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Dragon Rise Group Holdings Limited **龍昇集團控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6829)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2022

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Review Year amounted to approximately HK\$613.6 million (FY2021: approximately HK\$922.9 million).
- Gross profit margin for the Review Year was approximately 3.2% (FY2021: gross loss margin of approximately 1.4%).
- Profit attributable to the equity holders of the Company for the Review Year amounted to approximately HK\$7.4 million (FY2021: loss of approximately HK\$20.1 million).
- Basic and diluted earnings per share for the Review Year amounted to approximately HK cents 0.62 (FY2021: loss per share of approximately HK cents 1.68).
- The Board has resolved not to recommend the declaration of a final dividend for the Review Year (FY2021: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Dragon Rise Group Holdings Limited (the “**Company**”) is pleased to present the consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2022 (the “**Review Year**”), together with the comparative figures for the corresponding year ended 31 March 2021 (the “**FY2021**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	613,617	922,888
Direct costs		<u>(594,243)</u>	<u>(936,164)</u>
Gross profit/(loss)		19,374	(13,276)
Other gains, net	5	1,814	15,450
Administrative expenses		(18,958)	(21,143)
Expected credit losses (“ECL”) reversal/ (allowance) on trade receivables and contract assets, net of reversal		336	(1,071)
Finance costs	6	<u>(547)</u>	<u>(771)</u>
Profit/(loss) before income tax	7	2,019	(20,811)
Income tax credit	8	<u>5,412</u>	<u>701</u>
Profit/(loss) and total comprehensive income/ (loss) for the year		<u>7,431</u>	<u>(20,110)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share attributable to equity holders of the Company			
Basic and diluted	10	<u>0.62</u>	<u>(1.68)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		45,134	47,438
Investment property		4,790	4,720
Deposits paid for acquisition of property, plant and equipment		–	420
Deferred tax assets		339	–
		<u>50,263</u>	<u>52,578</u>
Current assets			
Trade and other receivables	11	47,655	55,180
Contract assets	12	79,526	131,064
Tax recoverable		–	2,547
Financial asset at amortised cost		–	16,483
Cash, bank balances and pledged deposits		120,419	44,255
		<u>247,600</u>	<u>249,529</u>
Current liabilities			
Trade and other payables	13	(35,331)	(36,330)
Contract liabilities	12	(45)	(180)
Borrowings, secured		(6,639)	(11,387)
Lease liabilities	14	(489)	(720)
		<u>(42,504)</u>	<u>(48,617)</u>
Net current assets		<u>205,096</u>	<u>200,912</u>
Total assets less current liabilities		<u>255,359</u>	<u>253,490</u>
Non-current liabilities			
Lease liabilities	14	–	(489)
Deferred tax liabilities		–	(5,073)
		–	<u>(5,562)</u>
Net assets		<u>255,359</u>	<u>247,928</u>
CAPITAL AND RESERVE			
Share capital	15	12,000	12,000
Reserves		243,359	235,928
Equity attributable to equity holders of the Company		<u>255,359</u>	<u>247,928</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands 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**"). The address of the Company's registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and principal place of business is Office K, 12/F, Kings Wing Plaza 2, No. 1 On Kwan Street, Shatin, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred to as the "**Group**") is principally engaged in undertaking foundation works in Hong Kong as a subcontractor.

As at 31 March 2022, the directors considered the Company's immediate and ultimate holding company is Fame Circle Limited ("**Fame Circle**"), a company incorporated in the British Virgin Islands (the "**BVI**") and is wholly owned by Mr. Yip Yuk Kit ("**Mr. Yip**", Mr. Yip and Fame Circle each being a "**Controlling Shareholder**").

2. BASIS OF PREPARATION

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

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

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented in the consolidated financial statements. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis except for investment property which is stated at fair value. The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the functional currency of the Group, and all values are rounded to the nearest thousands ("**HK\$'000**"), except when otherwise indicated.

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

(i) Amended HKFRSs that are effective for annual periods beginning on 1 April 2021

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 April 2021:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The adoption of the amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

(ii) Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts and related amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework 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) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018–2020 ¹
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination ⁴

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

² Effective for annual periods beginning on or after 1 January 2023

³ Effective date not yet determined

⁴ Effective for business combinations/common control combination for which the acquisition date/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

The amendments to HKAS 1 require entities to disclose material accounting policy information instead of significant accounting policies in its financial statements. The amendments also provide some guidance on how material policy information are being identified and provide some examples of when accounting policy information is likely to be material.

In March 2021, HKICPA issued HKFRS Practice Statement 2 “Making Materiality Judgements” to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. HKFRS Practice Statement 2 was subsequently revised to provide guidance and examples on how to apply the concept of materiality to accounting policy disclosures.

The amendments to HKAS 1 are effective for annual reporting period beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. The directors expect that the amendments have no other material impact on the consolidated financial statements.

Amendments to HKAS 8 “Definition of Accounting Estimates”

The amendments clarify how entities should distinguish changes in accounting policies from changes in accounting estimates by introducing a definition for accounting estimates, which is now defined as “monetary amounts in the financial statements that are subject to measurement uncertainty”.

Besides, the amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Accounting estimates typically involve the use of judgements or assumptions based on latest available reliable information. A change in accounting estimate that results from new information or new development is not correction of an error. Therefore, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. In addition, two illustrative examples are added to illustrate how to apply the new definition of accounting estimates.

The amendments are effective for annual reporting period beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue recognised for the years ended 31 March 2022 and 2021 are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Contracting revenue	<u>613,617</u>	<u>922,888</u>
Timing of revenue recognition under HKFRS 15		
Services transferred over time	<u>613,617</u>	<u>922,888</u>

(b) Segment information

The chief operating decision maker (the “CODM”) has been identified as the executive Directors of the Company. The CODM regard the Group’s business of foundation construction services as a single operating segment and review the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as the Group’s revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Information about major customers

Revenue from customers which individually contributed over 10% of the Group’s revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A ¹	131,405	656,989
Customer B ¹	96,287	169,462
Customer C ¹	148,071	N/A ²
Customer D ¹	85,988	N/A ²
Customer E	<u>83,213</u>	<u>N/A²</u>

¹ The customer represents a collection of companies within a group.

² The corresponding revenue did not individually contribute over 10% of the Group’s revenue during the year.

5. OTHER GAINS, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net gains/(losses) from changes in fair value on investment property	70	(20)
Rental income	156	156
Interest income	364	337
Exchange difference, net	584	1,236
Government grant and subsidies (<i>note</i>)	640	12,971
Gain on disposal of property, plant and equipment	—	770
	<u>1,814</u>	<u>15,450</u>

Note: During the year ended 31 March 2022, the Group recognised the subsidies of approximately of HK\$640,000 in relation to Construction Innovation and Technology Fund launched by the Construction Industry Council.

During the year ended 31 March 2021, the Group recognised the grants received of HK\$2,214,000, HK\$10,667,000 and HK\$90,000 respectively from the COVID-19 Anti-epidemic Fund under the Employment Support Scheme (“ESS”), COVID-19 Anti-epidemic Fund under ESS for the Construction Sector (Casual Employee) and other subsidy schemes launched by the Government of the Hong Kong Special Administrative Region.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank loans interest	529	756
Finance charges on lease liabilities	18	15
	<u>547</u>	<u>771</u>

7. PROFIT/(LOSS) BEFORE INCOME TAX

	2022 HK\$'000	2021 HK\$'000
Profit/(loss) before tax is stated after charging:		
(a) Staff costs (including Directors' remuneration)		
– Salaries, wages, bonus and other benefits	93,340	166,872
– Retirement scheme contributions (<i>note a</i>)	<u>2,893</u>	<u>5,034</u>
Staff costs (including Directors' remuneration) (<i>note b</i>)	<u>96,233</u>	<u>171,906</u>
(b) Other items		
Depreciation, included in:		
Direct costs		
– Owned assets	17,955	20,699
Administrative expenses		
– Owned assets	61	91
– Right-of-use assets	<u>722</u>	<u>718</u>
	<u>18,738</u>	<u>21,508</u>
Subcontracting charges (included in direct costs)	205,408	221,411
Service charges paid for machinery	16,341	25,452
Auditor's remuneration	1,060	1,037
ECL (reversal)/allowance on trade receivables and contract assets, net of reversal	(336)	1,071
Donation	<u>133</u>	<u>63</u>

Notes:

- (a) At the end of the reporting period, the Group had no forfeited contributions available to reduce its existing contribution to the retirement benefit scheme in future years.
- (b) Staff costs (including Directors' remuneration) are as follows:

	2022 HK\$'000	2021 HK\$'000
Direct costs	85,132	158,231
Administrative expenses	<u>11,101</u>	<u>13,675</u>
	<u>96,233</u>	<u>171,906</u>

8. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the year ended 31 March 2022. (For the year ended 31 March 2021, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit.)

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Provision for Hong Kong Profits Tax	–	–
Deferred tax	<u>(5,412)</u>	<u>(701)</u>
Income tax credit for the year	<u><u>(5,412)</u></u>	<u><u>(701)</u></u>

The taxation for the year can be reconciled to the profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit/(loss) before income tax	<u><u>2,019</u></u>	<u><u>(20,811)</u></u>
Tax at Hong Kong profits tax rates of 16.5% (2021: 16.5%)	333	(3,434)
Tax effect of non-deductible expenses	770	853
Tax effect of non-taxable income	(306)	(2,527)
Tax effect of tax losses not recognised	–	4,430
Tax effect of recognition of tax losses previously not recognised	(5,217)	–
Utilisation of tax losses previously not recognised	(999)	–
Others	<u>7</u>	<u>(23)</u>
Income tax credit for the year	<u><u>(5,412)</u></u>	<u><u>(701)</u></u>

9. DIVIDENDS

No dividend was paid or proposed for the years ended 31 March 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the following:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings/(loss)		
Profit/(loss) for the year attributable to equity holders of the Company	<u>7,431</u>	<u>(20,110)</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares (<i>note 15</i>)	<u>1,200,000</u>	<u>1,200,000</u>

There were no dilutive potential ordinary shares during the years ended 31 March 2022 and 2021 and therefore, diluted earnings/(loss) per share equals to basic earnings/(loss) per share.

11. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables			
– from third parties	(a)	39,997	48,672
Less: ECL allowance, net of reversal		<u>(509)</u>	<u>(1,346)</u>
		<u>39,488</u>	<u>47,326</u>
Deposit, prepayment and other receivables			
Other receivables		354	347
Prepayment (<i>note</i>)		3,506	4,683
Advance to sub-contractors		3,000	–
Utility and other deposits		150	150
Amount due from a director	(b)	1,047	2,564
Amount due from the ultimate holding company	(b)	<u>110</u>	<u>110</u>
		<u>8,167</u>	<u>7,854</u>
		<u>47,655</u>	<u>55,180</u>

Note: As at 31 March 2022, prepayment mainly represents payment for purchasing materials of HK\$3,000,000 (2021: HK\$4,295,000).

The directors of the Group consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

(a) **Trade receivables**

Based on the invoice dates (or date of revenue recognition, if earlier), the ageing analysis of the trade receivables, net of ECL allowance, was as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	38,492	44,485
31–60 days	–	–
61–90 days	–	–
Over 90 days	996	2,841
	<u>39,488</u>	<u>47,326</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance as at 1 April	1,346	405
ECL (reversal)/allowance recognised during the year, net of reversal	<u>(837)</u>	<u>941</u>
Balance as at 31 March	<u>509</u>	<u>1,346</u>

(b) **Amounts due from a director/the ultimate holding company**

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

12. CONTRACT ASSETS AND CONTRACT LIABILITIES

12.1 Contract assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Unbilled revenue	49,350	79,041
Retention receivables	31,388	52,734
Less: ECL allowance, net of reversal	<u>(1,212)</u>	<u>(711)</u>
	<u>79,526</u>	<u>131,064</u>

Note: Unbilled revenue represents the Group's right to receive consideration for work completed and not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.

Retention receivables included in contract assets represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

Changes of contract assets during the year ended 31 March 2022 were mainly due to:

- (i) Changes in retention receivables as a result of changes in number of ongoing and completed contracts during the year; and
- (ii) Changes in number of contract works that the relevant services were completed but yet been certified at the end of each reporting period.

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. The amount of contract assets expected to be recovered/settled over one year is HK\$12,634,000 (31 March 2021: HK\$12,041,000), all of the remaining balances were expected to be recovered/settled within one year.

The details of ECL measurement for contract assets are set out in the consolidated financial statements. Based on ECL assessment, ECL allowance of HK\$1,212,000 (2021: HK\$711,000) has been recognised as at 31 March 2022.

The movement in the ECL allowance on contract assets are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance as at 1 April	711	581
ECL allowance recognised during the year, net of reversal	<u>501</u>	<u>130</u>
Balance as at 31 March	<u><u>1,212</u></u>	<u><u>711</u></u>

12.2 Contract liabilities

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract liabilities arising from construction contracts from billings in advance of performance	<u>45</u>	<u>180</u>

All of the contract liabilities is expected to be recovered/settled within one year.

Revenue recognised in relation to contract liabilities

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>180</u>	<u>690</u>

Unsatisfied long-term construction contracts

The transaction price allocated to the remaining unsatisfied or partially satisfied performance obligation as at 31 March are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	<u>716,012</u>	<u>340,984</u>

The amounts disclosed above do not include transaction price allocated to performance obligations which have been satisfied but not yet recognised due to variable consideration constraint.

13. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables (<i>note (a)</i>)	32,361	32,207
Accruals and other payables (<i>note (b)</i>)	<u>2,970</u>	<u>4,123</u>
	<u>35,331</u>	<u>36,330</u>

Notes:

- (a) Payment terms granted by suppliers are 0 to 30 days (2021: 0 to 30 days) from the invoice date of the relevant purchases.

The ageing analysis of trade payables based on the invoice date is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	29,424	29,185
31–60 days	<u>2,937</u>	<u>3,022</u>
	<u>32,361</u>	<u>32,207</u>

- (b) As at 31 March 2022, accruals and other payables mainly comprised of: (1) accrued professional fee which amounted to HK\$1,447,000 (2021: HK\$1,413,000); (2) accrued purchase costs for acquisition of plant and machinery which amounted to HK\$414,000 (2021: nil); (3) accrued employee benefits of approximately HK\$860,000 (2021: HK\$1,058,000); and (4) refund of Government grant of nil (2021: HK\$1,357,000).

14. LEASE LIABILITIES

The analysis of the Group's lease liabilities is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Total minimum lease payments:		
Within one year	492	738
After one year but within two years	–	492
	<u>492</u>	<u>1,230</u>
Future finance charges	(3)	(21)
	<u>489</u>	<u>1,209</u>
Present value of lease liabilities	<u>489</u>	<u>1,209</u>
Present value of minimum lease payment:		
Within one year	489	720
After one year but within two years	–	489
	<u>489</u>	<u>1,209</u>
Less: Portion due within one year included under current liabilities	(489)	(720)
	<u>–</u>	<u>489</u>
Portion due after one year included under non-current liabilities	<u>–</u>	<u>489</u>

During the year ended 31 March 2022, the total cash outflows for the leases are HK\$738,000 (2021: HK\$737,000).

15. SHARE CAPITAL

	2022		2021	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
As at 1 April and 31 March	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
As at 1 April and 31 March	<u>1,200,000,000</u>	<u>12,000</u>	<u>1,200,000,000</u>	<u>12,000</u>

16. CONTINGENT LIABILITIES

As at 31 March 2022 and 2021, the Group has been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances. The potential claims and litigations against the Group, as a subcontractor, are insured by main contractor's insurance policy, the directors are of the opinion that the claims, litigations and non-compliances are not expected to have a material impact on the consolidated financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Driven by upticks in consumption and investment, while supported by high COVID-19 vaccination rates across the wealthier countries, the global economy made an impressive comeback in 2021, with the world output expanding 6.1% year-on-year, according to the estimation by the International Monetary Fund (“IMF”). As the first country to bounce back from the bottom of the COVID-related economic recession, China again beat its target and recorded a GDP growth of 8.1% in the year, continuing to be the leader of the post-COVID recovery.

Though Hong Kong’s anti-epidemic measures and COVID outbreaks had never been as drastic as many countries in the world, it too experienced two challenging years under COVID-19. However, in 2021, Hong Kong started its recovery with a 7.8% interim economic expansion. Though the speed slowed down significantly during the second half of the year, it concluded the year with a GDP growth of 6.4%, scoring the fastest pace since 2010.

As one of the most hard-hit industries, Hong Kong’s construction section finally had a mild recovery in 2021. The gross value of construction works performed by main contractors in the year reached approximately HK\$231,404 million in nominal terms, staging a 0.7% growth compared to that of the last year. In terms of piling and related foundation works, gross value performed by main contractors in nominal terms grew 18.4%, reaching approximately HK\$15,761 million. The growing economic and industrial results are indeed signaling a much-anticipated improvement in the market conditions.

BUSINESS REVIEW AND OUTLOOK

The Group is a seasoned subcontractor in Hong Kong’s construction industry, with over two decades of experience, mainly engaging in the foundation works for commercial and residential buildings construction. The Group has developed the experience and capability to offer a comprehensive range of foundation construction and related services. It specialises in (i) ELS and pile cap construction works; (ii) disposal of excavated materials from piling; and (iii) ancillary services including dismantling of shoring, site formation, steel fixing and site clearance. Kit Kee Engineering Limited (“**Kit Kee Engineering**”), the principal operating subsidiary, is registered with the Construction Industry Council under the Subcontractor Registration Scheme under the sub-register of the structural and civil trade group.

During the Review Year, the Group had been awarded 14 projects with a total original contract sum of approximately HK\$658.4 million. Though COVID-19-related pressure still prevails, the Group had developed an improved cost control system and actively expanded our customer base. The Group’s gross profit amounted to approximately HK\$19.4 million, a turnaround compared to the gross loss of approximately HK\$13.3 million in the previous year. As a result, the Group’s net profit amounted to approximately HK\$7.4 million.

Looking ahead, the global economy should continue to recover in 2022, though likely at a more moderate pace. While the COVID-19 pandemic remains the most prominent threat, other impacting factors include supply bottlenecks, inflation, and global geopolitical tensions. A similar outlook is expected for China and Hong Kong, with GDP performances hinging mainly on the local epidemic situation.

Following the momentum gained during 2021, Hong Kong's property market continues to expand. As the city is yet to close the gap between its large population size and the tight housing supply, the demand for housing properties keeps surging despite the stagnant price and the various uncertainties for the economic outlook. On the other hand, building completion fell short. In the case of private residential buildings, 31% less was built in 2021 than a year ago, hinting at ample room to grow in the future when market conditions resume to pre-COVID levels. Provided that the unpredictable waves of COVID-19 infections are still weighing on Hong Kong, we do not expect the conditions in the construction industry to resume immediately in the coming year. Still, we remain confident in the long-term potential of the Group's business. We will be monitoring the market closely to capture all potential opportunities while staying prudent in further optimising our corporate operations.

FINANCIAL REVIEW

Revenue

For the Review Year, the revenue of the Group has decreased by approximately HK\$309.3 million, or approximately 33.5% compared to the year ended 31 March 2021, from approximately HK\$922.9 million to approximately HK\$613.6 million. The decrease was primarily attributable to substantial completion of the projects on hand in the year ended 31 March 2021.

The Board regards the Group's business of foundation works as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented and no separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Gross Profit/Loss and Gross Profit/Loss Margin

Our direct costs decreased by approximately HK\$342.0 million or approximately 36.5% from approximately HK\$936.2 million for the year ended 31 March 2021 to approximately HK\$594.2 million for the Review Year.

The gross profit of the Group has increased by approximately HK\$32.7 million, or approximately 245.9% compared to the year ended 31 March 2021, from gross loss of approximately HK\$13.3 million to gross profit of approximately HK\$19.4 million. The gross profit margin for the Review Year was approximately 3.2%, compared to the gross loss ratio for the year ended 31 March 2021 of approximately 1.4%. The increase in gross profit margin was mainly due to (i) improving costs control and efficiency; and (ii) expanding our customer base to obtain profit-generating projects.

Other Gains, Net

Other gains, net mainly included government grant and subsidies, change in fair value on investment property and exchange difference. For the Review Year, other gains, net amounted to approximately HK\$1.8 million as compared with approximately HK\$15.5 million for the year ended 31 March 2021. The decrease in other gains, net for the Review Year was mainly due to the government grant and subsidies under Anti-epidemic Fund of approximately HK\$13.0 million recognised for the year ended 31 March 2021.

Administrative Expenses

For the Review Year, the administrative expenses have decreased by approximately HK\$2.1 million or approximately 10.0% compared to the year ended 31 March 2021, from approximately HK\$21.1 million to approximately HK\$19.0 million. The decrease was primarily due to the decrease in staff costs included in administrative expenses of approximately HK\$2.6 million for the Review Year.

Finance Costs

For the Review Year, the finance costs amounted to approximately HK\$547,000, as compared to the year ended 31 March 2021 of approximately HK\$771,000. The decrease was primarily due to the decrease in average balance of bank borrowings during the Review Year.

Income Tax Credit

For the Review Year, the income tax credit has increased by approximately HK\$4,711,000 or approximately 672.0% compared to the year ended 31 March 2021, from approximately HK\$701,000 to approximately HK\$5,412,000. Such increase was mainly due to recognition of deferred tax assets attributable to tax losses for the Review Year.

Net Profit/Loss

For the Review Year, the net profit amounted to approximately HK\$7.4 million, as compared to the net loss of approximately HK\$20.1 million the year ended 31 March 2021. Our net profit margin for the Review Year was approximately 1.2%, as compared with net loss margin of approximately 2.2% for the year ended 31 March 2021. The increase in the net profit margin for the Review Year was mainly due to the increase in gross profit during the Review Year.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL STRUCTURE

During the Review Year, there has been no change in capital structure of the Group. The Group continued to finance its working capital with internally generated cash flows and bank borrowings.

As at 31 March 2022, the Company's issued capital was HK\$12.0 million and the number of its issued ordinary shares was 1,200,000,000 shares of HK\$0.01 each.

As at 31 March 2022, the Group had total cash, bank balances and pledged deposits of approximately HK\$120.4 million (31 March 2021: approximately HK\$44.3 million).

Current Ratio

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

Our Group's current ratio increased from approximately 5.1 times as at 31 March 2021 to approximately 5.8 times as at 31 March 2022. The increase was mainly due to the increase in cash and bank balances as at 31 March 2022.

Gearing Ratio

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

Our Group's gearing ratio decreased from approximately 5.1% as at 31 March 2021 to approximately 2.8% as at 31 March 2022. The decrease was primarily due to the decrease in bank borrowings as at 31 March 2022.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policy. 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 all the time.

Pledge of Assets

As at 31 March 2022, the Group had pledged (i) an investment property situated in Hong Kong of approximately HK\$4.8 million (31 March 2021: approximately HK\$4.7 million); (ii) approximately HK\$5.2 million bank deposits and RMB13.0 million bank deposits (31 March 2021: approximately HK\$5.2 million and RMB13.0 million certificates of deposit); and (iii) corporate guarantee given by the Company in order to secure bank facilities granted to Kit Kee Engineering.

FOREIGN EXCHANGE EXPOSURE

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

During the Review Year, the Group placed a portion of its cash reserves in RMB in certificates of deposit for interest return, and we incurred an exchange gain of approximately HK\$0.6 million (For the year ended 31 March 2021: approximately HK\$1.2 million).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2022, the Group had no capital commitments for acquiring machine (31 March 2021: approximately HK\$1.7 million).

As at 31 March 2022 and 2021, the Group has been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances. The Directors are of the opinion that the claims, litigations and non-compliances are not expected to have a material impact on the consolidated financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the consolidated financial statements.

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

During the Review Year, the Group did not have any significant investments held, nor any material acquisitions or disposals of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 26 January 2018 (the “**Prospectus**”), the Group did not have any other plans for material investments or capital assets during the Review Year.

USE OF PROCEEDS

The net proceeds received by the Group, after deducting related expenses, were approximately HK\$91.9 million. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. Such uses include: (i) enhancing the construction machinery fleet; (ii) strengthening the workforce and manpower; (iii) reinforcing sales and marketing efforts; and (iv) funding of general working capital. Details of the use of the proceeds are listed as below:

	Planned use of proceeds <i>HK\$'000</i>	Amount utilised up to 31 March 2022 <i>HK\$'000</i>	Balance of unutilised amount up to 31 March 2022 <i>HK\$'000</i>	Expected timeline of full utilisation of the remaining proceeds as at 31 March 2022
Enhancing the construction machinery fleet	60,311	60,311	–	–
Strengthening the workforce and manpower	19,272	19,272	–	–
Reinforcing sales and marketing efforts	4,761	2,863	1,898	Expect to be fully utilised by 31 December 2022 (Note 1)
Funding of general working capital	<u>7,596</u>	<u>7,596</u>	<u>–</u>	<u>–</u>
Total	<u>91,940</u>	<u>90,042</u>	<u>1,898</u>	

Note:

- 31 December 2021 was the original expected date by which the remaining proceeds would be fully utilised. 31 December 2022 is the delayed expected date.

As at 31 March 2022 and up to the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong and are expected to be fully utilised by 31 December 2022.

As at 31 March 2022, over 97% of the net proceeds from the Share Offer were applied according to the intentions previously disclosed in the Prospectus and there was no material change in the use of proceeds. The unutilised amount is expected to be used in accordance with the Company's plan as disclosed in the Prospectus. To the best knowledge of the Directors, the delay in use of proceeds under the category of "Reinforcing sales and marketing efforts" was mainly attributable to the impacts of the social events occurred in Hong Kong since about July 2019 and the outbreak of the novel coronavirus (COVID-19) since January 2020 on the economy, the Company was concerned about the promotional effectiveness of sponsoring business events and charity functions organised by our customers when people in Hong Kong were recommended to stay at home and reduce gathering, therefore decided to postpone a number of business development activities. The Board considers such delay has no material impact on the operations of the Group. Nevertheless, the Company will continue to evaluate other business development opportunities for the long-term benefit and development of the Group when there are less uncertainties about the pandemic. The expected timeline of full utilisation is based on the Directors' best estimation barring unforeseen circumstances, and would be subject to change based on the future development of market conditions.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2022, we employed a total of 205 full-time employees (including two executive Directors but excluding three independent non-executive Directors), as compared to a total of 335 full-time employees as at 31 March 2021. The remuneration packages that the Group offers to employees includes salary, discretionary bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotions. The Group also adopted a share option scheme whereby qualified participants may be granted options to acquire shares in the Company. The total staff cost incurred by the Group for the Review Year was approximately HK\$96.2 million compared to approximately HK\$171.9 million in the year ended 31 March 2021.

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

DIVIDENDS

The Board has resolved not to recommend the declaration of final dividend for the Review Year (For the year ended 31 March 2021: nil).

CORPORATE GOVERNANCE CODE/OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted the corporate governance code (the “**CG code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Pursuant to code provision C.2.1 of the CG Code, the roles of the chairman of the Board (“**the Chairman**”) and the chief executive officer of the Company (the “**Chief Executive Officer**”) should be separated and should not be performed by the same individual. Mr. Yip was the Chairman and Chief Executive Officer during the Review Year. As Mr. Yip has been assuming day-to-day responsibilities in operating and managing Kit Kee Engineering since August 1993, the Board is of the view that it is in the best interest of the Group to have Mr. Yip taking up both roles for effective management and business development.

Save for the above deviation, the Board considers that during the Review Year, the Company has complied with all the code provisions set out in the CG Code.

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

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

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “**Share Option Scheme**”) on 18 January 2018. The purpose of the Share Option Scheme is to attract and retain the best available personnel of the Group, to provide additional incentive to employees (full-time or part-time), Directors, consultants, advisors, substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 18 January 2018, and there is no outstanding share option as at 31 March 2022.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

EVENTS AFTER THE REVIEW YEAR

There have been no material events occurring after 31 March 2022 and up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company established an Audit Committee on 18 January 2018 with written terms of reference in compliance with the CG code. The primary roles of our audit committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring the integrity of our financial statements and annual reports and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and (c) reviewing our financial controls, internal control and risk management systems.

The Audit Committee consists of three members who are all independent non-executive Directors, namely, Mr. Chan Wa Shing, Mr. Chan Ka Yu and Mr. Lee Kwok Lun. Mr. Lee Kwok Lun is the chairman of the Audit Committee.

REVIEW OF ANNUAL RESULTS

The Group's consolidated financial statements for the Review Year have been reviewed and approved by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made. The figures in respect of the announcement of the Group's results for the Review Year have been agreed with the Company's auditors, Grant Thornton Hong Kong Limited ("**Grant Thornton**"), to the amounts set out in the Group's draft audited consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Grant Thornton on this announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.kitkee.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The 2022 Annual Report will be despatched to shareholders of the Company and made available on the same websites in due course.

APPRECIATION

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

By order of the Board
Dragon Rise Group Holdings Limited
Yip Yuk Kit
Chairman and Executive Director

Hong Kong, 28 June 2022

As at the date of this announcement, the Board comprises Mr. Yip Yuk Kit and Mr. Cheung Chun Fai as executive Directors; and Mr. Chan Ka Yu, Mr. Lee Kwok Lun and Mr. Chan Wa Shing as independent non-executive Directors.