2022 <i>HK\$'million</i>	Actual use of proceeds from Listing Date to 30 September 2022 <i>HK\$'million</i>	Unutilised proceeds as at 30 September 2022 <i>HK\$'million</i>	Expected timeline of full utilisation of the remaining proceeds
Financing the up-front costs of our projects	39.9	39.9	39.9	–	N/A
Purchasing additional machinery	36.5	32.1	32.1	4.4	31 March 2023
Further expanding and strengthening our manpower by recruiting additional staff	15.5	12.5	12.5	3.0	31 March 2023
Purchasing a building information modelling software together with certain ancillary supporting hardware device	5.2	5.2	5.2	–	N/A
Total	<u>97.1</u>	<u>89.7</u>	<u>89.7</u>	<u>7.4</u>	

Due to the outbreak of the fifth wave of COVID-19 attributable to the SARS-CoV-2 Omicron variant since January 2022, the Group encountered difficulty in hiring construction workers and experienced temporary labour shortage. The utilisation of proceeds for expanding and strengthening manpower by recruiting additional staff was therefore postponed temporarily. The Directors confirmed that the utilisation of proceeds has been resumed and estimated that the remaining proceeds will be fully utilised by 31 March 2023.

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 2022 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 2022, we employed a total of 114 employees (including two executive Directors but excluding three independent non-executive Directors), as compared to a total of 123 employees as at 31 March 2022. 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 incurred by the Group for the Reporting Period was approximately HK\$31.7 million compared to approximately HK\$29.0 million for the six months ended 30 September 2021.

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 2022, 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> )	722,000,000	72.2%
Ms. Kwan Chui Ling (“Ms. Kwan”)	Interest in a controlled corporation; Interest held jointly with another person; Interest of spouse ( <i>Note</i> )	722,000,000	72.2%

*Note:* Kwong Luen Prosperity holding 722,000,000 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 2022, 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 2022, 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:

<b>Name of substantial shareholder</b>	<b>Nature of interest</b>	<b>Number of shares held/ interested</b>	<b>Percentage of shareholding</b>
Kwong Luen Prosperity	Beneficial owner ( <i>Note</i> )	722,000,000	72.2%

*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 2022, 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 2022.

## **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 enquiries 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](http://www.hkexnews.hk)) and on the website of the Company ([www.kwong-luen.com.hk](http://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, 30 November 2022

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