



**ANNUAL
REPORT
2021**

LKS Holding Group Limited

樂嘉思控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1867



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Zhancheng (appointed on 20 May 2021)
(redesignated as Chairman and Chief Executive Officer on 8 June 2021)

Ms. Qin Mingyue (appointed on 20 May 2021)

Mr. Ye Zuobin (appointed on 9 June 2021)

Ms. Wong Wan Sze (*Chairman*) (resigned on 8 June 2021)

Mr. Lam Shui Wah (*Chief Executive Officer*)
(resigned on 8 June 2021)

Independent non-executive Directors

Dr. Su Lixin (appointed on 9 June 2021)

Mr. Liang Rongjin (appointed on 9 June 2021)

Dr. Yan Bing (appointed on 9 June 2021)

Mr. Ng Man Wai (resigned on 9 June 2021)

Mr. Wu Wai Ki (resigned on 9 June 2021)

Ms. Tsang Ngo Yin (resigned on 9 June 2021)

BOARD COMMITTEES

Audit Committee

Dr. Su Lixin (*Chairman*) (appointed on 9 June 2021)

Mr. Liang Rongjin (appointed on 9 June 2021)

Dr. Yan Bing (appointed on 9 June 2021)

Ms. Tsang Ngo Yin (*Chairman*) (resigned on 9 June 2021)

Mr. Ng Man Wai (resigned on 9 June 2021)

Mr. Wu Wai Ki (resigned on 9 June 2021)

Remuneration Committee

Mr. Liang Rongjin (*Chairman*) (appointed on 9 June 2021)

Mr. Liu Zhancheng (appointed on 8 June 2021)

Dr. Su Lixin (appointed on 9 June 2021)

Mr. Wu Wai Ki (*Chairman*) (resigned on 9 June 2021)

Ms. Tsang Ngo Yin (resigned on 9 June 2021)

Ms. Wong Wan Sze (resigned on 8 June 2021)

Nomination Committee

Mr. Liu Zhancheng (*Chairman*) (appointed on 8 June 2021)

Dr. Su Lixin (appointed on 9 June 2021)

Mr. Liang Rongjin (appointed on 9 June 2021)

Ms. Wong Wan Sze (*Chairman*) (resigned on 8 June 2021)

Ms. Tsang Ngo Yin (resigned on 9 June 2021)

Mr. Wu Wai Ki (resigned on 9 June 2021)

COMPANY SECRETARY

Ms. Yim Sau Ping

AUTHORISED REPRESENTATIVES

Mr. Liu Zhancheng (appointed on 8 June 2021)

Mr. Ye Zuobin (appointed on 9 June 2021)

Ms. Wong Wan Sze (resigned on 8 June 2021)

Ms. Yim Sau Ping (resigned on 9 June 2021)

COMPLIANCE ADVISER

Frontpage Capital Limited
26/F, Siu On Centre
188 Lockhart Road
Wan Chai
Hong Kong

AUDITOR

Asian Alliance (HK) CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditor
8/F, Catic Plaza
8 Causeway Road
Causeway Bay
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAWS

CFN Lawyers in association with Broad & Bright
Units 4101-04, 41/F
Sun Hung Kai Centre
30 Harbour Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

21/F, Po Shau Centre
No. 115 How Ming Street
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited

STOCK CODE

1867

COMPANY'S WEBSITE

www.lksholding.com

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of LKS Holding Group Limited (the "**Company**"), I would like to present the annual report of the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 March 2021 to all shareholders of the Company.

Year 2020 is a year full of challenges. The pandemic of coronavirus disease 2019 (COVID-19) has brought unprecedented challenges and significantly increasing uncertainties to the world economy. Facing the grim situation of the rapid spread of the pandemic, countries and regions around the world, including Hong Kong, have actively adopted various levels of prevention and control measures, including internal restrictions such as prohibitions on the movement of people, and external restrictions such as border controls and strict entry and exit restrictions. This has directly led to the stagnation of global transportation and trade activities, and a sharp decline in the economy.

REVIEW

During the year, due to the impact of the COVID-19, the total revenue of the Group decreased by HK\$74.0 million or 25.0% from approximately HK\$295.9 million for the year ended 31 March 2020 to approximately HK\$221.9 million for the year ended 31 March 2021. The Group's profit attributable to the shareholders remained relatively stable at HK\$1.0 million and HK\$1.0 million for the years ended 31 March 2020 and 2021, respectively.

FORWARD

In the coming year, global economy will continue to be overshadowed by uncertainties. However, with the increase in number of people receiving the COVID-19 vaccine, the global economic activities are expected to return to normal. The Group will strive to offset the adverse effects brought by the economic downturn by closely monitoring changes in the market, continuing to conduct detailed reviews of its current major businesses and operations, formulating business plans and strategies for long-term business development, and actively exploring other business opportunities.

A NOTE OF APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to the Directors, management and all employees for their unremitting efforts and hard work in the current challenging business environment. I would also like to extend my heartfelt thanks to shareholders, customers and business partners for their continued trust and support to the Group during the year.

LKS Holding Group Limited
Liu Zhancheng
Chairman and Executive Director

Hong Kong, 29 June 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a contractor capable of providing (i) interior fitting-out and renovation services; and (ii) alteration and addition (“**A&A**”) works for residential, industrial and commercial properties in Hong Kong. The Group has been running its business since 2005 and gained extensive experience and reputation in the industry. Ample Construction Company Limited (“**Ample Construction**”), the Company’s principal operating subsidiary for the contracting businesses, has been registered as a Registered General Building Contractor under the Building Authority since 2006 and is approved to carry out A&A works, including general building works and street works under the Buildings Ordinance. Ample Design Company Limited, the design department of the Group, provides interior design services to clients.

The fitting-out and renovation services mainly include interior fitting-out and renovation works for shops and offices in commercial and industrial properties and residential premises. For A&A works, the scope of works generally includes structural alterations, structural steel, signage works, building maintenance, refurbishment works and ground improvement.

For the year ended 31 March 2021, the Group recorded revenue of approximately HK\$221.9 million as compared to revenue of HK\$295.9 million for the year ended 31 March 2020. Such decrease was mainly due to the decrease in number of projects undertaken and the lower value of contracts awarded to the Group as a result of the intense market competition under the sluggish economy during the year ended 31 March 2021.

With the control measures implemented by the Hong Kong government and the launch of the vaccines, the number of confirmed cases of COVID-19 have slightly stabilised but still remained very volatile with local cluster cases reported from time to time. Looking forward, the economy of Hong Kong is still unstable under the outbreak of COVID-19. The Group will closely monitor the market conditions and continue to adopt appropriate measures so as to mitigate the risks as brought by COVID-19. In addition, the Group will also actively explore other business opportunities and formulate long-term business plans and strategies in order to capture market rebound once the market conditions recover progressively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s key risk exposures are summarised as follows:

- i) the Group’s contracts are not recurring in nature and its future business performance depends on its continuing success on project tendering.
- ii) the Group is exposed to disputes, claims or litigation that may affect its operations and financial positions.
- iii) the Group’s profit may be substantially reduced if there are adverse changes in its subcontracting and materials cost after the process of tendering.
- iv) the Group belongs to an industry that requires stable supply of labour in order to carry out its projects.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Group has complied in all material respects with relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 March 2021, there was no material breach or non-compliance with the applicable laws and regulations by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board has overall responsibility for the Group's environmental, social and governance (“**ESG**”) strategy and reporting. The Board is responsible for the Group's ESG risk management and internal control systems to ensure that the ESG strategies and report requirements are met.

The Group's operations at work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, noise control, water pollution control and waste disposal control.

The details of ESG performance of the Group are set out in the ESG Report, which can be viewed or downloaded from the websites of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Company, no later than three months after the publication of the Company's annual report.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS, SUBCONTRACTORS AND EMPLOYEES

Customers

The Group's customers mainly include main contractors who contract all or part of the engineering works for building services systems to other subcontractors, such as the Group, and landlords or occasionally property developers (or its consultants). During the year, the Group served customers from the private and public sectors in Hong Kong, and the Directors consider that the Group is not reliant on any single customer. The Group has established close business relationships with most of the top customers ranging from one year to over ten years which the Directors believe it has an implication that the Group is one of the selected subcontractors on such customers' approved lists of subcontractors and the Group has been invited to tender or quote from time to time.

Suppliers and Subcontractors

During the year, suppliers of goods and services to the Group were required on a regular basis to enable the Group to continue to carry on its business including (i) subcontractors engaged by the Group to perform the site works; (ii) material and equipment suppliers to supply materials and equipment used for the site work; and (iii) suppliers of other miscellaneous goods and services required for the Group's business operations.

The Group has maintained an internal list of approved subcontractors for each category of fitting-out and renovation and A&A works. While engaging subcontractors, the Group generally selects the most suitable subcontractor from the approved list based on their relevant skills and experience, subject to their availability and fee quotations.

The Group generally maintains multiple suppliers and subcontractors for products and services to avoid over-reliance on certain suppliers and subcontractors. The Group did not experience any material difficulties in sourcing materials from suppliers or assigning subcontractors during the year. The Group did not have any significant disputes with any of its top five suppliers and subcontractors during the year.

Employees

The Group recognises employees as valuable assets of the Group. During the year, the Group has complied with the applicable labour laws and regulations and regularly reviewed the existing staff benefits for improvement. The Group uses its best effort to attract and retain appropriate and suitable personnel to serve the Group. The objective of the Group's human resource management is to reward and recognise high performing employees by providing attractive remuneration package. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee.

The Directors consider that the Group has maintained good relationship with its employees. The Group has not experienced any strikes, work stoppages or labour disputes which affected its operations during the year. The Directors also consider that the relationship and co-operation between the management team and the employees have been good during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue decreased by approximately HK\$74.0 million or approximately 25.0% from approximately HK\$295.9 million for the year ended 31 March 2020 to approximately HK\$221.9 million for the year ended 31 March 2021, which was mainly due to the decrease in number of projects undertaken and the lower values of contracts awarded to the Group during the year.

Direct Costs

Direct costs decreased from approximately HK\$267.8 million for the year ended 31 March 2020 to approximately HK\$208.0 million for the year ended 31 March 2021, representing a decrease of approximately HK\$59.8 million or approximately 22.3%, which was generally in line with the decrease in revenue during the year.

Gross Profit

Gross profit of the Group decreased by approximately 50.5% from approximately HK\$28.1 million for the year ended 31 March 2020 to approximately HK\$13.9 million for the year ended 31 March 2021. Such decrease was mainly due to (i) the decrease in revenue during the year; and (ii) the decrease in gross profit margin as a result of the adoption of a more competitive pricing strategy in response to the intense market competition under the sluggish economy in Hong Kong.

Impairment losses under expected credit loss model, net of reversal

The Group's impairment loss, net of reversal represents a provision for impairment loss allowance of trade and other receivables and contract assets. The Group recorded a reversal of impairment losses under expected credit loss model of approximately HK\$2.0 million for the year ended 31 March 2021 as compared to provision of impairment losses of HK\$6.9 million for the year ended 31 March 2020. Such reversal of impairment loss was mainly attributable to the settlement of trade receivables and the decrease in balance of these long aged trade receivables during the year.

Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group decreased by approximately 14.7% from approximately HK\$17.5 million for the year ended 31 March 2020 to approximately HK\$15.0 million for the year ended 31 March 2021. Administrative and other operating expenses primarily consist of rental expenses, staff costs and professional fees. The decrease in administrative and other operating expenses was mainly due to the decrease in donation, the legal and professional fees and the depreciation of the leasehold improvements during the year.

Finance Costs

Finance costs of the Group decreased by approximately HK\$0.2 million from approximately HK\$1.2 million for the year ended 31 March 2020 to HK\$1.0 million for the year ended 31 March 2021. Finance costs for the years ended 31 March 2021 and 2020 mainly consisted of interest on bank borrowings and overdrafts. Such decrease was mainly due to a decrease in bank borrowings as a result of the repayment to the bank during the year.

Income Tax Expense

Income tax expense for the Group decreased by approximately 47.7% from approximately HK\$1.6 million for the year ended 31 March 2020 to approximately HK\$0.8 million for the year ended 31 March 2021, which was mainly due to the decrease in the Group's profit before tax during the year.

Profit and Total Comprehensive Income for the year attributable to owners of the Company

As a result of foregoing, profit and total comprehensive income for the year attributable to owners of the Company remained relatively stable at HK\$1.0 million for the years ended 31 March 2020 and 2021, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2021, the Group had total assets of approximately HK\$149.4 million (2020: approximately HK\$159.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$31.7 million (2020: approximately HK\$42.5 million) and approximately HK\$117.7 million (2020: approximately HK\$116.7 million), respectively.

The total interest-bearing borrowings and lease liability of the Group at 31 March 2021 were approximately HK\$25.1 million (2020: approximately HK\$33.1 million), and current ratio at 31 March 2021 was approximately 4.6 times (2020: 3.6 times).

The bank balances and cash of the Group at 31 March 2021 was approximately HK\$30.9 million (2020: approximately HK\$40.0 million).

Majority of the Group's borrowings and bank balances are denominated in Hong Kong dollars and there was no significant exposure to foreign exchange rate fluctuations during the year.

GEARING RATIO

The gearing ratio of the Group at 31 March 2021 was approximately 21.3% (2020: approximately 28.4%). The decrease in gearing ratio was mainly due to a decrease in bank borrowings as a result of the repayment to the bank during the year.

The gearing ratio is calculated based on the total borrowings and lease liability divided by total equity at the respective reporting date.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 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.

CHARGE ON GROUP ASSETS

At 31 March 2021, the Group pledged bank deposits amounted to approximately HK\$6.0 million to a bank as collateral to secure banking facilities granted to the Group (2020: approximately HK\$6.0 million).

At 31 March 2021, the Group pledged its life insurance policies of approximately HK\$3.0 million to a bank to secure the banking facilities granted to the Group (2020: approximately HK\$3.0 million).

As at 31 March 2021, the Group paid a cash collateral of approximately HK\$3,421,000 (2020: approximately HK\$2,081,000) to the insurance companies for the issuance of surety bonds which are included in other receivables, prepayments and deposits.

Save for the above disclosed, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE

All of the revenue-generating operations and borrowings of the Group are transacted in Hong Kong dollars. For the year ended 31 March 2021, there was no significant exposure to foreign exchange rate fluctuations and the Group had not maintained any hedging policy against the foreign exchange risk. The management will consider suitable hedging instruments against significant currency exposure should the need arises.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange (the “**Listing**”) on 12 January 2017 (the “**Listing Date**”).

The Company successfully transferred the listing of its shares from GEM to the Main Board of the Stock Exchange on 9 May 2019. There has been no change in the capital structure of the Company since the Listing Date and up to date of this annual report. The capital of the Company only comprises of ordinary shares.

CAPITAL COMMITMENTS

The Group did not have any capital commitment as at 31 March 2021 (2020: Nil).

LITIGATION

On 5 March 2021, Bondway Development Limited, a customer of the Group, issued and filed statement of claim, of which against Ample Construction, under the High Court of the Hong Kong Special Administrative Region for a water seepage damage for the fitting out project in a sum of not less than HK\$267,000 (the “**Legal Proceeding**”). On 10 March 2021, the Group received a writ of summon from the High Court in relations to the Legal Proceeding.

At as the date of this annual report, the Company had not received any judgment in relation to the Legal Proceeding. The Directors expected that it is highly probable that the Company is needed to pay the fine. As at 31 March 2021, a provision of HK\$267,000 is accrued.

On 21 April 2021, Ample Construction had commenced arbitration proceedings against Lai Si Construction (Hong Kong) Company Limited (“**Lai Si**”), a customer of the Group, under Case No. DCCJ1751/2021. According to the indictment, Lai Si owed Ample Construction with an aggregated amount of approximately HK\$1,870,000 and the case is in listing for trial.

SEGMENT INFORMATION

Segmental information is presented for the Group as disclosed on Note 5 to the consolidated financial statements.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 December 2016 (the “**Prospectus**”) and in this annual report, the Group did not have other plans for material investments or acquisition of capital assets as of 31 March 2021.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 March 2021, the Group did not have any significant investments held, nor did the Group have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

Certain customers of construction contracts undertaken by the Group require Ample Construction to issue guarantees for the performance of contract works in the form of surety bonds of approximately HK\$14,088,000 (2020: approximately HK\$9,260,000) at 31 March 2021. The Company and Ample Construction have unconditionally and irrevocably agreed to indemnify the insurance company that issued such surety bonds for claims and losses the insurance company may incur in respect of the surety bonds. The surety bonds will be released when the contracts are completed or substantially completed pursuant to the relevant contract. As at 31 March 2021, the Group paid a cash collateral of approximately HK\$3,421,000 (2020: approximately HK\$2,081,000) to insurance companies for the issuance of surety bonds which are included in other receivables, prepayments and deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress to 31 March 2021 is set out below:

| Business strategies as stated in the Prospectus | Business objectives up to 31 March 2021 as stated in the Prospectus | Actual business progress up to 31 March 2021 |
|---|---|--|
| Participate further in large scale fitting-out, renovation and A&A projects and enlarge the Group's market share in Hong Kong | <ul style="list-style-type: none"> Utilise net proceeds from the placing to finance the net cash outflows required in the early stage of fourteen new projects with expected aggregate contract sum of not less than approximately HK\$37.0 million, including the upfront payments to the materials suppliers and subcontractors and take out surety bonds if necessary. Some payments are paid upfront before the Group receives progress payment from the Group's clients | The Group has used approximately HK\$15.5 million to finance the net cash outflows required in the early stage of new projects, including the upfront payments to the suppliers of construction materials and subcontractors. All projects have been completed and the proceeds have been fully utilised for those projects. |
| | <ul style="list-style-type: none"> In addition to previous successfully bid projects, the Group intends to submit tenders for project sum exceeding HK\$40.0 million in the fitting-out, renovation and A&A works industry. The Directors confirm that surety bonds amounting to 10% to 30% are often required by the customers for the contractors to take out to guarantee due performance on projects of this size | The Group has used approximately HK\$15.5 million to finance the net cash outflows required in the early stage of new projects, including the upfront payments to the suppliers of construction materials and subcontractors. All projects have been completed and the proceeds have been fully utilised for those projects. |
| | <ul style="list-style-type: none"> Undertake new large-sized projects with aggregate contract sum of not less than HK\$50.0 million and duration of the projects is expected to last for at least 12 months | The Group has used approximately HK\$15.5 million to finance the net cash outflows required in the early stage of new projects, including the upfront payments to the suppliers of construction materials and subcontractors. All projects have been completed and the proceeds have been fully utilised for those projects. |
| | <ul style="list-style-type: none"> Set up a public housing improvement and maintenance team with new positions of contract manager and site agent, which are required for the registration in order to be included in "Group M1" of the List of Building Contractors for Public Works | The Group has spent approximately HK\$2.6 million to employ one project manager and two site agents as a public housing improvement and maintenance team for the "Group M1" of the list of Building Contractors for Public Works. |

MANAGEMENT DISCUSSION AND ANALYSIS

| Business strategies as stated in the Prospectus | Business objectives up to 31 March 2021 as stated in the Prospectus | Actual business progress up to 31 March 2021 |
|---|---|---|
| Participate in competitions and exhibitions to promote and develop the Group's interior design and fitting-out business | <ul style="list-style-type: none">Assess the capacity of the Group interior design department and evaluate the Group labour resources in this department | The Group has spent approximately HK\$1.4 million to employ two designers and one project manager (interior design) to develop the Company's interior design and fitting-out business. |
| | <ul style="list-style-type: none">The Group will participate in nine interior design competitions, aiming at winning an award which could bolster the market reputation and demonstrate the Group's strength in interior design | The Group is communicating with a few professional consultancies to find the appropriate interior design competition and considering to join the worldwide interior design competition. Under the outbreak of COVID-19, some competitions have been postponed or cancelled and longer time was required to look for appropriate interior design competition. |
| | <ul style="list-style-type: none">Participate in two interior design related public exhibitions as an exhibitor | The Group is communicating with some experienced consultancies to provide a professional proposal of performing a success interior design exhibition and help the Group to identify appropriate interior design related public exhibition as an exhibitor. Under the outbreak of COVID-19, some exhibitions have been postponed or cancelled and longer time was required to look for appropriate interior design exhibition. |
| | <ul style="list-style-type: none">Build and modify the interior design and fitting-out mock-up unit in the Group's new office which will be open for public | The Group has spent approximately HK\$2.5 million to build the interior design and fitting-out mock-up unit in the Group's new office which will be open for public. |
| | <ul style="list-style-type: none">Identify suitable candidates to fill two designer posts and one project manager (interior design) openings | The Group has recruited two designers and one project manager (interior design). |

MANAGEMENT DISCUSSION AND ANALYSIS

| Business strategies as stated in the Prospectus | Business objectives up to 31 March 2021 as stated in the Prospectus | Actual business progress up to 31 March 2021 |
|--|--|---|
| Expand manpower for project execution and strengthen the skills of the Group's staff | <ul style="list-style-type: none">• Identify suitable candidates to fill the Group's openings of one project manager and one project coordinator with relevant experiences• Continue to assess the sufficiency of the labour resources having regard to the Group's project execution need and business development demand• Organise in-house seminars and invite external speakers to provide taught training on construction methodology, project management and work safety in the in-house seminars• Renovate the Group's new office to cater to enlarged workforce and prepare for new business opportunities in the residential sector, when the Group's existing office lease is due to expire | <p>The Group has used approximately HK\$0.8 million to employ one experienced project manager and one project coordinator.</p> <p>The Group has spent approximately HK\$6.0 million to employ one site foreman and two project assistants, two project managers and one accounting officer to strengthen the Group's project execution.</p> <p>The Group has organised the in-house seminars and inviting the external speakers to provide taught training on construction methodology, project management and work safety in the in-house seminars.</p> <p>The Group has spent approximately HK\$3.0 million to renovate the new office to cater to enlarged workforce and prepare for new business opportunities in the residential sector.</p> |

MANAGEMENT DISCUSSION AND ANALYSIS

| Business strategies as stated in the Prospectus | Business objectives up to 31 March 2021 as stated in the Prospectus | Actual business progress up to 31 March 2021 |
|--|---|---|
| Strengthen the Group's business development and quantity surveying and enhance the Group's marketing resources | <ul style="list-style-type: none">• Set up and maintain the business development | The Group has spent approximately HK\$1.6 million to employ one business development manager and one project assistant to establish a business development team. |
| | <ul style="list-style-type: none">• Maintain the Group's quantity surveying team which will consist of one quantity survey manager, one quantity surveyor and one project assistant, with sufficient relevant quantity surveying experience, which will assist the Group in preparing tenders, payment applications and controlling project costs | The Group has spent approximately HK\$3.4 million to employ one project assistant, one quantity surveyor and one quantity survey manager to form a quantity survey team which will assist the Group in preparing tenders, payment applications and controlling project costs. |
| | <ul style="list-style-type: none">• Identify suitable candidates with business development experience and fill one business development position for interior design and fitting-out business | The Group has recruited one business development manager for the business development department. |
| | <ul style="list-style-type: none">• Design, create and print the corporate brochures | The Group has spent approximately HK\$1.4 million to employ one draftsman and one assistant project manager in handling the design aspect of the Group's business development. |
| | <ul style="list-style-type: none">• Maintain and improve the Group's corporate website | The Group has used approximately HK\$83,000 to set up the new corporate website. The Group has communicated with one website design company to provide a professional company website design. |

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from the Listing, after deducting listing related expenses, were approximately HK\$51.2 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

An analysis of the utilisation of the net proceeds from the Listing to 31 March 2021 is set out below:

| | Planned use of net proceeds as stated in the Prospectus up to 31 March 2021 HK\$'000 | Actual use of net proceeds up to 31 March 2021 HK\$'000 | Unutilised net proceeds up to 31 March 2021 HK\$'000 | Date by which net proceeds are expected to be fully utilised |
|---|--|---|--|---|
| Participate further in large scale fitting-out, renovation and A&A projects and enlarge the Group's market share in Hong Kong | 18,022 | 18,022 | – | – |
| Participate in competitions and exhibitions to promote and develop the Group's interior design and fitting-out business | 8,704 | 3,910 | 4,794 | 31 March 2022 |
| Expand the Group's manpower for projects execution and strengthen the skills of the Group's staff | 9,933 | 9,933 | – | – |
| Strengthen the Group's business development and quantity surveying and enhance the Group's marketing resources | 9,421 | 7,589 | 1,832 | 31 March 2022 |
| General working capital | 5,120 | 5,120 | – | – |
| Total | 51,200 | 44,574 | 6,626 | |

As at 31 March 2021, the actual use of proceeds was less than the estimated net proceeds but had been applied in the same manner as specified in the section headed "Business Objective and Use of Proceeds" of the Prospectus. The net proceeds of approximately HK\$6.6 million had not yet been utilised as at 31 March 2021 and was deposited into licensed banks in Hong Kong. The Group will continue to apply the above net proceeds in accordance with the proceeds allocation set out in the Prospectus.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus whereas the proceeds were applied based on the actual development of the Group's business and the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2021, the Group employed a total of 60 employees (2020: 49 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$18.8 million for the year ended 31 March 2021 (2020: approximately HK\$23.1 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual employees' performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual employees' contribution.

FINAL DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 March 2021 (2020: Nil).

EVENTS AFTER THE REPORTING PERIOD

Arbitration proceedings against Lai Si

On 21 April 2021, Ample Construction had commenced arbitration proceedings against Lai Si, a customer of the Group, under Case No. DCCJ1751/2021. For details, please refer to the section headed "Litigation" of this annual report.

Change of Controlling Shareholder and The Offer

On 23 April 2021, Heavenly White Limited ("**Heavenly White**") and Summer Unicorn Limited ("**Summer Unicorn**") (the "**Sellers**") and FUJINCHENG INVESTMENT HOLDINGS CO., LTD ("**FUJINCHENG**") entered into the sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which the Sellers agreed to sell and FUJINCHENG agreed to purchase a total of 807,000,000 shares, representing approximately 72.05% of the entire issued share capital of the Company at that time, for a total consideration of HK\$177,540,000 (equivalent to HK\$0.22 per sale share). Following the completion of the Sale and Purchase Agreement which took place on 27 April 2021, FUJINCHENG became the controlling shareholder of the Company and was required under the Code on Takeovers and Mergers to make a mandatory unconditional cash offer to acquire all the issued shares (other than those already owned or agreed to be acquired by FUJINCHENG) at HK\$0.22 per offer share (the "**Offer**"). The Offer was closed on 8 June 2021. Having made all reasonable enquiries and to the best knowledge and belief of the Board, FUJINCHENG held 807,050,000 shares immediately after the close of Offer on 8 June 2021. Details of the change of controlling shareholder of the Company and the Offer were set out in the joint announcements dated 27 April 2021, 17 May 2021, 20 May 2021 and 8 June 2021 and the composite document dated 17 May 2021 jointly issued by the Company and FUJINCHENG.

MANAGEMENT DISCUSSION AND ANALYSIS

Proposed Change of Company Name and Amendments to the Memorandum and Articles of Association

On 23 June 2021, the Board proposed to change the English name and the dual foreign name in Chinese of the Company from “LKS Holding Group Limited” and “樂嘉思控股集團有限公司” to “Standard Development Group Limited” and “標準發展集團有限公司”, respectively (the “**Proposed Change of Company Name**”).

The Proposed Change of Company Name is subject to the following conditions:

- (i) the passing of a special resolution by the shareholders of the Company to approve the Proposed Change of Company Name at the upcoming annual general meeting of the Company; and
- (ii) approval being granted by the Registrar of Companies in the Cayman Islands for the Proposed Change of Company Name.

Subject to the satisfaction of the above conditions, the Proposed Change of Company Name will take effect from the date on which the Registrar of Companies in the Cayman Islands enters the new English name and dual foreign name in Chinese of the Company on the register of companies maintained by the Registrar of Companies in the Cayman Islands and issues a certificate of incorporation on change of name. The Company will comply with the necessary filing procedures in Hong Kong and the Cayman Islands.

Pursuant to the Proposed Change of Company Name, the Board also proposed to make certain amendments by replacing all references to the existing name of the Company with “Standard Development Group Limited” and “標準發展集團有限公司” in the memorandum and articles of association of the Company to reflect the changes. The amendments to the memorandum and articles of association of the Company are subject to approval by the shareholders of the Company and will take effect when the Proposed Change of Company Name becomes effective, at the upcoming annual general meeting of the Company. For further information, please refer to the announcement of the Company dated 23 June 2021.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out as follows:

Executive Directors

Mr. LIU Zhancheng (劉展程) (“Mr. Liu”), aged 46, is the executive Director, chairman and chief executive officer of the Board. He is also the chairman of the nomination committee of the Company (the **“Nomination Committee”**) and a member of the remuneration committee of the Company (the **“Remuneration Committee”**). Mr. Liu obtained a bachelor’s degree in management from Shandong College of Finance and Economics* (山東財政學院) in the PRC in 2005, and a master’s degree in engineering from Ocean University of China* (中國海洋大學) in the PRC in 2013. Since 2009, Mr. Liu has started his business ventures and had founded Shandong Fujincheng Investment Limited* (山東富金成投資有限公司) (**“Shandong Fujincheng”**) in the PRC, which is principally engaged in engineering projects involving, among others, high-voltage electricity, municipal administration and building construction, as well as petrochemical supply chain business and financial services business. Mr. Liu has been a director and general manager of Shandong Fujincheng since 2009.

Ms. QIN Mingyue (秦鳴悅) (“Ms. Qin”), aged 28, is the executive Director. Ms. Qin obtained a bachelor’s degree from Communication University of China* (中國傳媒大學) in the PRC in 2011. Since 2011, Ms. Qin has been a manager in the planning department of Wanna Investment (Beijing) Company Limited* (萬納投資(北京)有限公司) (**“Wanna Investment (Beijing)”**), which is owned as to 99% by Mr. Liu and 1% by Ms. Qin. Since its establishment in 2006, Wanna Investment Beijing has been providing business planning, investment management, corporate management consultancy and sales and marketing services to a diverse customer group, including Shandong Haomin and other companies which are principally engaged in the business(es) of construction works, fitting-out works and/or engineering project management. As the manager in the planning department of Wanna Investment (Beijing), Ms. Qin is mainly responsible for external promotion and investment activities, including formulating business strategies, devising sales and marketing strategies and exploring promotion channels, and client relationship management.

Mr. YE Zuobin (叶作斌) (“Mr. Ye”), aged 43, is the executive Director. He obtained a Bachelor degree of Information and Control Engineering (Control Science) from Shandong University in the People’s Republic of China in July 1997. He obtained a Master degree of Philosophy in Business from Lingnan University in Hong Kong in November 2004.

Mr. Ye has extensive experience in corporate investing, financing and project management. Mr. Ye was a vice president of Hongkong Dahai Enterprises Company Limited from July 2013 to April 2015. He was the director, corporate finance of GCL New Energy Management Limited, a subsidiary of GCL New Energy Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 451) from April 2015 to September 2018. Mr. Ye was the general manager of investment project management department and assistant to the company secretary of South Manganese Investment Limited (stock code: 1091) (formerly known as CITIC Dameng Holdings Limited), a company listed on the Main Board of the Stock Exchange, from November 2018 to June 2021.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. SU Lixin (蘇黎新) (“Dr. Su”), aged 46, was appointed as the independent non-executive Director on 9 June 2021. She is also the chairman of the audit committee of the Company (the “**Audit Committee**”) and a member of each of the Remuneration Committee and the Nomination Committee.

Dr. Su obtained a Bachelor degree of International Trade from Shanghai University of Finance and Economics in the People’s Republic of China in July 1997. She obtained a Doctor degree of Philosophy in Management Science from The University of Texas at Dallas in the United States in August 2005.

Dr. Su has over 16 years of experience in accounting studies. She has been employed by The Hong Kong Polytechnic University from August 2005 to January 2017 and her last position was associate professor in the School of Accounting and Finance. Dr. Su was employed by Lingnan University in Hong Kong since January 2017. She is currently a professor and head of department of accountancy, faculty of business of Lingnan University.

Mr. LIANG Rongjin (梁榮進) (“Mr. Liang”), aged 61, was appointed as the independent non-executive Director on 9 June 2021. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Liang had served in Shandong Engineering Consultation Yard* (山東省工程諮詢院) for over 30 years. Mr. Liang held the position of Officer of Social Business Department and senior professional third-level researcher until his retirement in December 2019.

Mr. Liang obtained the specialist qualification of Chemical Defense from People’s Liberation Army Defense Chemical Academy* (中國人民解放軍陸軍防化學院) (formerly known as the Defense Chemical Academy* (防化學院)) in July 1986. He further obtained a bachelor degree of Economic Management from Shandong Economic Management Institute* (山東省經濟管理幹部學院) in July 1996.

Mr. Liang became a registered supervision engineer of the Ministry of Transportation of the People’s Republic of China in May 1998. Since April 2005, he has been a registered consulting engineer (investment) of the People’s Republic of China. Mr. Liang also became a project management professional of Project Management Institute in the United States since December 2008. He was also a FIDIC Certified Consulting Engineer of the International Federation of Consulting Engineers from 2016 to 2019.

Mr. Liang was appointed as an expert of China Engineering Consulting Association from December 2009 to December 2011, and was appointed as a vice chairman of the 6th session of the Thermal Power Committee of the Chinese Society for Electrical Engineering in December 2016.

Dr. YAN Bing (嚴兵) (“Dr. Yan”), aged 43, was appointed as the independent non-executive Director on 9 June 2021. Dr. Yan is also the member of the Audit Committee.

Dr. Yan obtained a Bachelor degree of International Trade (International Economics) from Shandong University in the People’s Republic of China in July 1998. He obtained a Master degree of International Trade from Xiamen University in the People’s Republic of China in July 2001. Dr. Yan further obtained a Doctor degree of Global Economics from Nankai University in the People’s Republic of China in July 2004.

Dr. Yan has over 20 years of experience in international economics studies. Since July 2004, Dr. Yan was employed by Nankai University. He is currently a professor, a doctoral advisor and a deputy director of the Institute of International Economics of Nankai University.

* For identification purpose only

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. CHEUNG Ka Yan (張嘉欣) (“Mr. Cheung”), aged 43, is the project director and the co-founder of the Group. Mr. Cheung is responsible for project planning and contract management. Mr. Cheung is an authorised signatory and a technical director for Ample Construction on the Register of General Building Contractors of the Buildings Department. Mr. Cheung is also a director of all subsidiaries of the Company. Mr. Cheung obtained a Bachelor of Science Degree in Construction Management from the University of Wolverhampton, the United Kingdom in October 2004. Mr. Cheung has around 21 years of experience in the construction industry. Mr. Cheung’s working experience prior to founding the Group includes the following:

| Name of company | Principal business activity | Position | Period of service |
|---|---|--------------------------------------|-----------------------------|
| Island District Office of Home Affairs Department | N/A | Temporary works supervisor II | June 1999 to November 1999 |
| Water Supplies Department | N/A | Contract works supervisor (Civil) | November 1999 to March 2000 |
| Hong Kong Housing Authority | N/A | Contract works supervisor II (Civil) | March 2000 to June 2005 |
| Cristalla Designs and Contracting Ltd. | Decoration, repair & maintenance works, interior fitting out/contracting services | Assistant project manager | June 2005 to August 2005 |
| Fuji (China) Decoration & Eng. Co., Ltd. | Interior fitting out/contracting service, interior design consultancy, interior fitting design services | Assistant project manager | August 2005 to June 2006 |

Ms. CHAN Ka Wai Cari (陳嘉慧) (“Ms. Chan”), aged 35, is the administration & human resources manager of the Group. Ms. Chan is responsible for managing office administration and human resources. Ms. Chan joined the Group in August 2011 and was promoted to the position of project secretary in September 2014. Ms. Chan was further promoted to her current position in July 2017. Ms. Chan obtained a Certificate in Marketing Management in May 2015 and an Advanced Certificate in Administrative and Management Skills in September 2015 from The Hong Kong Management Association. Ms. Chan’s working experience prior to joining the Group includes the following:

| Name of company | Principal business activity | Position | Period of service |
|--------------------------------|-------------------------------|--------------------------|-------------------------------|
| Shun Tat Express Company | Cross border trucking company | Courier | January 2004 to December 2004 |
| Goldbase Steel Company Limited | Steel processing | Clerk | August 2005 to April 2009 |
| Anken Consulting Limited | Accountancy firm | Administrative assistant | June 2009 to August 2011 |

Mr. POON Yau Cheung (潘柔翔) (“Mr. Poon”), aged 43, is the senior project manager of the Group. Mr. Poon is responsible for managing fitting-out and renovation projects. Mr. Poon joined the Group in June 2008 and was promoted to the position of project manager in May 2012. Mr. Poon was further promoted to his current position in March 2018. Mr. Poon obtained a Bachelor of Science Degree in Engineering – Building Services from West Coast Institute of Management & Technology, Australia in December 2008 and a Bachelor of Science in Building Surveying from the Heriot-Watt University, the United Kingdom in June 2012 both through distance learning. In September 2015, Mr. Poon further obtained a Master of Science in Project Management from the Hong Kong Polytechnic University. Prior to joining the Group, Mr. Poon worked in Sanfield (Management) Ltd as an assistant land surveyor from September 2000 to June 2008.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. KWOK Man Ho (郭文浩) (“**Mr. Kwok**”), aged 45, is the financial manager of the Group, responsible for managing financial and accounting matters. Mr. Kwok joined the Group in April 2016. Mr. Kwok obtained a Bachelor Degree in Business Administration from American Central University, United States of America in January 2007 and a Master Degree in Business Administration from Rochville University, United States of America in September 2008, both through distance learning. Mr. Kwok also obtained the Certificates of Accounting (3rd Level), Management Accounting (3rd Level) and Cost Accounting (3rd level) awarded by the London Chamber of Commerce and Industry since April 1999, January 2000 and April 2000, respectively. Mr. Kwok has more than 25 years of experience in the accounting field, including the following:

| Name of company | Principal business activity | Position | Period of service |
|---------------------------------|--|----------------------|-----------------------------|
| Wilson Ho & Co. CPA | Auditing service, bookkeeping and accounting service | Accounting assistant | October 1994 to July 1995 |
| Precieux Garment Factory Ltd. | Manufacturer of suits & jackets, children’s wear, denim garments, high fashion wear and babies’ wear | Assistant accountant | December 1996 to April 1999 |
| Creative Technology Consultancy | Accounting and software | Accountant | May 1999 to February 2004 |
| Mike & Kremmel Ltd | Exporter of kitchen utensils and household products | Accounting manager | March 2004 to February 2016 |

Company Secretary

Ms. YIM Sau Ping (嚴秀屏) (“**Ms. Yim**”), aged 38, was appointed as the company secretary of the Company (the “**Company Secretary**”) on 8 August 2016. Prior to joining the Group, Ms. Yim worked for Ngai Shun Holdings Limited (Stock Code: 1246, now known as Boill Healthcare Holdings Limited), a company listed on the Main Board of the Stock Exchange, as a company secretary from October 2014 to May 2015, and as a financial controller from October 2014 to August 2015. She also worked for JC Group Holdings Limited (now known as Tonking New Energy Group Holdings Limited) (Stock Code: 8326), a company listed on GEM, as a company secretary from November 2013 to December 2013, and as an accounting manager from April 2012 to December 2013. From October 2015 to May 2018, Ms. Yim worked for Jia Group Holdings Limited (Stock Code: 8519), a company listed on the GEM, as a company secretary. She has been a director of Blooming (HK) Business Limited, a company primarily engaged in corporate advisory and company secretarial services, since October 2015. Ms. Yim is currently the company secretary of seven companies listed on the Stock Exchange.

Ms. Yim obtained a Bachelor of Arts Degree in Accountancy from The Hong Kong Polytechnic University in December 2007. She has been a member and a fellow member of the Hong Kong Institute of Certified Public Accountants since January 2010 and October 2017 respectively. She has accumulated more than 12 years of experience in accounting, auditing and financial management in international audit firm, financial institution and listed companies.

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Company and the audited consolidated financial statements of the Group for the year ended 31 March 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company, and its subsidiaries are principally engaged in the provision of (i) interior fitting-out and renovation services; and (ii) A&A works for residential, industrial and commercial properties in Hong Kong. Details of the principal activities of its subsidiaries are set out in Note 34 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "**Dividend Policy**") on 28 December 2018. Details of the Dividend Policy is disclosed as below.

The Dividend Policy aims to provide shareholders of the Company out of the Group's profit attributable to shareholders in any financial year, subject to the criteria set out below.

Such declaration and payment of dividends shall remain to be determined at the discretion of the Board and subject to all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the memorandum and articles of association of the Company.

In proposing any dividend payout, the Board shall also take into account, inter alia:—

- the Group's actual and expected financial performance;
- shareholders' interests;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject;
- possible effects on the Group's creditworthiness;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;
- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems appropriate.

The Board may propose the payment of dividends, if any, with respect to the Company's shares on a per share basis.

In addition to cash, dividends may be distributed in the form of shares subject to and in accordance with the procedures set out in the Company's memorandum and articles of association.

Except for interim dividend, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at the general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim dividends as appear to the directors to be justified by the profits of the Company available for distribution.

The Company will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2021 are set out in the consolidated statement of profit or loss and other comprehensive income in this report. The state of affairs of the Group and the Company as at 31 March 2021 are set out in the consolidated statement of financial position and Note 37 to the consolidated financial statements respectively. The Directors do not recommend the payment of a final dividend for the year ended 31 March 2021.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Thursday, 5 August 2021 (the "AGM"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 2 August 2021 to Thursday, 5 August 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 30 July 2021.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 104. This summary does not form part of the audited consolidated financial statements of the Group.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

DONATION

During the year ended 31 March 2021, the Group did not make any charitable donations (2020: approximately HK\$1.0 million).

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in Note 27 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and Note 37 to the consolidated financial statements respectively.

SHARE OPTIONS SCHEMES

The Company conditionally adopted a share option scheme on 23 December 2016 (the “**Scheme**”). The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and other relevant rules and regulations. Further details of the Scheme are set forth in the section headed “Statutory and General Information – D. Share Option Scheme” in Appendix IV to the Prospectus and Note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company’s memorandum and articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 March 2021 are set out in Note 32 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the Listing Rules.

DISTRIBUTABLE RESERVES

At 31 March 2021, the Company’s reserves available for distribution to owners comprising share premium account less accumulated losses, amounted to approximately HK\$13.4 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2021, the percentage of the Group’s aggregate turnover attributable to the Group’s largest customer was approximately HK\$62.5 million (28.2%), while the percentage of the Group’s total turnover attributable to the five largest customers in aggregate was approximately HK\$141.4 million (63.7%).

During the year ended 31 March 2021, the percentage of the Group’s purchase amount attributable to the Group’s largest supplier was approximately HK\$32.3 million (15.5%) of the total direct costs, while the percentage of the Group’s total purchase amount attributable to the five largest suppliers in aggregate was approximately HK\$91.5 million (44.0%) of the total direct costs.

To the best knowledge of the Directors, none of the Directors, or any of their close associates or shareholders who own more than 5% of the Company’s issued share capital has any beneficial interest in the Group’s five largest customers or suppliers.

DIRECTORS

The Board during the year and up to date of this annual report were as follows:

Executive Directors

| | |
|---|--|
| Mr. Liu Zhancheng (<i>Chairman and Chief Executive Officer</i>) | (<i>appointed as executive Director on 20 May 2021, redesignated as Chairman and Chief Executive Officer on 8 June 2021</i>) |
| Ms. Qin Mingyue | (<i>appointed on 20 May 2021</i>) |
| Mr. Ye Zuobin | (<i>appointed on 9 June 2021</i>) |
| Ms. Wong Wan Sze | (<i>resigned on 8 June 2021</i>) |
| Mr. Lam Shui Wah | (<i>resigned on 8 June 2021</i>) |

Independent non-executive Directors

| | |
|-------------------|-------------------------------------|
| Dr. Su Lixin | (<i>appointed on 9 June 2021</i>) |
| Mr. Liang Ronglin | (<i>appointed on 9 June 2021</i>) |
| Dr. Yan Bing | (<i>appointed on 9 June 2021</i>) |
| Mr. Ng Man Wai | (<i>resigned on 9 June 2021</i>) |
| Mr. Wu Wai Ki | (<i>resigned on 9 June 2021</i>) |
| Ms. Tsang Ngo Yin | (<i>resigned on 9 June 2021</i>) |

In accordance with the memorandum and articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders of the Company after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Any Director who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting.

PERMITTED INDEMNITY PROVISION

Pursuant to the memorandum and articles of association of the Company, the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in the execution of their duties in their offices.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries, which is not terminable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in Note 32 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year ended 31 March 2021.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Neither the Company nor any of its subsidiaries had entered into any contract of significance with the Company's controlling shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Company's controlling shareholders or their subsidiaries, during the year.

DIRECTORS' REPORT

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 16 to 19 of this annual report.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in Note 11 and Note 12 respectively to the consolidated financial statements. The emolument of the number of the highest paid individuals who are not the Directors of the Company for the year ended 31 March 2021 are set out in Note 12 to the consolidated financial statements.

The emoluments of the senior management of the Group for the year ended 31 March 2021 falls within the following band:

| Emolument Band | Number of Senior Management |
|--------------------------------|-----------------------------|
| Nil to HK\$1,000,000 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 2 |

EMOLUMENT POLICY

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the duties responsibilities, operating results, individual employees' performance, Group's performance and comparable market practices.

The Remuneration Committee will meet at least once for each year to discuss remuneration related matters (including the remuneration of Directors and senior management) and review the remuneration policy of the Group. It has been decided that Remuneration Committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management.

RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 March 2021 are set out in Note 30 to the consolidated financial statement.

MANAGEMENT CONTRACTS

Save for the service agreements (for executive Directors) and letters of appointment (for the independent non-executive Directors) with the Company entered into with each of the Directors, no contracts concerning the management and administration of the whole and any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2021.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" below and the share option scheme disclosures in Note 29 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2021, the interests and short positions of each of the Directors and chief executives 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 Securities and Future Ordinance (“SFO”)) which are required to be 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), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) set out in Appendix 10 of the Listing Rules, are as follows:

Long positions in shares and underlying shares

| Name | Capacity/Nature of interest | Number of underlying Shares | Approximate Percentage of shareholding |
|--|--------------------------------------|-----------------------------|--|
| Mr. Lam Shui Wah (<i>Note 1 & 3</i>) | Interest in a controlled corporation | 420,000,000 | 37.5% |
| Ms. Wong Wan Sze (<i>Note 2 & 3</i>) | Interest of spouse | 387,000,000 | 34.55% |

Note:

- Mr. Lam Shui Wah (“**Mr. Lam**”) beneficially owns the entire issued share capital of Summer Unicorn which directly holds 37.5% of the shares of the Company. Therefore, Mr. Lam is deemed, or taken to be, interested in all the shares held by Summer Unicorn for the purpose of the SFO. Mr. Lam is the sole director of Summer Unicorn.
- Ms. Wong Wan Sze (“**Ms. Wong**”) is the spouse of Mr. Cheung. Therefore, Ms. Wong is deemed, or taken to be interested in all the shares in which Mr. Cheung is interested for the purpose of the SFO.
- On 23 April 2021, Heavenly White and Summer Unicorn and FUJINCHENG entered into the Sale and Purchase Agreement, pursuant to which the Sellers agreed to sell and FUJINCHENG agreed to purchase a total of 807,000,000 shares, representing approximately 72.05% of the entire issued share capital of the Company at that time, for a total consideration of HK\$177,540,000 (equivalent to HK\$0.22 per sale share). Following the completion of the Sale and Purchase Agreement which took place on 27 April 2021, FUJINCHENG became the controlling shareholder of the Company and was required under the Code on Takeovers and Mergers to make a mandatory unconditional cash offer to acquire all the issued shares (other than those already owned or agreed to be acquired by FUJINCHENG) at HK\$0.22 per offer share. The Offer was closed on 8 June 2021. Having made all reasonable enquiries and to the best knowledge and belief of the Board, FUJINCHENG held 807,050,000 shares immediately after the close of Offer on 8 June 2021. As at the date of this annual report, Heavenly White and Summer Unicorn do not hold any shares of the Company.
- As at the date of this annual report, 807,050,000 shares of the Company are held by FUJINCHENG, representing 72.06% of the issued share capital of the Company. The entire issued share capital of FUJINCHENG is wholly-owned by Mr. Liu the executive Director as at the date of this report. Mr. Liu is deemed, or taken to be, interested in all the shares held by FUJINCHENG for the purpose of the SFO. Mr. Liu is the sole director of FUJINCHENG.

Save as disclosed above, as at 31 March 2021, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2021, the following persons/entities (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, to be interested in 5% or more of the nominal value of any class of share carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

DIRECTORS' REPORT

Long positions in the shares

| Name | Capacity/nature | Number of underlying Shares | Approximate percentage of shareholding |
|--|--------------------------------------|-----------------------------|--|
| Summer Unicorn (<i>Note 3</i>) | Beneficial owner | 420,000,000 | 37.5% |
| Heavenly White (<i>Note 1 & 3</i>) | Beneficial owner | 387,000,000 | 34.55% |
| Mr. Cheung (<i>Note 1 & 3</i>) | Interest in a controlled corporation | 387,000,000 | 34.55% |
| Ms. Ngai Suet Ling (<i>Note 2 & 3</i>) | Interest of spouse | 420,000,000 | 37.5% |

Note:

- (1) Mr. Cheung beneficially owns the entire issued share capital of Heavenly White. Therefore, Mr. Cheung is deemed, or taken to be, interested in all the shares held by Heavenly White for the purpose of the SFO. Mr. Cheung is the sole director of Heavenly White.
- (2) Ms. Ngai Suet Ling is the spouse of Mr. Lam. Therefore, Ms. Ngai Suet Ling is deemed, or taken to be interested in all the shares in which Mr. Lam is interested for the purpose of the SFO.
- (3) On 23 April 2021, Heavenly White and Summer Unicorn and FUJINCHENG entered into the Sale and Purchase Agreement, pursuant to which the Sellers agreed to sell and FUJINCHENG agreed to purchase a total of 807,000,000 shares, representing approximately 72.05% of the entire issued share capital of the Company at that time, for a total consideration of HK\$177,540,000 (equivalent to HK\$0.22 per sale share). Following the completion of the Sale and Purchase Agreement which took place on 27 April 2021, FUJINCHENG became the controlling shareholder of the Company and was required under the Code on Takeovers and Mergers to make the Offer. The Offer was closed on 8 June 2021. Having made all reasonable enquiries and to the best knowledge and belief of the Board, FUJINCHENG held 807,050,000 shares immediately after the close of Offer on 8 June 2021. As at the date of this report, Heavenly White and Summer Unicorn do not hold any shares of the Company while FUJINCHENG is interested in 807,050,000 shares of the Company, representing 72.06% of the issued share capital of the Company.
- (4) Ms. Qin Hui is the spouse of Mr. Liu. Therefore, Ms. Qin Hui is deemed, or taken to be interested in all the shares in which Mr. Liu is interested as at the date of this annual report for the purpose of the SFO.

Save as disclosed above, as at 31 March 2021, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' Report – Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company remained to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2021.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or the controlling shareholders (as defined in the Listing Rules) of the Company (the "Controlling Shareholders") or their respective close associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflict of interests with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules during the year ended 31 March 2021.

Non-Competition Undertakings

In order to avoid any possible future competition between the Group and the Controlling Shareholder, Mr. Cheung, Heavenly White, Mr. Lam and Summer Unicorn (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the deed of non-competition (the “**Deed of Non-competition**”) with the Company (for itself and for the benefit of each other member of the Group) on 23 December 2016. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and as trustee of its subsidiaries) that, during the year that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if he/it or his/its associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/it shall procure his/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for consideration whether or not to exercise the right of first refusal.

Each of the covenants also gave certain non-competition undertakings under the Deed of Non-competition as set out in the paragraph headed “Relationship with the Controlling Shareholders – Deed of Non-Competition” in the Prospectus.

During the year, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Controlling Shareholders or their associates (other than any member of the Group). The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders of the Company had complied with the Deed of Non-competition.

CHANGE OF CONTROLLING SHAREHOLDER AND THE OFFER

On 23 April 2021, Heavenly White and Summer Unicorn and FUJINCHENG entered into the Sale and Purchase Agreement, pursuant to which the Sellers agreed to sell and FUJINCHENG agreed to purchase a total of 807,000,000 shares, representing approximately 72.05% of the entire issued share capital of the Company at that time, for a total consideration of HK\$177,540,000 (equivalent to HK\$0.22 per sale share). Following the completion of the Sale and Purchase Agreement which took place on 27 April 2021, FUJINCHENG became the controlling shareholder of the Company and was required under the Code on Takeovers and Mergers to make a mandatory unconditional cash offer to acquire all the issued shares (other than those already owned or agreed to be acquired by FUJINCHENG) at HK\$0.22 per offer share. The Offer was closed on 8 June 2021. Having made all reasonable enquiries and to the best knowledge and belief of the Board, FUJINCHENG held 807,050,000 shares immediately after the close of Offer on 8 June 2021. Details of the change of controlling shareholder of the Company and the Offer were set out in the joint announcements dated 27 April 2021, 17 May 2021, 20 May 2021 and 8 June 2021 and the composite document dated 17 May 2021 jointly issued by the Company and FUJINCHENG.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 29 to 39 of this annual report.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended 31 March 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under the Listing Rules during the year ended 31 March 2021 and up to the date of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors annual written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITORS

On 27 April 2020, HLB Hodgson Impey Cheng Limited resigned and Asian Alliance (HK) CPA Limited was appointed as the auditor of the Group. Details of the change of auditor were set out in the announcement of the Company dated 27 April 2020.

Save as disclosed above, there were no other changes in auditor of the Group during the past three years.

The consolidated financial statements of the Group for the year ended 31 March 2021 were audited by Asian Alliance (HK) CPA Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Asian Alliance (HK) CPA Limited as auditor of the Company.

ON BEHALF OF THE BOARD
LKS Holding Group Limited
Liu Zhancheng
Chairman and executive Director

Hong Kong, 29 June 2021

INTRODUCTION

The Company is committed to achieving and maintaining high standards of corporate governance. The Board treats corporate governance as an integral part of business strategy, as good and effective corporate governance practices are fundamental to obtaining and maintaining the trust of the shareholders' and stakeholders' of the Company. By putting in place the right governance framework, the encouragement of accountability and transparency are the key to sustain the success of the Group and to promote the interests of its shareholders of the Company.

CORPORATE GOVERNANCE PRACTICE

The Company acknowledge the need and importance of corporate governance as one of the key elements in creating shareholders' value. The Company is also committed to achieving a high standard of corporate governance that can protect and promote the interests of all shareholders and to enhance corporate value and accountability of the Company. Accordingly, the Company has adopted sound corporate governance principles that emphasise a quality Board, effective internal control, stringent disclosure practices, transparency and accountability to all stakeholders.

The Company has applied the principles and code provisions in Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules. Up to the date of this annual report, to the best knowledge of the Board, the Company has complied with the CG Code except for the deviation from the provision A.2.1 of the CG Code as set out in the sub-section "Chairman and Chief Executive Officer" in "Corporate Governance Report" on page 34.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. After making specific enquiries, all Directors have fully complied with the required standards set out in the Model Code and there was no event of non-compliance throughout the year.

DIRECTORS' RESPONSIBILITIES

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies and business performance of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives. The Board is also responsible for performing the corporate governance duties including the development and reviewing the Company's policies and practices on corporate governance.

Liability insurance for Directors and senior management officers of the Company was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

DELEGATION BY THE BOARD

Daily operation and managing of the business of the Group, inter alia, the implementation of strategies are delegated to the executive Directors along with other senior executives. They report periodically to the Board of their work and business decisions.

Board Composition

The composition of the Board as at this annual report is set out as follows:

Executive Directors

Mr. Liu Zhancheng (*Chairman and Chief Executive Officer*)
Ms. Qin Mingyue
Mr. Ye Zuobin

Independent non-executive Directors

Dr. Su Lixin
Mr. Liang Rongjin
Dr. Yan Bing

CORPORATE GOVERNANCE REPORT

Biographical details of the Directors are set out in “Biographical Details of the Directors and Senior Management” on pages 16 to 19 of this annual report.

The proportion of independent non-executive Director is higher than what is required by Rules 3.10A, 3.10 (1) and (2) of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the Board. The three independent non-executive Directors represent more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors and the independent non-executive Directors and the nature of the Group’s business, the Board considered that the Directors have a balance of skills and experience for the business of the Board.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) on 28 December 2018 which sets out the basis to achieve diversity on the Board. Details of the Board Diversity Policy is disclosed as below.

1. Purpose

The Board Diversity Policy aims to set out the approach to achieve diversity on the Board.

2. Vision

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

3. Policy

When determining the composition of the Board, the Company will consider Board diversity in terms of, among other things, gender, age, experience, cultural and educational background, expertise, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

4. Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how.

5. Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the corporate governance report and monitor the implementation of the Board Diversity Policy.

6. Review of the Board Diversity Policy

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

7. Disclosure of the Board Diversity Policy

A Summary of the Board Diversity Policy together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives will be disclosed in the annual corporate governance report.

NOMINATION POLICY

The Board has adopted a nomination policy (the “**Nomination Policy**”) on 28 December 2018 which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors. Details of the Nomination Policy is disclosed as below.

1. PURPOSE

- 1.1 The Nomination Policy aims to set out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors.
- 1.2 The Nomination Policy aims to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company’s business.

2. CRITERIA

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to criteria including but not limited to (collectively, the “**Criteria**”):

- (a) diversity in aspects including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how;
- (b) sufficient time to effectively carry out their duties; their services on other listed and non-listed companies should be limited to reasonable numbers;
- (c) qualifications, including accomplishment and experience in the relevant industries the Company’s business is involved in;
- (d) independence;
- (e) reputation for integrity;
- (f) potential contributions that the individual(s) can bring to the Board; and
- (g) commitment to enhance and maximize shareholders’ value.

3. RE-ELECTION OF DIRECTOR AT GENERAL MEETING

- 3.1 The Nomination Committee will evaluate and recommend retiring Director(s) to the Board for re-appointment by giving due consideration to the criteria including but not limited to:
 - (a) the overall contribution and service to the Company of the retiring director including his attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board; and
 - (b) whether the retiring Director(s) continue(s) to satisfy the Criteria in section 2.
- 3.2 The Nomination Committee and/or the Board shall then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

CORPORATE GOVERNANCE REPORT

4. NOMINATION PROCESS

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- (a) The Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- (b) The Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from an independent agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;
- (c) The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third-party reference checks;
- (d) Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.
- (e) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- (f) The Board will have the final authority on determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the Companies Registry of Hong Kong.

5. RESPONSIBILITY

The Board will be ultimately responsible for the selection, appointment and re-appointment of Directors.

6. MONITORING AND REPORTING

The Nomination Committee will assess and report annually, in the Corporate Governance Report, on the composition of the Board, and launch a formal process to monitor the implementation of the Nomination Policy as appropriate.

7. REVIEW OF THE NOMINATION POLICY

The Nomination Committee will launch a formal process to review the Nomination Policy periodically to ensure that it is transparent and fair, remains relevant to the Company's needs and reflects the current regulatory requirements and good corporate governance practice. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

8. DISCLOSURE OF THE NOMINATION POLICY

- 8.1 A summary of the Nomination Policy including the nomination procedures and the process and Criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year will be disclosed in the annual corporate governance report.

8.2 In the circular to shareholders for proposing a candidate as an independent non-executive Director, it should also set out:

- the process used for identifying the candidate and why the Board believes the candidate should be elected and the reason why it considers the candidate to be independent;
- if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, the reason the board believes the candidate would still be able to devote sufficient time to the Board;
- the perspectives, skills and experience that the candidate can bring to the Board; and
- how the candidate can contribute to the diversity of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors play a significant role in the Board as they bring an impartial view on the Company's strategies, performance and control, as well as ensuring that the interests of all shareholders are taken into account. All independent non-executive Directors possess appropriate academic, professional qualifications or related financial management experience. None of the independent non-executive Directors held any other offices in the Company or any of its subsidiaries or is interested in any shares of the Company.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with the criteria set out in Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of Mr. Liu and Ms. Qin, the executive Directors, has entered into a service contract with the Company on 26 May 2021. Mr. Ye, the executive Director, has entered into a service contract with the Company on 9 June 2021. Each of independent non-executive Directors has signed the letters of appointment with the Company on 9 June 2021. The service contracts with the executive Directors and the letters of appointment with each of independent non-executive Directors are for a term of three years commencing from date of the service contracts and letters of appointment. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the memorandum and articles of association of the Company and the applicable Listing Rules.

According to the Article 108 of the memorandum and articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Article 112 of the memorandum and articles of association of the Company provides that any Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company.

All Directors will retire from office at the forthcoming annual general meeting of the Company to be held on Thursday, 5 August 2021. All Directors being eligible, will offer themselves for re-election.

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of all Directors.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As Mr. Liu performs the roles of Chairman and Chief Executive Officer, the Company has deviated from this Code Provision from 8 June 2021. However, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Liu has the benefit of ensuring consistent and continuous planning and execution of the Company's strategies. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired in light of the diverse background and experience of the independent non-executive Directors, and the composition of the Board which comprises three independent non-executive Directors and three executive Directors also provides added independence to the Board. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

In compliance with the code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Group acknowledges the importance of adequate and ample continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged the Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the year ended 31 March 2021, the Company has provided and all Directors have attended training courses on the updates of the Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the Listing Rules.

BOARD COMMITTEES

The Board has established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.lksholding.com. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the CG Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provision in the CG Code and disclosures in this annual report.

Remuneration Committee

The Remuneration Committee was established on 23 December 2016. The chairman of the Remuneration Committee is Mr. Liang Rongjin, the independent non-executive Director, and other members includes Dr. Su Lixin, the independent non-executive Director and Mr. Liu Zhancheng, the Chairman and executive Director. The written terms of reference of the Remuneration Committee are posted on the website of the Stock Exchange and the Company's website.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriated policy and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee held one meeting to review the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended 31 March 2021. No director nor any of his or her associates was involved in deciding his or her own remuneration.

Nomination Committee

The Nomination Committee was established on 23 December 2016. The chairman of the Nomination Committee is Mr. Liu Zhancheng, the chairman and executive Director, and other members included Dr. Su Lixin and Mr. Liang Rongjin, the independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the website of the Stock Exchange and on the Company's website.

The primary duties of the Nomination Committee are to review and assess the composition of the Board and independence of the independent non-executive Directors and makes recommendations to the Board on appointment of new Directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

During the year ended 31 March 2021, the Nomination Committee held one meeting to review and recommend the re-election of Directors.

Audit Committee

The Audit Committee comprising three independent non-executive Directors was established on 23 December 2016. The chairman of the Audit Committee is Dr. Su Lixin, the independent non-executive Director, and other members included Mr. Liang Rongjin and Dr. Yan Bing, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the website of the Stock Exchange and on the Company's website.

The Company has complied with Rule 3.21 of the Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year, the Audit Committee held three meetings including to review and comment on the Company's 2020 annual results, 2020 interim results as well as the Company's internal control procedures and risk management system.

The Group's consolidated financial statements for the year ended 31 March 2021 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 March 2021 comply with applicable accounting standards, Listing Rules and that adequate disclosures have been made.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF MEETINGS

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

During the year, the chairman held a meeting with the independent non-executive Directors without the presence of other Director.

Below are details of all Directors' attendance at the Board meeting and Board committees' meeting held during the year ended 31 March 2021:

| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | 2020 Annual General Meeting |
|--|----------------------------------|--------------------------------|---------------------------------------|-------------------------------------|------------------------------------|
| | Number of meetings attended/held | | | | |
| Executive Directors | | | | | |
| Ms. Wong Wan Sze (resigned on 8 June 2021) | 4/4 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Lam Shui Wah (resigned on 8 June 2021) | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Liu Zhancheng (appointed on 20 May 2021) | N/A | N/A | N/A | N/A | N/A |
| Ms. Qin Mingyue (appointed on 20 May 2021) | N/A | N/A | N/A | N/A | N/A |
| Mr. Ye Zuobin (appointed on 9 June 2021) | N/A | N/A | N/A | N/A | N/A |
| Independent non-executive Directors | | | | | |
| Mr. Ng Man Wai (resigned on 9 June 2021) | 4/4 | 3/3 | N/A | N/A | 1/1 |
| Mr. Wu Wai Ki (resigned on 9 June 2021) | 4/4 | 3/3 | 1/1 | 1/1 | 1/1 |
| Ms. Tsang Ngo Yin (resigned on 9 June 2021) | 4/4 | 3/3 | 1/1 | 1/1 | 1/1 |
| Dr. Su Lixin (appointed on 9 June 2021) | N/A | N/A | N/A | N/A | N/A |
| Mr. Liang Rongjin (appointed on 9 June 2021) | N/A | N/A | N/A | N/A | N/A |
| Dr. Yan Bing (appointed on 9 June 2021) | N/A | N/A | N/A | N/A | N/A |

N/A represents not applicable

COMPANY SECRETARY

The Company Secretary assists the Board by ensuring the Board policy and procedures are followed. The Company Secretary is also responsible for advising that Board on corporate governance matters.

The Company engages an external service provider, which assigned Ms. Yim Sau Ping as its Company Secretary. Ms. Yim possess the necessary qualifications and experience rendering her capable of performing the functions of a company secretary. Mr. Liu Zhancheng, the executive Director, is the primary contact person who Ms. Yim contacts.

For the year ended 31 March 2021, Ms. Yim undertook no less than 15 hours of relevant professional training to update her skill and knowledge. The biographies of Ms. Yim is set out in the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

INDEPENDENT AUDITORS' REMUNERATION

During the year, the remuneration paid or payable to the external auditors of the Company, Asian Alliance (HK) CPA Limited, in respect of the audit and non-audit services were as follows:

| | Remuneration paid/payable HK\$'000 |
|--------------------------|--|
| Statutory audit services | 720 |
| Non-audit services | 150 |
| | 870 |

SHAREHOLDERS' RIGHT

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the website of the Stock Exchange and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 64 of the memorandum and articles of association of the Company. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such Article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

RISK MANAGEMENT AND INTERNAL CONTROL

The Directors acknowledge that they have overall responsibility for overseeing the Company's internal control, financial control and risk management system and shall monitor its effectiveness on an ongoing basis. A review of the effectiveness of the risk management and internal control systems has been conducted by the Board at least annually.

Aimed at providing reasonable assurance against material errors, losses or fraud, the Company has established a risk management procedures which comprised the following steps:

- Identify risks: Identify major and significant risks that could affect the achievement of goals of the Group;
- Risk assessment: Assess and evaluate the identified risk according to its likely impact and the likelihood of occurrence;
- Risk mitigation: Develop effective control activities to mitigate the risks.

Risk identification and assessment is performed or updated annually, and the results of risk assessment, evaluation and mitigation of each functions or operation are documented in the Risk Registry to communicate to the Board and management for reviews.

The Group's risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT

A review on the internal control systems of the Company, including financial, operational and compliance controls and risk management functions has been carried out by an independent consultancy company with staff in possession of relevant expertise to conduct an independent review.

The Audit Committee reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the year ended 31 March 2021 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the same.

Under code provision C.2.5 of the CG Code, the Group should have an internal audit function. The Company has no internal audit function because the Company has maintained an internal control system and its implementation has been considered effective by the Audit Committee and the Board. In addition, the Audit Committee has communicated with external auditor of the Company to understand if there is any material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

DISCLOSURE OF INSIDE INFORMATION

The Group has in place a policy on disclosure of inside information which sets out the procedures and internal controls for handling and dissemination of inside information.

The policy provides guidelines to the Directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Key procedures in place include:

- defines the requirements of periodic financial and operational reporting to the Board and Company Secretary to enable them to assess inside information and make timely disclosures, if necessary;
- controls the access to inside information by employees on a need-to-know basis, and safeguarding the confidentiality of the inside information before it is properly disclosed to public;
- procedures of communicating with the Group's stakeholders, including shareholders, investors, analysts, etc. in ways which are in compliance with the Listing Rules.

The Group has also established and implemented procedures to handle enquiries from external parties related to the market rumours and other Group's affairs.

To avoid uneven dissemination of inside information, the dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Stock Exchange's website and the Company's website.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted shareholders communication policy with an objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders with details as follows:

- (i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the website of the Stock Exchange at "www.hkexnews.hk" and the Company's website at "www.lksholding.com";

CORPORATE GOVERNANCE REPORT

- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website;
- (iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Hong Kong branch share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

During the year ended 31 March 2021, there is no significant change in the memorandum and articles of association of the Company.

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF LKS HOLDING GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of LKS Holding Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 45 to 103, which comprise the consolidated statement of financial position as at 31 March 2021, 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 a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *HKICPA’s Code of Ethics for Professional Accountants* (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Recognition of revenue from construction contracts

We identified the recognition of revenue from construction contracts as a key audit matter due to the significance of the amount to the consolidated financial statements as a whole and the degree of judgement and estimation uncertainty involved.

As disclosed in Note 5 to the consolidated financial statements, the Group recognised revenue from construction contracts of approximately HK\$221,894,000 for the year ended 31 March 2021.

Revenue from construction contracts is recognised over time during the course of construction by reference to the progress towards complete satisfaction of relevant performance obligation, measured based on output method with reference to certificates issued by independent surveyor or correspondence with customers.

Our audit procedures in relation to the recognition of revenue from construction contracts mainly included:

- Obtaining an understanding of the control over recognition of revenue from construction contracts;
- Agreeing the total budgeted contract revenue to the construction contracts and variation orders, if any, or other form of agreements or other correspondences, and discussing with the management of the Group to evaluate the reasonableness of their estimated total budgeted contract revenue, on a sample basis;
- Verifying whether value of work has been reasonably recognised as contract revenue including variations in contract work, by agreeing to the latest payment certificates issued by the independent surveyors or correspondence with customers and performing site visits to the construction sites, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key audit matter (Continued)

Valuation of trade receivables and contract assets

We identified the valuation of trade receivables and contract assets as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole and degree of estimations made by the management of the Group.

As set out in Note 3.2 to the consolidated financial statements, the Group estimates the amount of impairment loss for expected credit loss ("ECL") on trade receivables and contract assets based on the credit risk of trade receivables and contract assets. The amount of the impairment loss is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Where the probability of default is higher than expected, or being revised upwards due to changes in facts and circumstances, a material impairment loss may arise. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increase of credit default rates.

As disclosed in Notes 18 and 19 to the consolidated financial statements, as at 31 March 2021, the carrying amounts of trade receivables and contract assets were approximated to HK\$47,486,000 and HK\$39,969,000, respectively.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

How our audit addressed the key audit matter (Continued)

Our audit procedures in relation to valuation of trade receivables and contract assets included:

- Understanding and evaluating the methodologies and assumptions used by the Group in assessing the ECL of trade receivables and contract assets;
- Obtaining aged analysis of trade receivables and contract assets and testing the accuracy of information used by management by comparing individual items in the analysis with relevant supporting documents, on a sample basis;
- Evaluating the reasonableness of management assessment on ECL by challenging the assumptions, including both historical and forward-looking information used to determine the ECL;
- Discussing with the management of the Group for their evaluation of the impact of disputes with customers and unforeseen delay of construction projects, if any, on the credit risk of trade receivables and contract assets and checking to relevant correspondences and documents to assess the reasonableness of management's evaluation.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Asian Alliance (HK) CPA Limited

Certified Public Accountants (Practising)

Chung Chi Chiu

Practising Certificate Number: P06610

8/F., Catic Plaza
8 Causeway Road
Causeway Bay
Hong Kong

29 June 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

| | Notes | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 | 221,894 | 295,885 |
| Direct costs | | (207,992) | (267,811) |
| Gross profit | | 13,902 | 28,074 |
| Other income, other gains and losses, net | 6 | 2,580 | 228 |
| Impairment losses under expected credit loss model, net of reversal | 7 | 2,010 | (6,920) |
| Loss on written-off of trade receivables | | (700) | – |
| Administrative and other operating expenses | | (14,950) | (17,524) |
| Finance costs | 8 | (992) | (1,200) |
| Profit before tax | | 1,850 | 2,658 |
| Income tax expense | 9 | (844) | (1,615) |
| Profit and total comprehensive income for the year | 10 | 1,006 | 1,043 |
| Earnings per share | | | |
| – Basic and diluted (HK cents) | 14 | 0.09 | 0.09 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2021

| | Notes | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-------|------------------|------------------|
| Non-current Assets | | | |
| Plant and equipment | 15 | 835 | 1,711 |
| Right-of-use asset | 16 | 1,482 | 373 |
| Deposits and prepayments for life insurance policies | 17 | 3,126 | 3,044 |
| Deferred tax assets | 26 | 597 | 492 |
| | | 6,040 | 5,620 |
| Current Assets | | | |
| Trade and other receivables | 18 | 70,689 | 68,439 |
| Contract assets | 19 | 39,969 | 43,167 |
| Amounts due from related parties | 20 | 811 | 785 |
| Financial assets at fair value through profit or loss | 21 | 14 | 12 |
| Tax recoverable | | 945 | 1,159 |
| Bank balances and cash | 22 | 30,943 | 39,982 |
| | | 143,371 | 153,544 |
| Current Liabilities | | | |
| Trade and other payables | 23 | 6,321 | 9,334 |
| Borrowings | 25 | 23,572 | 32,726 |
| Lease liability | 24 | 1,191 | 405 |
| Provision for litigation | 28 | 267 | – |
| | | 31,351 | 42,465 |
| Net Current Assets | | 112,020 | 111,079 |
| Total Assets Less Current Liabilities | | 118,060 | 116,699 |
| Non-Current Liability | | | |
| Lease liability | 24 | 355 | – |
| Net Assets | | 117,705 | 116,699 |
| Capital and Reserves | | | |
| Share capital | 27 | 11,200 | 11,200 |
| Reserves | | 106,505 | 105,499 |
| Total Equity | | 117,705 | 116,699 |

The consolidated financial statements on pages 45 to 103 were approved and authorised for issue by the Board of Directors on 29 June 2021 and are signed on its behalf by:

LIU ZHANCHENG
Director

QIN MINGYUE
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

| | Attributable to owners of the Company | | | | Total equity HK\$'000 |
|--|--|---------------------------------------|---|------------------------------|--------------------------|
| | Share capital HK\$'000 (Note 27) | Share premium HK\$'000 (Note a) | Special reserve HK\$'000 (Note b) | Retained profits HK\$'000 | |
| At 1 April 2019 | 11,200 | 53,085 | 876 | 50,495 | 115,656 |
| Profit and total comprehensive income for the year | – | – | – | 1,043 | 1,043 |
| At 31 March 2020 | 11,200 | 53,085 | 876 | 51,538 | 116,699 |
| Profit and total comprehensive income for the year | – | – | – | 1,006 | 1,006 |
| At 31 March 2021 | 11,200 | 53,085 | 876 | 52,544 | 117,705 |

Notes:

- (a) Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.
- (b) Special reserve represents the reserve arose pursuant to the reorganisation for the purpose of listing the shares of the Company on 12 January 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Operating activities | | |
| Profit before tax | 1,850 | 2,658 |
| Adjustments for: | | |
| Depreciation of plant and equipment | 961 | 1,777 |
| Depreciation of right-of-use asset | 1,113 | 1,118 |
| (Gain) loss from change in fair value of financial assets at fair value through profit or loss | (2) | 3 |
| Impairment losses under expected credit loss model, net of reversal | (2,010) | 6,920 |
| Financial costs | 992 | 1,200 |
| Bank interest income | (4) | (14) |
| Interest income on deposits and prepayments for life insurance policies | (82) | (48) |
| Loss on written-off of trade receivables | 700 | – |
| Rent concession | (51) | – |
| Provision for litigation | 267 | – |
| Operating cash flows before movements in working capital | 3,734 | 13,614 |
| Decrease in trade and other receivables | 1,276 | 12,916 |
| Decrease (increase) in contract assets | 982 | (18,736) |
| Increase in amounts due from related parties | (26) | (20) |
| Decrease in trade and other payables | (3,013) | (3,679) |
| Cash generated from operations | 2,953 | 4,095 |
| Interest received | 4 | 14 |
| Income tax paid | (735) | (1,981) |
| Net cash from operating activities | 2,222 | 2,128 |
| Net cash used in investing activities | | |
| Purchases of plant and equipment | (85) | (25) |
| Financing activities | | |
| Interest paid | (951) | (1,163) |
| Repayment of lease liability | (1,071) | (1,123) |
| Proceeds from borrowings | 95,430 | 112,633 |
| Repayment of borrowings | (104,584) | (104,105) |
| Net cash (used in) from financing activities | (11,176) | 6,242 |
| Net (decrease) increase in cash and cash equivalents | (9,039) | 8,345 |
| Cash and cash equivalents at the beginning of the year | 39,982 | 31,637 |
| Cash and cash equivalents at the end of the year, represented by bank balances and cash | 30,943 | 39,982 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. GENERAL INFORMATION

LKS Holding Group Limited (the “**Company**”) was incorporated in the Cayman Islands on 11 February 2016 as an exempted company with limited liability.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effective from 9 May 2019.

The addresses of the registered office and the principal place of business of the Company are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and 21/F, Po Shau Centre, No. 115 How Ming Street, Kwun Tong, Kowloon, Hong Kong, respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) is principally engaged in the provision of interior fitting-out, renovation, alteration and addition works services and interior design services.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

| | |
|---|--------------------------------|
| Amendments to Hong Kong Accounting Standards (“ HKAS ”) 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

In addition, the Group has early applied the Amendment to HKFRS 16 *COVID-19-Related Rent Concessions*.

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2.2 Impacts on early application of Amendment to HKFRS 16 *COVID-19-Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 April 2020. The Group has benefited from a half-month concession of lease payment on lease of an office in Hong Kong. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payment using the discount rate originally applied to the lease, resulting in a decrease in the lease liability of approximately HK\$51,000, which has been recognised as variable lease payment in profit or loss for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|--|
| HKFRS 17 | Insurance Contracts and the related Amendments ¹ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform-Phase 2 ⁴ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 16 | Property, Plant and Equipment-Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts-Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018-2020 ² |
| Hong Kong Accounting Guideline 5 (Revised) | Merger Accounting for Common Control Combinations ² |

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company (the “**Directors**”) anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the “**Conceptual Framework**”) instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 April 2022. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform-Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform-Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 Financial Instruments: Disclosure to accompany the amendments regarding modifications and hedge accounting.

As at 31 March 2021, the Group has several Hong Kong Interbank Offered Rate (“HIBOR”) bank loans which will be subject to interest rate benchmark reform. The Group expects no significant modification gains or losses should be interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 March 2021, the application of the amendments will not result in reclassification of the Group’s liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020

The annual improvements make amendments to the following standards.

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

HKAS 41 Agriculture

The amendment ensures consistency with the requirements in HKFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of preparation of consolidated financial statements (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Refundable rental deposits

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

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For the lease modification that is not accounted for as separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocated the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income, other gains and losses, net" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Employee benefits

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Plant and equipment

Plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Plant and equipment (continued)

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment loss on plant and equipment and right-of-use asset

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“**FVTPL**”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other income, other gains and losses, net” line item.

Impairment of financial assets and contract assets

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade receivables, other receivables, amounts due from related parties and bank balances) and contract assets which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and contract assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and contract assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and contract assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivable and contract assets are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, borrowings and lease liability are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors have not come across any significant areas where critical judgement are involved in applying the Group's accounting policies.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation uncertainty on revenue recognition from construction contracts

Revenue from construction contracts is recognised based on value of construction works completed by the Group to date with reference to payment certificates issued by independent surveyors or correspondence with customers. Taking into consideration of timing of issuance of payment certificates and period of works covered by payment certificates, management reviews and estimates the progress of the construction contract as the contract progresses.

Notwithstanding that management reviews and revises the estimates of contract revenue for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue may be higher or lower than the estimates and this will have significant impact on the revenue and profit recognised.

Provision of ECL for trade receivables and contract assets

Trade receivables and contract assets with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables and contract assets which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. Credit-impaired trade receivables and contract assets are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Note 36(b).

Provision for claims on construction works

When accounting for provision for claims on construction works and other items, the Group has taken internal and external advice in considering known claims and actions made by or against the Group. It carefully assesses the likelihood of success of a claim or an action. Surety bonds are set up for certain contracts, claims or actions against the Group, but no provisions are made for those which in the view of management are unlikely to succeed. Changes to their assumptions, including the potential risk of having claims or likelihood of success of a claim or an action, would result in changes in the provision for claims on consecution works recognised on the consolidated statement of profit or loss and other comprehensive income. Provision on possible obligations, if appropriate, are made based on management's best estimates and judgements. The information about the provision of litigation and surety bond are disclosed in Notes 28 and 31 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

5. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker (the “CODM”), for the purpose of resources allocation and assessment focuses on revenue analysis by types of services. No other discrete financial information is provided other than the Group’s results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Disaggregation of revenue from contracts with customers

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Types of services: | | |
| Fitting-out and renovation services | 56,943 | 148,055 |
| Alteration and addition works services | 158,973 | 145,724 |
| Interior design services | 5,978 | 2,106 |
| | 221,894 | 295,885 |
| Timing of revenue recognition: | | |
| Over-time | 221,894 | 295,885 |

Performance obligations for contracts with customers

The Group provides interior fitting-out, renovation, alteration and addition works services and interior design services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these services based on the progress towards completion of the contract using output method. The Directors consider that output method would faithfully depict the Group’s performance towards complete satisfaction of these performance obligations in these contracts under HKFRS 15.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the services are performed representing the Group’s right to consideration for the services performed because the rights are conditioned on the Group’s future performance in achieving specified specific milestones. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfer the contract assets to trade receivables when the approval of progress from the counterparty received.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which range from six months to 1 year from the date of the practical completion of the performance obligation. The relevant amount of contract asset is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 March 2021 amounted to approximately HK\$122,052,000 (2020: approximately HK\$186,032,000). Management expects that all the remaining performance obligations will be recognised as revenue within one year from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's major operations are located in Hong Kong. All the Group's revenue from external customers during the years ended 31 March 2021 and 2020 were derived from Hong Kong, the place of domicile of the Group's operating subsidiaries. All the non-current assets of the Group are located in Hong Kong. Accordingly, no geographical information is presented.

Information about major customers

Revenue from customers contributing over 10% of the Group's total revenue are as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|------------|------------------|------------------|
| Customer A | N/A ¹ | 38,904 |
| Customer B | 47,560 | N/A ¹ |
| Customer C | 62,539 | 35,215 |

¹ The corresponding revenue did not contribute over 10% of the Group's total revenue.

6. OTHER INCOME, OTHER GAINS AND LOSSES, NET

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Other income | | |
| Bank interest income | 4 | 14 |
| Subsidy income | 20 | – |
| Interest income on deposits and prepayments for life insurance policies | 82 | 48 |
| Government grants (Note) | 2,057 | 50 |
| COVID-19-related rent concession | 51 | – |
| Sundry income | 364 | 119 |
| | 2,578 | 231 |
| Other gains and losses | | |
| Gain (loss) from change in fair value of financial assets at fair value through profit or loss | 2 | (3) |
| | 2,580 | 228 |

Note: During the current year, the Group recognised government grants of approximately HK\$2,057,000 in respect of COVID-19 related subsidies, which relates to Employment Support Scheme provided by the Hong Kong government. The Group has complied with all attached conditions for the year ended 31 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

7. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| (Reversal of) impairment losses recognised on: | | |
| – trade receivables | (4,355) | 2,622 |
| – unbilled revenue | 41 | 1,274 |
| – retention receivables | 2,175 | 2,607 |
| – other receivables | 129 | 417 |
| | (2,010) | 6,920 |

Details of impairment assessment are set out in Note 36(b).

8. FINANCE COSTS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------------------------|------------------|------------------|
| Interests on: | | |
| – lease liability | 41 | 37 |
| – bank borrowings and overdrafts | 951 | 1,163 |
| | 992 | 1,200 |

9. INCOME TAX EXPENSE

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---------------------------------|------------------|------------------|
| Hong Kong Profits Tax: | | |
| – Current tax | 969 | 1,914 |
| – Over-provision in prior years | (20) | (1,958) |
| | 949 | (44) |
| Deferred tax (Note 26) | (105) | 1,659 |
| | 844 | 1,615 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

9. INCOME TAX EXPENSE (CONTINUED)

The tax charges for the years can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Profit before tax | 1,850 | 2,658 |
| Tax at Hong Kong Profits Tax rate of 16.5% (2020: 16.5%) | 305 | 439 |
| Tax effect of temporary differences not recognised | 183 | 1,923 |
| Tax effect of income not taxable for tax purpose | (343) | (59) |
| Tax effect of expenses not deductible for tax purpose | 904 | 1,455 |
| Tax reduction | (20) | (20) |
| Over-provision in prior years | (20) | (1,958) |
| Effect of two-tiered profits tax rates regime | (165) | (165) |
| Income tax expense for the year | 844 | 1,615 |

10. PROFIT FOR THE YEAR

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Profit for the year has been arrived at after charging: | | |
| Auditor's remuneration | | |
| – Audit service | 720 | 720 |
| – Non-audit service | 150 | – |
| Depreciation of plant and equipment | 961 | 1,777 |
| Depreciation of right-of-use asset | 1,113 | 1,118 |
| Provision for litigation (<i>Note 28</i>) | 267 | – |
| Employee benefits expense: | | |
| Salaries, bonus and other benefits in kind | 18,177 | 22,307 |
| Contributions to retirement benefit scheme | 579 | 757 |
| Total employee benefits expense, including directors' emoluments (<i>Note 11</i>) | 18,756 | 23,064 |

During the year ended 31 March 2021, total employee benefits expense amounting to approximately HK\$12,586,000 (2020: HK\$16,744,000) was included in direct costs and amounting to approximately HK\$6,170,000 (2020: HK\$6,320,000) was included in administrative and other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

11. DIRECTORS' EMOLUMENTS

Details of the emoluments paid or payable to each of the Directors are as follows:

| | Fees HK\$'000 | Salaries and other benefits in kind HK\$'000 | Discretionary bonus* HK\$'000 | Contributions to retirement benefit scheme HK\$'000 | Total HK\$'000 |
|--|------------------|--|-------------------------------------|---|-------------------|
| For the year ended 31 March 2021 | | | | | |
| Executive directors | | | | | |
| Ms. Wong Wan Sze (Chairman) | – | 800 | 33 | 18 | 851 |
| Mr. Lam Shui Wah (Chief Executive Officer) | – | 1,440 | 60 | 18 | 1,518 |
| Independent non-executive directors | | | | | |
| Mr. Ng Man Wai | 150 | – | – | – | 150 |
| Mr. Wu Wai Ki | 150 | – | – | – | 150 |
| Ms. Tsang Ngo Yin | 150 | – | – | – | 150 |
| | 450 | 2,240 | 93 | 36 | 2,819 |

For the year ended 31 March 2020

| | | | | | |
|--|-----|-------|----|----|-------|
| Executive directors | | | | | |
| Ms. Wong Wan Sze (Chairman) | – | 800 | 33 | 18 | 851 |
| Mr. Lam Shui Wah (Chief Executive Officer) | – | 1,440 | 60 | 18 | 1,518 |
| Independent non-executive directors | | | | | |
| Mr. Ng Man Wai | 150 | – | – | – | 150 |
| Mr. Wu Wai Ki | 150 | – | – | – | 150 |
| Ms. Tsang Ngo Yin | 150 | – | – | – | 150 |
| | 450 | 2,240 | 93 | 36 | 2,819 |

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or a chief executive officer nor any of the Directors waived or agreed to waive any emoluments during the year ended 31 March 2021 (2020: Nil).

* For the discretionary bonus, it is determined by reference to the duties, responsibilities, operating results, individual performance, Group's performance and comparable market statistics during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year include two (2020: two) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration for the year of the remaining three (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits in kind | 2,646 | 2,760 |
| Discretionary bonus | 110 | 240 |
| Contributions to retirement benefit scheme | 54 | 54 |
| | 2,810 | 3,054 |

Their remuneration were within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2021 | 2020 |
| Nil to HK\$1,000,000 | 1 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | 2 |
| | 3 | 3 |

During the year ended 31 March 2021, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals of the Group as an inducement to join, or upon joining the Group, or as compensation for loss of office (2020: Nil).

13. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 March 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earning figures are calculated as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|----------------------|------------------|
| Profit for the year attributable to owners of the Company | 1,006 | 1,043 |
| | 2021 '000 | 2020 '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,120,000 | 1,120,000 |

No diluted earning per share for both 2021 and 2020 were presented as there were no potential ordinary shares in issue for both 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

15. PLANT AND EQUIPMENT

| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------|---------------------------------------|---|-------------------------------|-------------------|
| Cost | | | | |
| At 1 April 2019 | 3,522 | 2,639 | 70 | 6,231 |
| Additions | – | 25 | – | 25 |
| At 31 March 2020 | 3,522 | 2,664 | 70 | 6,256 |
| Additions | – | 85 | – | 85 |
| At 31 March 2021 | 3,522 | 2,749 | 70 | 6,341 |
| Accumulated Depreciation | | | | |
| At 1 April 2019 | 1,864 | 887 | 17 | 2,768 |
| Charge for the year | 1,243 | 513 | 21 | 1,777 |
| At 31 March 2020 | 3,107 | 1,400 | 38 | 4,545 |
| Charge for the year | 415 | 525 | 21 | 961 |
| At 31 March 2021 | 3,522 | 1,925 | 59 | 5,506 |
| Carrying Amounts | | | | |
| At 31 March 2021 | – | 824 | 11 | 835 |
| At 31 March 2020 | 415 | 1,264 | 32 | 1,711 |

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|-----------------------------------|----------------------------|
| Leasehold improvements | Over the term of the lease |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 30% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

16. RIGHT-OF-USE ASSET

| | Leased property HK\$'000 | |
|---|-------------------------------------|------------------|
| As at 31 March 2021 | | |
| Carrying amount | | 1,482 |
| As at 31 March 2020 | | |
| Carrying amount | | 373 |
| For the year ended 31 March 2021 | | |
| Depreciation charge | | 1,113 |
| For the year ended 31 March 2020 | | |
| Depreciation charge | | 1,118 |
| | 2021 HK\$'000 | 2020 HK\$'000 |
| Total cash outflow for leases | 1,071 | 1,123 |
| Additions to right-of-use assets | 2,222 | – |

For both years, the Group lease office for its operation. The lease contract is entered into for a fixed term of 2 years. Lease term is negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancelled period, the Group applied the definition of a contract and determines the period for which the contract is enforceable.

Rent concessions

During the year ended 31 March 2021, the lessors of the office provided a half-month rent concession to the Group.

These rent concessions occurred as a direct consequence of COVID-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effect on change in lease payment due to forgiveness or waiver by the lessor for the relevant lease of approximately HK\$51,000 was recognised as a negative variable lease payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

17. DEPOSITS AND PREPAYMENTS FOR LIFE INSURANCE POLICIES

The Group entered into two life insurance policies with an insurance company to insure Mr. Cheung Ka Yan and Mr. Lam Shui Wah. Under the policies, Ample Construction Company Limited (“**Ample Construction**”), an indirect wholly-owned subsidiary of the Company, is the beneficiary and policy holder and the total insured sum are US\$2,000,000. Ample Construction is required to pay upfront deposits of approximately US\$333,000. Ample Construction can terminate the policies at any time and receive cash back based on the cash value of the policies at the date of withdrawal, which is determined by the upfront payments of approximately US\$333,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge. In addition, if withdrawal is made at any time during the first to the fifteenth policy year, as appropriate, a pre-determined specified amount of surrender charge would be imposed. The insurance company will pay Ample Construction a guaranteed interest of 4.0% per annum for the first ten years, followed by guaranteed interest rate of 3.0% or above per annum for the following years.

The Directors consider that the possibility of terminating the policy during the first to fifteenth policy year was low and the expected life of the life insurance policy remains unchanged since its initial recognition. At 31 March 2021, the deposits and prepayments for life insurance policies amounted to approximately HK\$3,126,000 (2020: approximately HK\$3,044,000). The deposits and prepayments for life insurance policies are denominated in US\$.

18. TRADE AND OTHER RECEIVABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Trade receivables from contracts with customers | 54,647 | 64,471 |
| Less: Allowance for credit losses | (7,161) | (11,516) |
| | 47,486 | 52,955 |
| Other receivables, prepayments and deposits (Note) | 23,749 | 15,901 |
| Less: Allowance for credit losses | (546) | (417) |
| | 70,689 | 68,439 |

As at 1 April 2019, trade receivables from contracts with customers amounted to approximately HK\$71,279,000 (net of allowance of credit loss of approximately HK\$8,894,000).

The Group generally allows a credit period of 30 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

Note: At 31 March 2021, included in other receivables was a cash collateral of approximately HK\$3,421,000 (2020: approximately HK\$2,081,000) paid to an insurance company for the issuance of surety bonds. Details of the surety bonds are set out in Note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date.

| | 2021 | 2020 |
|-----------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| 0-30 days | 18,155 | 19,994 |
| 31-60 days | 5,399 | 567 |
| 61-90 days | 11,297 | 5,102 |
| 91-180 days | 1,188 | 21,236 |
| Over 180 days | 18,608 | 17,572 |
| | 54,647 | 64,471 |
| Less: Allowance for credit losses | (7,161) | (11,516) |
| | 47,486 | 52,955 |

As at 31 March 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$36,492,000 (2020: approximately HK\$44,477,000) which are past due as at the reporting date. Out of the past due balances, approximately HK\$18,086,000 (2020: approximately HK\$16,952,000) has been past due 180 days or more. The Directors consider credit risks have increased significantly and those past balance due more than 180 days are considered as credit-impaired.

Details of impairment assessment of trade and other receivables are set out in Note 36(b).

19. CONTRACT ASSETS

| | 2021 | 2020 |
|-----------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Contract assets | 54,410 | 55,392 |
| Less: Allowance for credit losses | (14,441) | (12,225) |
| | 39,969 | 43,167 |

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For the year ended 31 March 2021

19. CONTRACT ASSETS (CONTINUED)

| | Notes | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-------|------------------|------------------|
| Retention receivables of construction contracts | a | 28,939 | 22,445 |
| Unbilled revenue of construction contracts | b | 25,471 | 32,947 |
| Less: Allowance for credit losses | | (14,441) | (12,225) |
| | | 39,969 | 43,167 |

As at 1 April 2019, contract assets amounted to approximately HK\$28,312,000 (net of allowance for credit losses of approximately HK\$8,344,000).

Notes:

- (a) Retention receivables included in contract assets represent the Group's right to receive consideration for work performed and conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Group on the service quality of the construction work performed by the Group.
- (b) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time when the Group obtains the certification of the completed construction work from the customers or when the Group entitled to issue invoices for the completed work to the customers.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

Details of impairment assessment of contract assets are set out in Note 36(b).

20. AMOUNTS DUE FROM RELATED PARTIES

| | Notes | 2021 HK\$'000 | 2020 HK\$'000 |
|--|-------|------------------|------------------|
| Amounts due from related parties: | | | |
| Summer Unicorn Limited | i | 57 | 44 |
| Heavenly White Limited | ii | 58 | 45 |
| Ample Consultants & Contracting Company Limited | iii | 7 | 7 |
| Mr. Cheung Ka Yan | iv | 681 | 681 |
| Mr. Lam Shui Wah | v | 8 | 8 |
| | | 811 | 785 |
| Maximum amount outstanding during the year: | | | |
| Summer Unicorn Limited | i | 57 | 44 |
| Heavenly White Limited | ii | 58 | 45 |
| Ample Consultants & Contracting Company Limited | iii | 7 | 7 |
| Mr. Cheung Ka Yan | iv | 681 | 681 |
| Mr. Lam Shui Wah | v | 8 | 8 |

The amounts due are non-trade nature, unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

20. AMOUNTS DUE FROM RELATED PARTIES (CONTINUED)

Notes:

- (i) Substantial shareholder of the Company and wholly-owned by Mr. Lam Shui Wah.
- (ii) Substantial shareholder of the Company and wholly-owned by Mr. Cheung Ka Yan.
- (iii) Mr. Lam Shui Wah and Mr. Cheung Ka Yan are the ultimate shareholders and have significant control over the Company.
- (iv) Substantial shareholder of the Company and spouse of Ms. Wong Wan Sze, an executive director and the chairman of the Company.
- (v) Substantial shareholder of the Company and an executive director of the Company.

Details of impairment assessment of amounts due from related parties are set out in Note 36(b).

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Financial assets mandatorily measured at FVTPL | | |
| – Equity securities listed in Stock Exchange | 14 | 12 |

The fair values of the equity securities held for trading were determined based on the quoted market prices in an active market.

22. BANK BALANCES AND CASH

Bank balances earn interests at floating rate based on daily bank deposit rates and are placed with creditworthy banks with no recent history of default.

Including in the bank balances, there was HK\$6,000,000 (2020: HK\$6,000,000) pledge bank deposits pledged to bank to secure bank borrowings granted to the Group as disclosed in Note 25.

Details of impairment assessment of bank balances are set out in Note 36(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

23. TRADE AND OTHER PAYABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-----------------------------|------------------|------------------|
| Trade payables | 2,913 | 4,998 |
| Other payables and accruals | 3,408 | 4,336 |
| | 6,321 | 9,334 |

The credit period on trade payables are generally 0 to 30 days.

The following is an aged analysis of trade payables presented based on the invoice date.

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---------------|------------------|------------------|
| 0-30 days | 2,483 | 4,341 |
| 31-60 days | 2 | 165 |
| 61-90 days | - | 27 |
| 91-180 days | 177 | 436 |
| Over 180 days | 251 | 29 |
| | 2,913 | 4,998 |

24. LEASE LIABILITY

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Lease liabilities payable: | | |
| Within one year | 1,191 | 405 |
| Within a period of more than one year but not exceeding two years | 355 | - |
| | 1,546 | 405 |

The incremental borrowing rate applied to lease liability range of 3.34% (2020: 3.63%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

25. BORROWINGS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Bank loans – secured | 23,572 | 32,726 |
| Carrying amounts of bank loans that are repayable within one year* | 23,572 | 32,726 |

* The amounts due are presented based on scheduled repayment dates set out in the loan agreements.

Notes:

- (i) At 31 March 2021 and 2020, all bank loans contain a repayment on demand clause with variable interest rate and were included in current liabilities.
- (ii) At 31 March 2021, the bank loans carry interest at rates from HIBOR plus 2.25% and Best Lending Rate (“BLR”) from minus 1.5% to plus 1% per annum (2020: ranging from HIBOR plus 2.35% and BLR minus 0.5% per annum).
- (iii) At 31 March 2021 and 2020, the banking facilities of the Group granted by a bank was secured by the corporate guarantees given by the Company and a subsidiary, deposits amounting to HK\$6,000,000 (2020: HK\$6,000,000) as disclosed in Note 22 and charges over life insurance policies as disclosed in Note 17.

26. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereon during the current and prior year:

| | ECL provision HK\$'000 | Accelerated tax depreciation HK\$'000 | Total HK\$'000 |
|---|------------------------------|--|-------------------|
| At 1 April 2019 | 2,151 | – | 2,151 |
| (Charged) credited to profit or loss (Note 9) | (1,976) | 317 | (1,659) |
| At 31 March 2020 | 175 | 317 | 492 |
| Credited to profit or loss (Note 9) | 11 | 94 | 105 |
| At 31 March 2021 | 186 | 411 | 597 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

27. SHARE CAPITAL

Details of the Company's authorised and issued ordinary share capital are as follows:

| | Number of ordinary shares | HK\$'000 |
|--|------------------------------|----------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1 April 2019, 31 March 2020 and 31 March 2021 | 2,000,000,000 | 20,000 |
| Issued and fully paid: | | |
| At 1 April 2019, 31 March 2020 and 31 March 2021 | 1,120,000,000 | 11,200 |

28. PROVISION FOR LITIGATION

On 5 March 2021, Bondway Development Limited, a customer of the Group, issued and filed a statement of claim, of which against Ample Construction, under the High Court of the Hong Kong Special Administrative Region (the "**High Court**") for a water seepage damage for the fitting out project in a sum of not less than HK\$267,000 (the "**Legal Proceeding**"). On 10 March 2021, the Group received a writ of summon from the High Court in relations to the Legal Proceeding.

At as the date of this report, Ample Construction had not received any judgment in relation to the Legal Proceeding.

The Directors expected that it is highly probable that Ample Construction is needed to pay the fine. As at 31 March 2021, a provision of HK\$267,000 is accrued.

29. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Scheme**") pursuant to a resolution passed on 23 December 2016. The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

Under the Scheme, the board of directors may, at their absolute discretion and subject to the terms of the Scheme, grant options to any employees (full-time or part-time), directors, consultants, advisers, substantial shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group, to subscribe for shares of the Company.

Under the Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue upon the date of which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by approval of the Company's shareholders provided that the total number of Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

29. SHARE OPTION SCHEME (CONTINUED)

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his/her close associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee). Where any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates would result in the total number of shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in any 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value in excess of HK\$5 million must be approved by the Company's shareholders at the general meeting of the Company, with voting to be taken by way of poll.

The offer of a grant of share options might be accepted in writing within 7 days from the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the directors may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option with a remittance in favour of the Company within such time as may be specified in the offer (which shall not be later than 7 days from the date of the offer).

The subscription price shall be a price solely determined by the board of directors of the Company and notified to a participant and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date; and (iii) the nominal value of the Company's share on the offer date.

The Scheme shall be valid and effective for a period of ten years commencing on 23 December 2016 and expiring on the business day immediately preceding the 10th anniversary thereof, subject to early termination provisions contained in the Scheme.

There was no share option granted to eligible participants during the year ended 31 March 2021 (2020: Nil). There was no outstanding share option at 31 March 2021 (2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

30. RETIREMENT BENEFIT SCHEME

The Group operates Mandatory Provident Fund Scheme (the “**MPF Scheme**”) established under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The Group contributes monthly to the MPF Scheme at the lower of HK\$1,500 per month or 5% of relevant payroll costs for each employee, which contribution is matched by the employee.

The only obligation of the Group with respect of the MPF Scheme is to make the specified contributions. The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income amounted to approximately HK\$579,000 (2020: approximately HK\$757,000) for the year ended 31 March 2021 and represent contributions paid or payable to the MPF Scheme by the Group at rates specified in the rules of the scheme.

As at 31 March 2020, contributions of approximately HK\$92,000 due in respect of the year ended March 2020 had not been paid over to the MPF Schemes. The amounts were paid subsequent to the end of the reporting period.

31. SURETY BONDS AND CONTINGENT LIABILITIES

Certain customers of construction contracts undertaken by the Group require Ample Construction to issue guarantees for the performance of contract works in the form of surety bonds of approximately HK\$14,088,000 (2020: approximately HK\$9,260,000) at 31 March 2021. The Company and Ample Construction have unconditionally and irrevocably agreed to indemnify to the insurance companies that issue such surety bonds for claims and losses the insurance companies may incur in respect of the bonds. The surety bonds will be released when the contracts are completed or substantially completed pursuant to the relevant contract.

At 31 March 2021, included in other receivables was a cash collateral of approximately HK\$3,421,000 (2020: approximately HK\$2,081,000) paid to an insurance companies for the issuance of surety bonds (Note 18).

The executive directors of the Company, Mr. Lam Shui Wah and Ms. Wong Wan Sze, have unconditionally and irrevocably agreed to indemnity to an insurance company for the issuance of surety bonds for claims and losses from that insurance company which may incur in respect of such surety bonds.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management includes executive directors and senior management of the Company. The remuneration of key management during the years ended 31 March 2021 and 2020 are as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits in kind | 6,922 | 6,398 |
| Discretionary bonus | 270 | 477 |
| Contributions to retirement benefit scheme | 146 | 126 |
| | 7,338 | 7,001 |

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33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Lease liability HK\$'000 | Borrowings HK\$'000 | Finance costs payable (included in other payables) HK\$'000 | Total HK\$'000 |
|-------------------------------|--------------------------------|------------------------|---|-------------------|
| As at 1 April 2019 | 1,491 | 24,198 | – | 25,689 |
| Non-cash changes | | | | |
| Finance cost | 37 | – | 1,163 | 1,200 |
| Changes from cash flow | | | | |
| Proceeds from borrowings | – | 112,633 | – | 112,633 |
| Repayment of borrowings | – | (104,105) | – | (104,105) |
| Repayment of leases liability | (1,086) | – | – | (1,086) |
| Interest paid | (37) | – | (1,163) | (1,200) |
| | (1,123) | 8,528 | (1,163) | 6,242 |
| At 31 March 2020 | 405 | 32,726 | – | 33,131 |
| Non-cash changes | | | | |
| Finance cost | 41 | – | 951 | 992 |
| Rent concession | (51) | – | – | (51) |
| Lease modification | 2,222 | – | – | 2,222 |
| | 2,212 | – | 951 | 3,163 |
| Changes from cash flow | | | | |
| Proceeds from borrowings | – | 95,430 | – | 95,430 |
| Repayment of borrowings | – | (104,584) | – | (104,584) |
| Repayment of leases liability | (1,071) | – | – | (1,071) |
| Interest paid | – | – | (951) | (951) |
| | (1,071) | (9,154) | (951) | (11,176) |
| At 31 March 2021 | 1,546 | 23,572 | – | 25,118 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

| Name of subsidiary | Place of incorporation/ operations | Issued and fully paid up share capital | Proportion of ownership interest and voting power held by the Company | | | | Principal activities |
|------------------------------------|---------------------------------------|--|---|---------------|-----------------|-----------------|--|
| | | | Directly 2021 | Directly 2020 | Indirectly 2021 | Indirectly 2020 | |
| Thrive Tide Limited | British Virgin Islands | US\$200 | 100% | 100% | – | – | Investment holding |
| Ample Construction Company Limited | Hong Kong | HK\$5,000,000 | – | – | 100% | 100% | Provision of interior fitting-out, renovation, alternation and addition works services |
| Ample Design Company Limited | Hong Kong | HK\$10,000 | – | – | 100% | 100% | Provision of interior design services |
| Ample Investment Company Limited | Hong Kong | HK\$10,000 | – | – | 100% | 100% | Inactive |

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings and lease liability, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with the capital. Based on the recommendation of the Directors, the Group will balance its overall capital structure through the payment of dividends and the issue of new shares.

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For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2021 HK\$'000 | 2020 HK\$'000 |
|------------------------------------|------------------|------------------|
| Financial assets | | |
| Financial assets at amortised cost | 83,914 | 97,132 |
| Mandatorily measured at FVTPL | | |
| – Held for trading | 14 | 12 |
| | 83,928 | 97,144 |
| Financial liabilities | | |
| Amortised cost | 31,439 | 42,465 |

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related parties, financial assets at FVTPL, bank balances and cash, trade and other payables, borrowings and lease liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate lease liability, as set out in Note 24. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings as detailed in Notes 22 and 25 respectively.

The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

A fundamental reform of major interest rate benchmark is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. As listed in Note 25, several of the Group's HIBOR will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole period. A 50 basis points (2020: 50 basis points) increase or decrease in bank borrowings are used which represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest risk arising from variable-rate bank balances is insignificant.

If interest rates on bank borrowings has been 50 basis points (2020: 50 basis points) higher/lower and all of other variables were held constant, the Group's post-tax profit for the year ended 31 March 2021 would decrease/increase by approximately HK\$98,000 (2020: approximately HK\$137,000).

(ii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities measured at FVTPL. The management of the Group manages this exposure by closely monitoring the price movements and the changes in market conditions that may affect the value of these investments.

The Group currently does not have a policy on hedges of equity price risk. However, the management monitors equity price exposure and will consider hedging significant equity price exposure should the need arise.

In virtue of the exposure on equity price risk being minimal, the respective quantitative disclosures have not been prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposure are primarily attributable to trade and other receivables, contract assets, amounts due from related parties and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets and contract assets.

The Group performed impairment assessment for financial assets and contract assets under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

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For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables and contract assets arising from contracts with customers

The Group has concentration of credit risk as 18.8% and 68.8% (2020: 57.3% and 79.4%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In order to minimise the credit risk, the management has delegated staff responsible for credit approvals and ongoing monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on trade balances and contract assets. Except for items that are credit-impaired, which are assessed for impairment individually, the remaining trade receivables and contract assets are grouped under a provision matrix based on industry credit benchmarking studies on the industry-wide probability of default term structure over the expected life with forward looking adjustment. Reversal of impairment losses of approximately HK\$2,139,000 were recognised during the year (2020: impairment losses of approximately HK\$6,503,000). Details of the quantitative disclosures are set out below in this note.

Other receivables

The Directors make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Directors believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. Impairment loss of approximately HK\$129,000 (2020: approximately HK\$417,000) was recognised during the year. Details of the quantitative disclosures are set out below in this note.

Amounts due from related parties

The Directors make periodic individual assessment on the recoverability of amounts due from related parties based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Directors believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 March 2021 and 2020, the Group assessed the ECL for amounts due from related parties and the ECL is considered to be insignificant and thus no loss allowance was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant and therefore no loss allowance was recognised.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables/ contract assets | Other financial assets |
|------------------------|---|---------------------------------------|----------------------------------|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL-not credit-impaired | 12m ECL |
| Watch list | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL-not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL-not credit-impaired | Lifetime ECL-not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL-credit-impaired | Lifetime ECL-credit-impaired |
| Write-off | There is evidence that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written-off | Amount is written-off |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Bank balances (continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

| | Notes | External | Internal | 12m or lifetime ECL | 2021 Gross carrying amounts | | 2020 Gross carrying Amounts | |
|---|-------|------------------|------------------|---|--------------------------------|----------|--------------------------------|----------|
| | | credit rating | credit rating | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets at amortised cost | | | | | | | | |
| Trade receivables | 18 | N/A | (Note b) | Lifetime ECL (not credit- impaired) | 36,561 | | 47,519 | |
| | | | Loss | Lifetime ECL (credit- impaired) | 18,086 | 54,647 | 16,952 | 64,471 |
| Other receivables | 18 | N/A | (Note a) | 12m ECL | | 5,220 | | 3,827 |
| Amounts due from related parties | 20 | N/A | (Note a) | 12m ECL | | 811 | | 785 |
| Bank balances | 22 | A- to AA- | N/A | 12m ECL | | 30,943 | | 39,982 |
| Other items | | | | | | | | |
| Contract assets | 19 | N/A | (Note b) | Lifetime ECL (not credit- impaired) | 38,112 | | 42,269 | |
| | | | Loss | Lifetime ECL (credit- impaired) | 16,298 | 54,410 | 13,123 | 55,392 |

Note a: For the purpose of internal credit risk management, the Group use past due information to assess whether credit risk has increased significantly since initial recognition. No other receivables and amounts due from related parties were past due as at 31 March 2021 and 31 March 2020.

Note b: For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determined the ECL on these items on a collective basis, grouped by past due status.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired). Significant outstanding balances or credit-impaired trade receivables and contract assets with gross carrying amounts of approximately HK\$19,162,000 (2020: approximately HK\$16,952,000) and approximately HK\$16,298,000 (2020: approximately HK\$13,123,000) respectively as at 31 March 2021 were assessed individually.

Gross carrying amount:

| | 2021 | | 2020 | |
|------------------------|-------------------|----------------------------|-------------------|----------------------------|
| | Average loss rate | Trade receivables HK\$'000 | Average loss rate | Trade receivables HK\$'000 |
| Current (not past due) | 1.15% | 18,155 | 0.61% | 10,139 |
| 1-30 days past due | 1.66% | 5,399 | 0.88% | 9,891 |
| 31-60 days past due | 2.25% | 11,297 | 0.93% | 1,232 |
| 61-90 days past due | 2.80% | 50 | 1.12% | 6,617 |
| 91-180 days past due | 3.28% | 584 | 1.65% | 19,640 |
| | | 35,485 | | 47,519 |

| | 2021 | | 2020 | |
|------------------------|-------------------|--------------------------|-------------------|--------------------------|
| | Average loss rate | Contract Assets HK\$'000 | Average loss rate | Contract assets HK\$'000 |
| Current (not past due) | 1.26% | 38,112 | 0.64% | 42,269 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates.

As at 31 March 2021, the Group provided approximately HK\$573,000 (2020: approximately HK\$559,000) and approximately HK\$480,000 (2020: approximately HK\$273,000) of impairment allowance for trade receivables and contract assets respectively, based on the provision matrix. Impairment allowance of approximately HK\$6,588,000 (2020: approximately HK\$10,957,000) and approximately HK\$13,961,000 (2020: approximately HK\$11,952,000) were made on significant balances and credit-impaired for trade receivables and contract assets respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table show reconciliation of loss allowances that has been recognised for trade receivables:

| | Lifetime ECL (not credit- impaired) HK\$'000 | Lifetime ECL (credit-impaired) HK\$'000 | Total HK\$'000 |
|---|---|---|-------------------|
| As at 1 April 2019 | 1,385 | 7,509 | 8,894 |
| Change due to financial instruments recognised as at 1 April 2019: | | | |
| – Impairment losses recognised | – | 2,147 | 2,147 |
| – Impairment losses reversed | (1,127) | (3,066) | (4,193) |
| – Transfer to lifetime ECL (credit-impaired) | (258) | 258 | – |
| New financial asset originated | 559 | 4,109 | 4,668 |
| As at 31 March 2020 | 559 | 10,957 | 11,516 |
| Change due to financial instruments recognised as at 1 April 2020: | | | |
| – Impairment losses recognised | – | 1,375 | 1,375 |
| – Impairment losses reversed | (559) | (8,529) | (9,088) |
| New financial asset originated | 647 | 2,711 | 3,358 |
| At 31 March 2021 | 647 | 6,514 | 7,161 |

Changes in the loss allowances of trade receivables are mainly due to:

| | 2021 (Decrease) increase in lifetime ECL | |
|--|--|---------------------------------|
| | Not credit- impaired HK\$'000 | Credit- impaired HK\$'000 |
| Settlement of trade receivables with gross amount of approximately HK\$47,519,000 and HK\$12,620,000 respectively | (559) | (8,529) |
| Change in parameters | – | 1,375 |
| New trade receivables with gross amount of approximately HK\$36,561,000 and HK\$4,725,000 respectively | 647 | 2,711 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Changes in the loss allowances of trade receivables are mainly due to: (continued)

| | 2020 (Decrease) increase in lifetime ECL | |
|--|--|---------------------------------|
| | Not credit- impaired HK\$'000 | Credit- impaired HK\$'000 |
| Settlement of trade receivable with gross amount of approximately HK\$65,164,000 and HK\$3,602,000 respectively | (1,127) | (3,066) |
| Change in parameters | – | 2,147 |
| Transfer to lifetime ECL (credit-impaired) | (258) | 258 |
| New trade receivables with gross amount of approximately HK\$47,519,000 and HK\$5,545,000 respectively | 559 | 4,109 |

The following table show reconciliation of loss allowances that has been recognised for contract assets:

| | Lifetime ECL (not credit- impaired) HK\$'000 | Lifetime ECL (credit-impaired) HK\$'000 | Total HK\$'000 |
|--|---|---|-------------------|
| As at 1 April 2019 | 88 | 8,256 | 8,344 |
| Change due to financial instruments recognised as at 1 April 2019: | | | |
| – Impairment losses recognised | – | 3,662 | 3,662 |
| – Impairment losses reversed | (35) | – | (35) |
| – Transfer to lifetime ECL (credit-impaired) | (34) | 34 | – |
| New financial asset originated | 254 | – | 254 |
| At 31 March 2020 | 273 | 11,952 | 12,225 |
| Change due to financial instruments recognised as at 1 April 2020: | | | |
| – Impairment losses recognised | 152 | 3,885 | 4,037 |
| – Impairment losses reversed | (226) | (1,876) | (2,102) |
| New financial asset originated | 281 | – | 281 |
| At 31 March 2021 | 480 | 13,961 | 14,441 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Changes in the loss allowances of contract assets are mainly due to:

| | 2021 (Decrease) increase in lifetime ECL | |
|--|--|---------------------------------|
| | Not credit- impaired HK\$'000 | Credit- impaired HK\$'000 |
| Transfer to trade receivables with gross amount of approximately of HK\$28,777,000 and HK\$5,852,000 respectively | (226) | (1,876) |
| Change in parameters | 152 | 3,885 |
| New contract assets with gross amount of approximately HK\$31,540,000 | 281 | – |
| | | |
| | 2020 (Decrease) increase in lifetime ECL | |
| | Not credit- impaired HK\$'000 | Credit- impaired HK\$'000 |
| Transfer to trade receivables with gross amount of approximately HK\$21,124,000 | (35) | – |
| Change in parameters | – | 3,662 |
| Transfer to lifetime ECL (credit-impaired) | (34) | 34 |
| New contract assets with gross amount of approximately HK\$39,658,000 | 254 | – |

The following table show reconciliation of loss allowances that has been recognised for other receivables:

| | 12m ECL HK\$'000 |
|--|---------------------|
| As at 1 April 2019 | – |
| New financial asset originated | 417 |
| At 31 March 2020 | 417 |
| Change due to financial instruments recognised as at 1 April 2020: | |
| – Impairment losses recognised | 132 |
| – Impairment losses reversed | (3) |
| At 31 March 2021 | 546 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

At 31 March 2021, the Group has available unutilised bank overdraft, business card, and short-term loan facilities with an aggregated amount of approximately HK\$16,614,000 (2020: approximately HK\$9,381,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

| | Weighted average interest rate | On demand or within one year HK\$'000 | Over one year HK\$'000 | Total undiscounted cash flows HK\$'000 | Total carrying amount HK\$'000 |
|---|--------------------------------------|--|------------------------------|---|---|
| At 31 March 2021 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade and other payables | – | 6,321 | – | 6,321 | 6,321 |
| Lease liability | 3.34% | 1,225 | 357 | 1,582 | 1,546 |
| Borrowings | 3.5% | 23,572 | – | 23,572 | 23,572 |
| | | 31,118 | 357 | 31,475 | 31,439 |
| At 31 March 2020 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade and other payables | – | 9,334 | – | 9,334 | 9,334 |
| Lease liability | 3.63% | 408 | – | 408 | 405 |
| Borrowings | 4.3% | 32,726 | – | 32,726 | 32,726 |
| | | 42,468 | – | 42,468 | 42,465 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

36. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Bank loans with a repayment on demand clause are included in the “on demand or within one year” time band in the above maturity analysis. As at 31 March 2021, the aggregate carrying amounts of these bank loans amounted to approximately HK\$23,572,000 (2020: approximately HK\$32,726,000). Taking into account the Group’s financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments

| | Within One year HK\$'000 | Total undiscounted cash outflows HK\$'000 | Carrying amount HK\$'000 |
|----------------------|--------------------------------|--|--------------------------------|
| 31 March 2021 | 23,668 | 23,668 | 23,572 |
| 31 March 2020 | 33,677 | 33,677 | 32,726 |

(c) Fair value measurements of financial instruments

Some of the Group’s financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available.

(i) Fair value of the Group’s financial assets that are measured at fair value on a recurring basis

Some of the Group’s financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial asset is determined.

| | Level 1 2021 HK\$'000 | 2020 HK\$'000 |
|----------------------------------|-----------------------------|------------------|
| Financial assets at FTVPL | | |
| – listed equity securities | 14 | 12 |

The fair value of the listed equity securities of FVTPL were determined based on the quoted bid price in an active market.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-------------------------------|------------------|------------------|
| Non-current Asset | | |
| Investment in a subsidiary | 29,423 | 29,423 |
| Current Assets | | |
| Amounts due from subsidiaries | 27,796 | 30,459 |
| Prepayments | 221 | 218 |
| | 28,017 | 30,677 |
| Current Liabilities | | |
| Accrued expenses | 323 | 221 |
| Amounts due to subsidiaries | 3,091 | – |
| | 3,414 | 221 |
| Net Current Assets | 24,603 | 30,456 |
| Net Assets | 54,026 | 59,879 |
| Capital and Reserves | | |
| Share capital | 11,200 | 11,200 |
| Reserves (Note) | 42,826 | 48,679 |
| Total Equity | 54,026 | 59,879 |

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 29 June 2021 and are signed on its behalf by:

LIU ZHANCHENG
Director

QIN MINGYUE
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserve is as follows:

| | Share premium HK\$'000 | Special reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|--------------------------------|-----------------------------------|-------------------|
| At 1 April 2019 | 53,085 | 29,423 | (25,259) | 57,249 |
| Loss and total comprehensive expense for the year | – | – | (8,570) | (8,570) |
| At 31 March 2020 | 53,085 | 29,423 | (33,829) | 48,679 |
| Loss and total comprehensive expense for the year | – | – | (5,853) | (5,853) |
| At 31 March 2021 | 53,085 | 29,423 | (39,682) | 42,826 |

Special reserve

Special reserve represents the difference between the total equity of Thrive Tide Limited acquired by the Company pursuant to the reorganisation over the nominal value of the Company's shares issued in exchange therefore.

38. EVENT AFTER THE REPORTING PERIOD

On 21 April 2021, Ample Construction had commenced arbitration proceedings against Lai Si Construction (Hong Kong) Company Limited ("**Lai Si**"), a customer of the Group, under Case No. DCCJ1751/2021. According to the indictment, Lai Si owed Ample Construction with an aggregated amount of approximately HK\$1,870,000 and the case is in listing for trial.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus is set out below.

RESULTS

| | For the year ended 31 March | | | | |
|---|-----------------------------|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Revenue | 221,894 | 295,885 | 251,386 | 240,798 | 165,715 |
| Direct costs | (207,992) | (267,811) | (198,102) | (195,517) | (127,146) |
| Gross profit | 13,902 | 28,074 | 53,284 | 45,281 | 38,569 |
| Profit before tax | 1,850 | 2,658 | 20,932 | 27,372 | 18,017 |
| Income tax expense | (844) | (1,615) | (4,803) | (5,432) | (4,807) |
| Profit for the year | 1,006 | 1,043 | 16,129 | 21,940 | 13,210 |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 1,006 | 1,043 | 16,129 | 21,940 | 13,210 |
| Non-controlling interests | – | – | – | – | – |

ASSETS AND LIABILITIES

| | At 31 March | | | | |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Total assets | 149,411 | 159,164 | 153,758 | 150,003 | 104,307 |
| Total liabilities | (31,706) | (42,465) | (38,102) | (45,084) | (21,328) |
| Total equity | 117,705 | 116,699 | 115,656 | 104,919 | 82,979 |
| Equity attributable to: | | | | | |
| Owners of the Company | 117,705 | 116,699 | 115,656 | 104,919 | 82,979 |
| Non-controlling interests | – | – | – | – | – |