



KNK

Holdings Limited

中國卓銀國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8039

2020
Annual Report

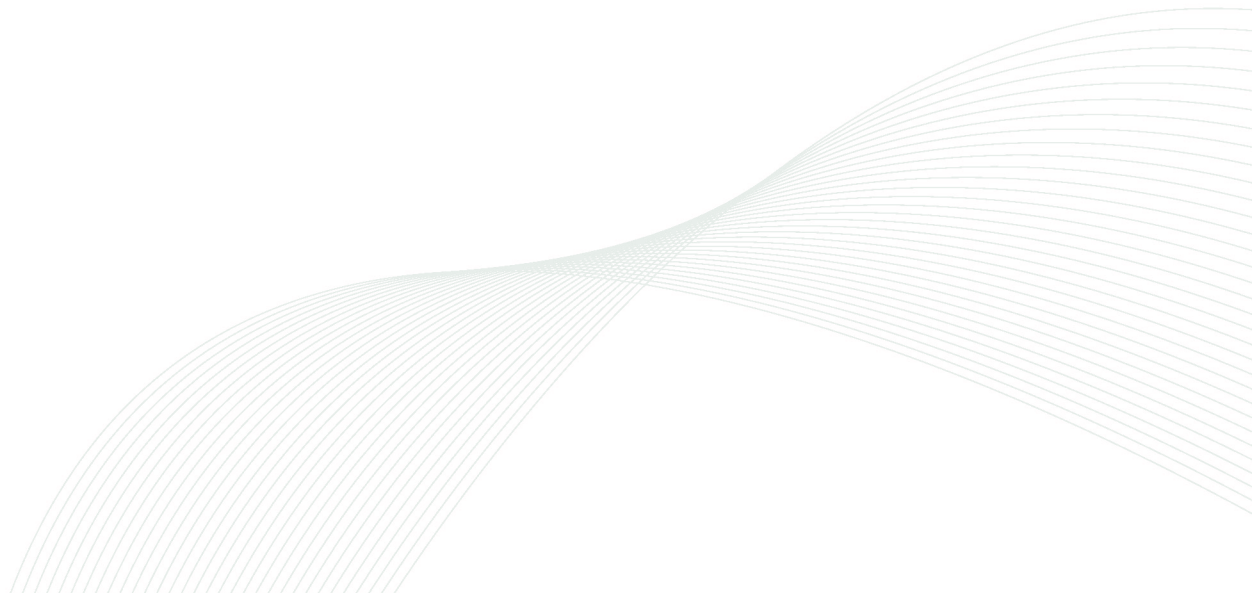
CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This report, for which the directors (the “Directors”) of KNK Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.





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BOARD OF DIRECTORS

Executive Directors

Mr. Poon Kai Kit Joe
Ms. Sin Pui Ying (appointed on 29 August 2019)
Ms. Chan Ka Yee (resigned on 29 August 2019)
Mr. Sun Xiao Li (resigned on 8 November 2019)
Mr. Gu Jintai (removed on 13 December 2019)
Ms. Shi Lijie (removed on 13 December 2019)
Mr. Feng Wei (retired on 12 August 2019)

Independent non-executive Directors

Mr. Lee Pui Chung (appointed on 18 July 2019)
Ms. Lai Pik Chi Peggy
(appointed on 29 August 2019)
Mr. Chan Chung Yin Victor
(appointed on 29 August 2019)
Mr. Kong Kam Wang (resigned on 28 August 2019)
Mr. Sung Hak Keung Andy
(retired on 12 August 2019)
Mr. Wong Kai Tat (resigned on 28 August 2019)

AUTHORISED REPRESENTATIVES

Mr. Poon Kai Kit Joe
Mr. Kwong Chun Man

AUDIT COMMITTEE MEMBERS

Mr. Lee Pui Chung (appointed on 18 July 2019 and
appointed as committee chairman on 12 August 2019)
Ms. Lai Pik Chi Peggy
(appointed on 29 August 2019)
Mr. Chan Chung Yin Victor
(appointed on 29 August 2019)
Mr. Sung Hak Keung Andy (*Chairman*)
(retired on 12 August 2019)
Mr. Kong Kam Wang (resigned on 28 August 2019)
Mr. Wong Kai Tat (resigned on 28 August 2019)

NOMINATION COMMITTEE MEMBERS

Mr. Chan Chung Yin Victor
(appointed as committee chairman
on 29 August 2019)
Mr. Lee Pui Chung (appointed on 18 July 2019)
Ms. Lai Pik Chi Peggy
(appointed on 29 August 2019)
Mr. Wong Kai Tat (*Chairman*)
(resigned on 28 August 2019)
Mr. Kong Kam Wang (resigned on 28 August 2019)
Mr. Sung Hak Keung Andy
(retired on 12 August 2019)

REMUNERATION COMMITTEE MEMBERS

Ms. Lai Pik Chi Peggy
(appointed as committee chairman
on 29 August 2019)
Mr. Lee Pui Chung (appointed on 18 July 2019)
Mr. Chan Chung Yin Victor
(appointed on 29 August 2019)
Mr. Kong Kam Wang (*Chairman*)
(resigned on 28 August 2019)
Mr. Sung Hak Keung Andy
(retired on 12 August 2019)
Mr. Wong Kai Tat (resigned on 28 August 2019)

COMPLIANCE OFFICER

Mr. Poon Kai Kit Joe

COMPANY SECRETARY

Mr. Kwong Chun Man

AUDITOR

Mazars CPA Limited
42nd Floor,
Central Plaza,
18 Harbour Road, Wan Chai,
Hong Kong

COMPLIANCE ADVISER

Ample Capital Limited
Unit A, 14/F, Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

REGISTERED OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit E, 33/F, Legend Tower
7 Shing Yip Street
Kwun Tong
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
HSBC Building
1 Queen's Road Central
Hong Kong

STOCK CODE

8039

WEBSITE OF THE COMPANY

www.knk.com.hk

EXECUTIVE DIRECTOR STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “Board”) of the Company, I am delighted to present to you the annual report of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2020.

REVIEW

The Group was successfully listed on GEM on 12 December 2016. The proceeds raised have strengthened the cash position of the Group with the aim of recruiting additional professional staff to provide services to both existing and new customers.

For the year ended 31 March 2020, the Group recorded a decrease in revenue of approximately HK\$16.0 million or 34.9% to approximately HK\$29.8 million compared with the previous financial year. Such drop was mainly attributable to the completion of the Design and Build project as announced in the announcement dated 18 July 2017 in 2019 such that there was no revenue contribution from this project in 2020. At the same time, the Group incurred a gross loss margin of 19.2% in the financial year ended 31 March 2020 compared with a gross profit margin of 11.3% in the financial year ended 31 March 2019. Such change was due to repair and maintenance expenses incurred for a particular project with amount approximately HK\$6.6 million while the revenue was recognised fully in previous years.

The Group recognised a loss of approximately HK\$34.3 million for the year ended 31 March 2020 compared with a loss of approximately HK\$5.2 million for the year ended 31 March 2019. Such change was mainly due to the increase in share of loss of associates approximately HK\$2.5 million and the increase in one-off expenses approximately HK\$12.2 million including write-off of loan receivables, loss allowance on contract assets and loss on derecognition of subsidiaries, increase in general and administrative expenses of approximately HK\$3.1 million as well as the gross loss incurred for the year ended 31 March 2020.

The Directors and senior management are aware of the regulatory reporting and compliance requirements in the architectural industry, and will continue to keep abreast of their development in addition to change of general business environment.

OUTLOOK

Going forward, the Group will continue to focus on our existing businesses and look for opportunities to expand the services in the architectural industry based on the assumption that we can recruit enough competent professional staff to join us and maintain our reputation in the industry in order to maximise returns to our shareholders in the long run.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the Group’s shareholders, bankers, customers and business partners for their continuous support, and to our management and staff members for their diligence, dedication and contribution to the growth of the Group.

Sin Pui Ying

Director

Hong Kong, 29 June 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of comprehensive architectural and structural engineering consultancy services in Hong Kong. During the financial year ended 31 March 2020, the Group has focused on developing business opportunities with existing customers as well as working on those referrals from them; at the same time, the Group plans to expand the types of architectural-related services.

The Company's shares were successfully listed on GEM on 12 December 2016 (the "Listing"). The proceed raised has strengthened the cash position of the Group and allowed the Group to expand from different aspects. After having evaluated the Group's business objectives as stated in the prospectus of the Company dated 30 November 2016 (the "Prospectus"), the Group and the Directors considered that no modification of the business objectives or the business plans as stated in the Prospectus was required.

The revenue of the Group was dropped by HK\$16.0 million or 34.9% to HK\$29.8 million; and the loss for the year was HK\$34.3 million, a HK\$29.1 million increase compared with the loss incurred for the year ended 31 March 2019. The reasons of such changes can be found under the Financial Review section below.

Going forward, while actively exploring new businesses opportunities, as mentioned above, the Group also plans to extend its business reach and expand service coverage to lay a foundation for our longterm development. These strategic directions aim to capture new business opportunities in the market and contribute satisfactory long-term returns to our shareholders. And such achievements depend on whether we can attract competent professionals to join the Group.

But under the current political and economic environment, in particular the impact of COVID-19 is still uncertain, the Group will seek to minimise risk exposure by bargaining better terms from sub-contractors, minimising expenses, securing projects and keep closer eyes on chasing receivables to keep the operations of the Group as usual.

FINANCIAL REVIEW

Revenue

The Group's revenue is generated from the contract revenue from provision of comprehensive architectural and structural engineering consultancy services in Hong Kong, including licensing consultancy, alternation and addition works and minor works consultancy, inspection and certification and other architectural related consultancy.

The Group's total revenue for the financial year ended 31 March 2020 was approximately HK\$29.8 million (2019: approximately HK\$45.8 million), representing approximately HK\$16.0 million or 34.9% decrease compared to the corresponding period in 2019. Such decrease was mainly attributable to the completion of the Design and Build Project as announced in the announcement dated 18 July 2017 in 2019 such that there was no revenue contribution from this project in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross loss margin was approximately 19.2% (2019: gross profit margin approximately 11.3%). The gross loss was mainly due to some repair and maintenance expenses incurred in a particular project approximately \$6.6 million while the revenue was recognised fully in previous years.

General and administrative expenses

The Group's total general and administrative expenses for the financial year ended 31 March 2020 was approximately HK\$13.6 million (2019: approximately HK\$10.5 million), representing an increase of approximately HK\$3.1 million or 29.5% when compared to the corresponding period in 2019. Such increase was mainly due to increase in legal and professional fees approximately HK\$1.4 million and the impairment loss of right-of-use assets approximately HK\$0.8 million.

Loss for the year

The Group recorded a net loss attributable to owners of the Company of approximately HK\$34.3 million for the financial year ended 31 March 2020 (2019: HK\$5.2 million). Such change in loss was mainly due to the increase in share of loss of associates approximately HK\$2.5 million and the increase in one-off expenses approximately HK\$12.2 million including write-off of loan receivables, loss allowance on contract assets and loss on derecognition of subsidiaries, increase in general and administrative expenses of approximately HK\$3.1 million as well as the gross loss incurred for the year ended 31 March 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the financial year ended 31 March 2020, the Group financed its operations by cash balances accumulated in previous years. As at 31 March 2020, the Group had net current assets of approximately HK\$2.7 million (2019: approximately HK\$39.9 million), including cash and cash equivalents of approximately HK\$11.1 million (2019: approximately HK\$29.4 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 1.1 times as at 31 March 2020 (2019: approximately 9.4 times). The decrease in the current ratio was mainly attributable to the increase in various loans repayable within one year and classified as current liabilities.

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to approximately HK\$11.0 million as at 31 March 2020 (2019: approximately HK\$45.3 million).

EMPLOYEE INFORMATION

Total staff and Directors' remuneration for the financial year ended 31 March 2020 was approximately HK\$21.8 million (2019: approximately HK\$19.5 million). Such increase was mainly due to the increase in directors' remunerations by approximately HK\$1.0 million and number of staff increased. The Group's remuneration policies are formulated on the basis of performance, qualifications and experience of individual employee and make reference to the prevailing market conditions. Our remuneration packages comprise monthly fixed salaries and discretionary year-end bonuses based on individual performance, which are paid to employees as recognition of, and reward for, their contributions.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

The Group did not have any charge arranged with any financial institution in Hong Kong as at 31 March 2020 (2019: Nil).

FOREIGN EXCHANGE EXPOSURE

The revenue and business costs of the Group were principally denominated in Hong Kong dollars, and as such the exposure to the risk of foreign exchange rate fluctuations for the Group was minimal. Hence, no financial instrument for hedging was employed.

PURCHASE, REDEMPTION OF LISTED SECURITIES

During the financial year ended 31 March 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CONTINGENT LIABILITIES

No material contingent liability had come to the attention of the Directors in the financial year ended 31 March 2020 and up to the date of this report.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 31, up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that comes to the attention of the Directors after the year ended 31 March 2020.

USE OF PROCEEDS

Among the net proceeds of approximately HK\$25.1 million from the placing transaction conducted in 12 December 2016, up to the latest practicable date for the purpose of this report, approximately HK\$2.5 million has been used as general working capital of the Group, comprising (i) approximately HK\$0.9 million as Directors' remuneration and staff salaries payment; and (ii) approximately HK\$1.6 million as compliance and professional fee and general expenses. Also approximately HK\$6.5 million was used as salaries to recruit additional staff since listing to support the expansion of business and approximately HK\$5.7 million was used to purchase new property, plant and equipment and development and upgrade of the BIM system. The remaining balance of HK\$10.4 million was kept in the Group's bank accounts. The Directors do not intend to change the intended usage of the proceed as disclosed in the Prospectus.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board is pleased to present this corporate governance report for the year ended 31 March 2020. This report highlights the key corporate governance practices of the Company.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to promoting high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") in Appendix 15 of the GEM Listing Rules. Throughout the year ended 31 March 2020 and up to the date of this report, to the best knowledge of the Board, the Company has complied with all the code provisions set out in the CG Code save for the deviation from code provision A.2.1 as mentioned in the section headed "Chairman and Chief Executive Officer" in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required standard of Dealing"). Having made specific enquiries of all the Directors, all of them have confirmed that they have complied with the Required Standard of Dealings throughout the year ended 31 March 2020. No incident of non-compliance was noted by the Company during the year.

BOARD OF DIRECTORS

Composition of the Board

Up to the date of this annual report, the Board comprises two executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Poon Kai Kit Joe

Ms. Sin Pui Ying (appointed on 29 August 2019)

Independent non-executive Directors

Mr. Lee Pui Chung (appointed on 18 July 2019)

Ms. Lai Pik Chi Peggy (appointed on 29 August 2019)

Mr. Chan Chung Yin Victor (appointed on 29 August 2019)

The biographical details of the Directors are set out under the section headed "Biographical Details of Directors and Senior Management" in this report.

The updated list of Directors and their role and function are published at the GEM website and the Company's website (www.knk.com.hk).

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy in order to enhance the quality of Board's performance and to achieve sustainable and balanced development of the Group.

CORPORATE GOVERNANCE REPORT

Policy Statement

The Company believes that a balanced and diversified board composition can provide different and relevant perspectives and insights that facilitates the Board to discharge its duties and responsibilities effectively.

The Company sets out a range of factors and aspects in considering, determining and assessing the Board diversity, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time.

Measurable Objective

The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board, including the consideration of increasing the proportion of female members over time. The Board will also consider having an appropriate proportion of directors with direct experience of the Group's business, with different ethnic, professional and industry backgrounds.

Review, Monitoring and Disclosure

The Nomination Committee is responsible for reviewing the Board Diversity Policy and monitoring the related implementation and progress made towards achieving the measurable objectives from time to time.

Our Board Diversity Policy is also published on the Company's website.

As of 31 March 2020, our Board has achieved a female-to-male gender ratio of 40:60 and our Directors have collaborated different skills and experiences individually and collectively, including but not limited to direct architectural and engineering industry experience and qualification, Financial and Accounting, Legal and Business Administration.

Independent non-executive Directors

In compliance with Rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing at least one-third of the Board, and with at least one of them possessing the appropriate professional qualifications or accounting or related financial management expertise. The independent non-executive Directors, together with the executive Directors, ensure that the Board prepares its financial and other mandatory reports in strict compliance with the relevant standards. The Company has received an annual confirmation of independence from each of the independent non-executive Directors and believes that their independence satisfies the criteria set out in Rule 5.09 of the GEM Listing Rules.

The Board

The Board has the responsibility for leadership and control of the Group. They are collectively responsible for promoting the success of the Group by directing and supervising the Groups' affairs. The Board is accountable to shareholders of the Company (the "Shareholders") for the strategic development of the Group with the goal of maximizing long-term Shareholders' interest, while balancing broader stakeholder interests. The Board has delegated the day-to-day responsibility to the executive Directors and senior management of the Company who meet on a regular basis to review the financial results and performance of the Group and make financial and operational decisions for the implementation of strategies and plans approved by the Board. The Board also communicates with Shareholders and regulatory bodies and makes recommendations to Shareholders on issues relating to interim and final dividends.

Board Meetings and Attendance

The Board meets in person or through electronic means of communication to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. The Board held 14 meetings during the year ended 31 March 2020. Individual attendance records of each Director at the respective Board and committee meetings are set out in the table on page 16 of this report.

The Board meets regularly on a quarterly basis. Notice of at least 14 days is given to all Directors for a regular Board meeting. Apart from the regular Board meetings, the Board also meets on other occasions when a Board-level decision on a particular matter is required. For such, reasonable notice is given. All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company ("Company Secretary"), senior management and compliance officer of the Company who are responsible for ensuring the compliance of the Company with the GEM Listing Rules and advising the Board on compliance matters. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company. Any Directors and their associates who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed in the Board meetings shall abstain from voting on the relevant resolutions and are not to be counted in the quorum at meetings.

At least 3 days (or such other period as agreed in advance) before each Board meeting, a draft agenda is sent out to all Directors in order to allow the Directors to include any other matters in the agenda for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors 3 days or such other period as agreed before each Board meeting such that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

The Company Secretary is responsible to keep minutes of all Board meetings and committees meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final versions are open for Directors' inspection.

CORPORATE GOVERNANCE REPORT

Relationships between the Board

Except that Executive Director Mr. Poon Kai Kit, Joe and former Executive Director, Ms. Chan Ka Yee are in spousal relationship, there are no other financial, business, family or other material relationship among the Directors. The biographical details of each of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report.

Directors’ Continuing Professional Development Programme

Each Director receives comprehensive and formal induction and orientation to ensure he/she adequately understand the operations and business of the Group. The Company also provided detailed director’s responsibilities and obligations statement pursuant to the GEM Listing Rules for the Director to review and study. In addition, materials in relation to regularly update on latest development in relation to the GEM Listing Rules, other applicable regulatory requirements and the Group’s business and governance policies (the “Reading Materials in relation to Continuous Professional Developments”) were circulated to the Directors. Continuing briefings and seminars for the directors will be arranged as necessary. The Directors are encouraged to participate in continuous professional developments to develop and refresh their knowledge and skills periodically.

During the year ended 31 March 2020, the Directors participated in the continuous professional developments in the following manner:

Name	Reading Materials in relation to Continuous Professional Developments	Attending seminars/ courses/conferences in relation to Continuous Professional Developments
Executive Directors		
Mr. Poon Kai Kit Joe	✓	✓
Ms. Sin Pui Ying	✓	✓
Ms. Chan Ka Yee	✓	
Mr. Sun Xiao Li	✓	
Mr. Gu Jintai	✓	
Ms. Shi Lijie	✓	
Mr. Feng Wei	✓	
Independent non-executive Directors		
Mr. Lee Pui Chung	✓	✓
Ms. Lai Pik Chi Peggy	✓	✓
Mr. Chan Chung Yin Victor	✓	
Mr. Kong Kam Wang	✓	✓
Mr. Sung Hak Keung Andy	✓	✓
Mr. Wong Kai Tat	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

The Company has not yet adopted A.2.1 of the CG Code. Pursuant to A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company currently has no Chairman or CEO. The daily operation and management of the Company is monitored by the executive Directors as well as the senior management.

The Board is of the view that although there is no Chairman or CEO, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company and the Group. This arrangement can still enable the Company to make and implement decisions promptly, and thus achieve the Company's objectives efficiently and effectively in response to the changing environment.

The Company will, at the appropriate time, arrange for the election of the new Chairman of the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract dated 21 November 2016 or relevant appointment date with the Company without a specific term until terminated earlier by no less than three (3) months' notice in writing served by either party or otherwise pursuant to the service contract. Each of the executive Directors is entitled to a fixed salary and may be entitled to a discretionary bonus under their respective service contracts determined by the Board.

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three (3) years commencing on relevant appointment date, unless terminated by not less than three (3) months' notice in writing served by either the relevant Director or the Company or otherwise pursuant to the applicable laws, Articles and the terms of appointment. Each of independent non-executive Directors is entitled to a director's fee.

In accordance with the Articles of Association of the Company, at each general meeting, one third of the Directors for the time being and any Directors appointed to fill a casual vacancy on the Board or appointed as an addition to the Board should be subject to election by shareholders at the following general meeting after his appointment (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

BOARD COMMITTEES

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee in order to maintain high standard of corporate governance within the Company.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee has been established with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules and code provision C.3.3 and C.3.7 of the CG Code. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Lee Pui Chung. The other members are Ms. Lai Pik Chi Peggy and Mr. Chan Chung Yin Victor.

The primary duties of the audit committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditors; review the financial statements of our Company and areas involving judgements in respect of financial reporting; and oversee financial reporting system, internal control procedures and continuing connected transactions of the Company. All members of the Audit Committee are appointed by the Board.

The Audit Committee has met its responsibilities to review the Group's quarterly reports and interim report and the Group's audited annual results for the year ended 31 March 2020 and provided advice and comments thereon.

The Audit Committee held 4 meetings during the year ended 31 March 2020. Individual attendance records of each member of the Audit Committee are set out in the table on page 16 of this report.

Nomination Committee

The Nomination Committee has been established with written terms of reference in compliance with code provision A.4.5 of the CG Code. The Nomination Committee currently comprises three independent non-executive Directors and is chaired by Mr. Chan Chung Yin Victor. The other members are Mr. Lee Pui Chung and Ms. Lai Pik Chi Peggy.

The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. All members of the Nomination Committee are appointed by the Board.

During the year ended 31 March 2020, the Nomination Committee reviewed and discussed the structure, size and composition of the Board; made recommendation on the re-election of the retiring Directors; and confirmed the independence of the independent non-executive Directors. The Nomination Committee held 1 meeting during the year ended 31 March 2020. Individual attendance records of each member of the Nomination Committee are set out in the table on page 16 of this report.

NOMINATION POLICY AND PROCEDURES

The Board has adopted a Nomination Policy that sets out the principles, criteria and procedures for selecting, assessing, and/or recommending Board candidates. The Nomination Committee is responsible for evaluating a series of key factors, including but not limited to the following criteria, in the process of selecting, assessing, and/or recommending Board candidates.

- Skill, experience, qualifications and achievements that are relevant and appropriate for the business operations of the Group;
- Commitments and Independence;
- Reputation and Integrity;
- The Board Diversity Policy (as mentioned above);
- any other relevant and material factors as may be considered by the Nomination Committee.

The Board has also established nomination procedures summarized as follows:

(a) Appointment of New Director

The Nomination Committee must evaluate the proposed candidate based on the selection criteria mentioned above and make recommendations to the Board regarding whether the proposed candidates are fit and proper for the directorship appointment.

(b) Re-election of Director at General Meeting

Retiring Directors are eligible for nomination by the Board to stand for re-election at the General Meeting according to the by-laws of the Company.

The Nomination Committee and/or the Board should review the overall contribution, participation and performance of the retiring Director and the Board should then make recommendation to the Shareholders in respect of the proposed re-election of Director at the General Meeting.

The Company will send out a circular to shareholders providing provide information of the candidates nominated by the Board to stand for election at a general meeting. the provided information will includes but not limited to the names, brief biographies, independence, proposed remuneration and any other material information of the proposed candidates.

(c) Proposal by Shareholders

For candidates proposed by shareholders who serve a notice to the Company Secretary, the Nomination Committee should also evaluate such candidates in accordance to the same selection criteria and make recommendation to the Board. The Company will send a supplementary circular to shareholders providing the particulars of the proposed candidates.

Remuneration Committee

The Remuneration Committee has been established with written terms of reference in compliance with code provision B.1.2 of the CG Code. The Remuneration Committee currently comprises three independent non-executive Directors and is chaired by Ms. Lai Pik Chi Peggy. The other members are Mr. Lee Pui Chung and Mr. Chan Chung Yin Victor.

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance-based remuneration; and ensure none of our Directors determine their own remuneration.

During the year ended 31 March 2020, the Remuneration Committee reviewed and made recommendation on the remuneration package of Directors and senior management of the Group and assessed the performance of executive Directors. The Remuneration Committee held 1 meeting during the year ended 31 March 2020. Individual attendance records of each member of the Remuneration committee are set out in the table on page 16 of this report.

CORPORATE GOVERNANCE REPORT

Directors' Attendance Record at Meetings

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 31 March 2020 are as follows:

Name of Director	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	General Meeting Attended/ Eligible to attend
Executive Directors					
Mr. Poon Kai Kit Joe	12/14	N/A	N/A	N/A	2/2
Ms. Sin Pui Ying (appointed on 29 August 2019)	8/8	N/A	N/A	N/A	1/1
Ms. Chan Ka Yee (resigned on 29 August 2019)	6/6	N/A	N/A	N/A	1/1
Mr. Sun Xiao Li (resigned on 8 November 2019)	0/4	N/A	N/A	N/A	0/1
Mr. Gu Jintai (removed on 13 December 2019)	0/4	N/A	N/A	N/A	0/2
Ms. Shi Lijie (removed on 13 December 2019)	0/4	N/A	N/A	N/A	0/2
Mr. Feng Wei (retired on 12 August 2019)	0/5	N/A	N/A	N/A	0/1
Independent non-executive Directors					
Mr. Lee Pui Chung (appointed on 18 July 2019)	8/8	3/3	N/A	N/A	2/2
Ms. Lai Pik Chi Peggy (appointed on 29 August 2019)	8/8	2/2	N/A	N/A	1/1
Mr. Chan Chung Yin Victor (appointed on 29 August 2019)	8/8	2/2	N/A	N/A	1/1
Mr. Kong Kam Wang (resigned on 28 August 2019)	6/6	2/2	1/1	1/1	1/1
Mr. Sung Hak Keung Andy (retired on 12 August 2019)	5/5	1/1	1/1	1/1	1/1
Mr. Wong Kai Tat (resigned on 28 August 2019)	6/6	2/2	1/1	1/1	1/1

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties in accordance with code provision D.3.1 to the CG Code which are included to develop and review the Company policies and practices on corporate governance, to review and monitor the training and continuous professional development of Directors and senior management of the Company, the issuer's policies and practices on compliance with legal and regulatory requirements and reviewing the issuer's compliance with the CG Code and disclosure in the Corporate Governance Report.

NON-COMPETITION UNDERTAKING

Pursuant to the Deed of Non-competition entered into among Mr. Poon Kai Kit Joe (“Mr. Poon”), Ms. Chan Ka Yee (“Ms. Chan”) and Energetic Way Limited (the “Energetic Way”) have agreed to and undertaken with the Company (for itself and on behalf of its subsidiaries) that for so long as the Deed of Non-competition remains in effect, other than through the Group and subject as provided below, he/it will not and will procure that none of his/its associates will, engage or be interested, directly or indirectly, in any business which may be in any aspect in competition with or similar to the businesses as may from time to time be carried on by the Group in Hong Kong (other than, in respect of Mr. Poon, Ms. Chan and Energetic Way, as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange). Mr. Poon, Ms. Chan and Energetic Way have further agreed to and undertaken with our Company (for itself and on behalf of its subsidiaries) that Mr. Poon, Ms. Chan and Energetic Way will, jointly and severally, indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of covenants and undertakings and/or any of the obligations of Mr. Poon, Ms. Chan and Energetic Way under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach.

The Company has received an annual confirmation from Mr. Poon, Ms. Chan and Energetic Way that each of Mr. Poon, Ms. Chan and Energetic Way confirmed that other than their respective interests in our Group, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of our Group during the year ended 31 March 2020.

The Independent Non-Executive Directors reviewed annually the compliance with the non-competition undertaking of Mr. Poon, Ms. Chan and Energetic Way under the Deed of Non-competition during the year ended 31 March 2020. No incident of non-compliance was noted by the Company and the Independent Non-Executive Directors for the year ended 31 March 2020.

AUDITOR AND THEIR REMUNERATION

For the year ended 31 March 2020, remuneration paid and payable to the auditor of the Group (the “Auditor”) are approximately HK\$500,000 (2019: HK\$540,000) for audit services. There was no significant non-audit service provided by the auditor of the Group for the year.

Director’s Acknowledgement

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company’s ability to continue as a going concern.

Auditor’s Statement

The statement of the Auditor about their reporting responsibilities on the Company’s financial statements for the year ended 31 March 2020 is set out in the section “Independent Auditor’s Report” of this report.

CORPORATE GOVERNANCE REPORT

Financial Reporting

The Management has provided to all Directors quarterly updates with quarterly consolidated financial statement of the Company's performance, position and prospects in sufficient details during the regular Board meetings. In addition, the Management has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient information for matters brought before the Board. The Management will spare no effort to provide all members of the board with more detailed and promptly monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail in coming future.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group's assets against unauthorized use or disposition, and to protect the interests of the shareholders of the Company. During the year ended 31 March 2020, a review of the effectiveness of the Group's internal control systems was conducted by external consultant and the results were summarized and reported to the Audit Committee and the Board. The Board believes that the risk management and internal control system of the Group is adequate and effective and will continue to assess, monitor and revise our risk management and internal control system.

The Group reviewed the need of setting up an internal audit department and based on the resources needed and benefits of doing so, the Group and Directors believe that engaging external consultants to carry out an internal audit on an annual basis is more suitable to the Group's current situation.

COMPANY SECRETARY

Mr. Kwong Chun Man joined the Group on 17 August 2015 and has been the Company Secretary since 21 September 2015. The biographical details of the Company Secretary are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report. In accordance with the Rule 5.15 of the GEM Listing Rule, the Company Secretary has taken no less than 15 hours of relevant professional training during the year ended 31 March 2020.

SHAREHOLDERS' RIGHT

Procedures for the Shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for the Shareholders to put their enquiries to the board

The Company endeavor to maintain two way communications with the Shareholders through various channels. The Shareholders are encouraged to send their enquiries about the Group by mail to the principle address of the Company. All the enquiries are dealt with in a timely manner. The Shareholders are also encouraged to attend annual general meeting (the “AGM”) and EGM of the Company and to put their enquiries to the Board directly. Notices are duly being circulated to the Shareholders in order to ensure each Shareholder is informed to attend the AGM and the EGM. The Chairman of the Board, chairmen of each of the Remuneration Committee, Nomination Committee and Audit Committee and the senior management attend the aforesaid meetings and respond proactively to the Shareholders’ enquiries. The detailed procedures for conducting a poll are set out in the proxy forms and will be explained by the chairmen of the AGM and EGM orally in the beginning of the aforesaid meetings.

INSIDE INFORMATION

The Company has established and its Directors are aware of the procedures and internal controls for the defining, safeguarding, handling and dissemination of inside information under the obligations and requirement of Securities and Futures Ordinance (Cap. 571) (the “SFO”) Part XIVA. The key provisions include, but not limited to:

1. All Directors, senior management and relevant employees are required to report potential inside information, upon identified, to the Chairman and/or Company Secretary as an official channel for informing all members of the Board;
2. The Executive Directors are required to assess whether the attributes of the potential inside information and relevant impact on the price of the Company’s securities;
3. All Directors, senior management and relevant employees are required take reasonable due care for safeguard the confidentiality of unpublished inside information;
4. All Directors, senior management and relevant employees are constantly reminded not to deal in the Company’s securities when they are in possession of unpublished inside information.
5. All Directors are empowered and required to ensure timely, fair and comprehensive dissemination of inside information, including issuing announcements and/or requesting trading halt in situation of unexpected and significant event.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company strengthens its communications with shareholders and investors through various channels including publication of interim and annual reports, press releases and announcements regarding the latest developments of the Company in its corporate website at www.knk.com.hk at a timely manner.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the respective websites of the Stock Exchange and the Company its Memorandum and Articles of Association. During the year ended 31 March 2020, there had not been any changes in the Company’s constitutional documents.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to the Company's Articles of Association and relevant rules and regulations, including the relevant GEM Listing Rules.

Our dividend policy (the "Dividend Policy") is intended to set forth the principles and guidelines in relation to the declaration, payment or distribution of the Company's profits as dividend to the shareholders of the Company (the "Shareholders").

In determining a proposed dividend and dividend amount, the Board shall take into account, inter alia, the following factors:

1. the general market conditions;
2. the financial performance of the Group;
3. the liquidity position of the Group;
4. the working capital requirements and future development plans of the Group;
5. the retained earnings and distributable reserves of the Company;
6. any commercial and/or contractual restrictions imposed on the Group by relevant stakeholders;
7. the statutory and regulatory restrictions which the Group is subject to; and
8. any other relevant factors that the Board may deem appropriate.

Subject to the Company's Articles of Association, the Board may decide dividends are to be paid in cash, or wholly or partly in the form of allotment of shares, or by issuance of bonus shares on a basis permitted by the applicable laws and regulations.

The payment of dividend by the Company is subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company.

Final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders in an AGM and must not exceed the amount recommended by the Board. The Board may not declare dividend in consideration of various factors, such as reserving sufficient capital for future development.

The Board may from time to time pay the Shareholders such interim and/or special dividends as it considers to be justified by the profits and/or assets level of the Group. There is no assurance that dividends will be paid in any particular amount for any specific period.

The Board will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary.

This Dividend Policy is published on the Company's website for investors' information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP

KNK Holdings Limited (“KNK” or the “Company” or “we”) is principally engaged in the provision of architectural consultancy services in Hong Kong.

The Company and its subsidiaries (collectively as the “Group”) conduct its primary businesses in our Hong Kong office which is subject to relatively low energy, power and resources consumption. The Board of Directors considers that the Group’s daily operation and business development in general brings along insignificant direct environmental impact.

Nevertheless, the Group is dedicated in devoting our best efforts in enhancing our environment and social responsibility and upholding governance values.

ABOUT THIS REPORT

This Environmental, Social and Governance (“ESG”) Report published by KNK discloses our policies, measures, and performance of the Group in respect of ESG issues. These disclosures enable our stakeholders to have a better understanding of the Group’s progress and objectives of sustainable development.

This Report is also uploaded to the website of the Company (www.knk.com.hk).

SCOPE OF THE REPORT

The Report focuses on the operation regarding the provision of architectural consultancy services for the financial year ended 31 March 2020 (‘the reporting period’). The Group will gradually fine tune and/or expand the scope of disclosure based on our materiality assessment and through continuous optimization of our internal information collection procedures.

REPORTING FRAMEWORK

This Report complies with the requirements of the Environmental, Social and Governance Reporting Guide (the “Guide”) published by the Hong Kong Stock Exchange concerning the “comply or explain” principle.

The four reporting principles, which covers materiality, quantitative, balance and consistency, set out in the Guide are taken as the basis for preparing this Report. To make sure that the environmental key performance indicators are properly identified, calculated and presented, an independent consultant, Sejong CPA & Company (hereinafter referred to as “Sejong”), was engaged to assist the Directors and Management to prepare this report.

A complete index is attached to the last section of the Report to enable readers to understand this Report according to the Guide.

STAKEHOLDERS’ FEEDBACK

The Group highly values the opinions of stakeholders. Should you have any enquiries or comments regarding the content or form of this Report, please contact us at knk@asia.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The compilation of the ESG report represents the joint effort of the employees from various departments that help us identify potential risks and opportunities closer to the satisfaction of stakeholders' needs and expectations, and properly manage opinions from different stakeholders. Therefore, the Group attaches great importance to stakeholders' opinions. To communicate with the stakeholders effectively, we communicate with different stakeholders through a wide range of channels.

To determine the strategies and directions for our sustainability, and to identify environmental and social issues that are most essential to the Group and the stakeholders, we have conducted interviews with and internal assessment by our Management and Staff. Based on the result of interviews and assessments, we consider that A2 – Use of Resource is the most important and relevant aspect to KNK out of the eleven ESG aspects from the Guide and accordingly has been selected as the key focus of this Report.

We believe that each year's business performance, overall situation of the industry and other factors will affect the experience of different stakeholders, and thus their expectation and demands on different items. We will continue to collect stakeholder's feedbacks and disclose further information based on the results in various assessments.

ENVIRONMENT ASPECT

Our business and operation do not consume natural resources extensively and does not generate hazardous waste.

The main emission of KNK is indirect greenhouse gas emissions from purchased electricity and paper, while water consumption of KNK come from drinking water in office. In this regard, the disclosure of our environment aspects mainly focuses on energy consumption and use of paper.

During the Reporting Period, we have followed and complied with applicable environmental laws and regulations in all material respects. We are not aware of any non-compliance incidents relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Resources Efficiency Management

The Group has taken various resource conservation measures to improve its resource efficiency. Electricity consumption of our corporate office in office lighting, air-conditioning, and the use of office equipment such as printing machines and computers, is the major contribution to our greenhouse gas emission and energy footprints. Concur to previous year, KNK promotes conservative measures including:

- Maintaining indoor temperature at an optimal level of comfort
- Turning off idle lighting, air conditioning and electronic devices before leaving office

We believe that through the above mitigation measures, it will keep the use of energy and resources in the workplace minimal and finally help us achieve the goal of reducing the greenhouse gas emission and protecting our environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Another resource consumption that we need to manage is paper usage. We encourage our employees to:

- resort to electronic platforms for information dissemination
- reuse or use both sides of paper
- use personal drinking cups instead of disposable paper made cups

Waste Management

Our source of non-hazardous waste is the general waste from daily office operation, which is mainly wastepaper. The Group has engaged an independent cleaning contractor for handling and collecting the non-hazardous waste. The related waste and recycle volume record is, however, not provided to us by the cleaning contractor.

Environmental Performance

Based on the Group's resource consumption in the Reporting Period, the Group's GHG emissions are estimated with reference to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" issued by the Hong Kong Environmental Protection Department and the Electrical and Mechanical Services Department, as detailed in the table below:

Energy use and emissions	Unit	FY2020	Intensity
Electricity	kWh	44,132	1.48
Greenhouse Gas Emission	Tonnes of CO ₂ e	35.81	1.20

Use of resources	Unit	FY2020	Intensity
Paper	Kg	316.86	10.63

Notes to the above two tables

1. Intensity is calculated by the total amount of consumption divided by revenue from operation for Financial Year 2020, approximately HK\$29.8 million.
2. The GHG emissions mainly come from the purchased electricity under Scope II and paper consumption under Scope III.
3. Our production did not involve water. Water expense refers to drinking water consumed in office premise, which is considered irrelevant to ESG issue, and the quantity and monetary amount were immaterial.

Based on our assessment, we are not aware of any significant impacts of activities on the environment and natural resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIETY ASPECT

B1/B4 · Employment & Labour Standards

We owe much of our success to a team of dedicated and efficient workforce.

We are committed to providing a desirable workplace and stable career environment to our employees. This is incorporated into our staff handbook. The staff handbook covers the Group's standard in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits and welfare.

The Group considers that the working environment and benefits offered to the employees and dispatched workers have contributed to building good staff relations and retention. We advocate for equality and diversity, in that our remuneration, promotion and termination systems are designed and decisions are made irrespective of gender, age, race, religion, political affiliation, and national origin.

During the Reporting Period, the Group has complied with all applicable laws and regulations in relation to employment and labour standard. We are not aware of any non-compliance incidents relating to:

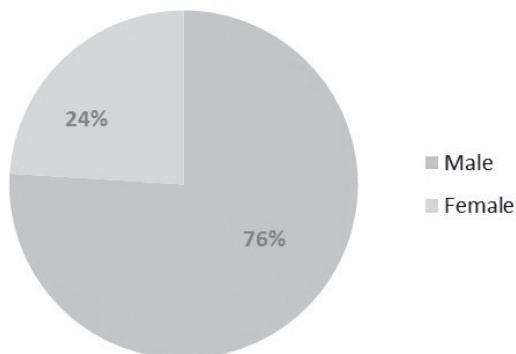
- Employment Ordinance Cap. 57
- Mandatory Provident Fund Schemes Ordinance Cap. 485
- Minimum wage ordinance Cap. 608

We confirm that child and forced labour are strictly prohibited in our businesses and operation.

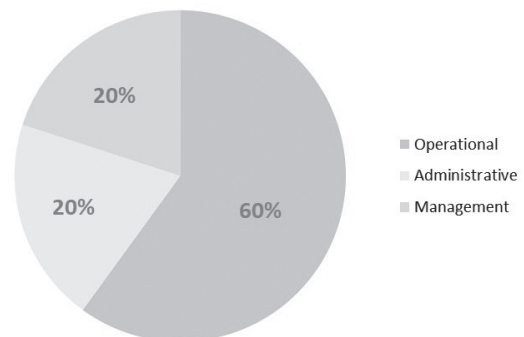
Employee structure

As at the year ended 2020, we have 25 employees. In the reporting period, there were 6 joiner and 2 leavers, who are from operation department.

By Gender



By Function



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2 · Health and Safety

We understand that the maintenance of a healthy and safe working environment and the operational efficiency of an enterprise are closely related. We are committed to protecting our employee from potential occupational hazards and health and safety risks.

We have strictly adhered to all applicable laws and regulations in relation to health and safety, including, but not limited to, Occupational Safety and Health Ordinance cap 509a. Our key health and safety measures include the following:

1. Properly designed workplace to prevent accidents;
2. Adequately lit and ventilated workplace;
3. Illuminated 'EXIT' signs at all exits in our office building;
4. The means of escape in safe condition and free from obstruction;
5. Provision of suitable and adequate fire safety measures;
6. Provision of adequate lavatory and washing facilities, as well as adequate supply of drinking water.

There were no fatalities cases or major accidents/issues concerning the health and safety of our employees.

As the COVID-19 pandemic swept across China and the globe during the year, the most critical focus for every organization is to keep employees safe in an environment where repeated outbreaks are a persistent threat. To achieve this, the Group required employees to work from home during the peak period and supplied hygiene products such as masks, sanitizers and thermometers to employees in the office.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3 · Staff Development and Training

The Group values the development of its employees. Each department leader is responsible for determining the training needs for the employees in his/her team. Training courses either arranged internally or by external service providers are encouraged and arranged in the Reporting Period. The Group strives to ensure that our employees are equipped to fulfill the relevant job requirements in terms of education, training, technical and work experience.

Welfares and Safeguards

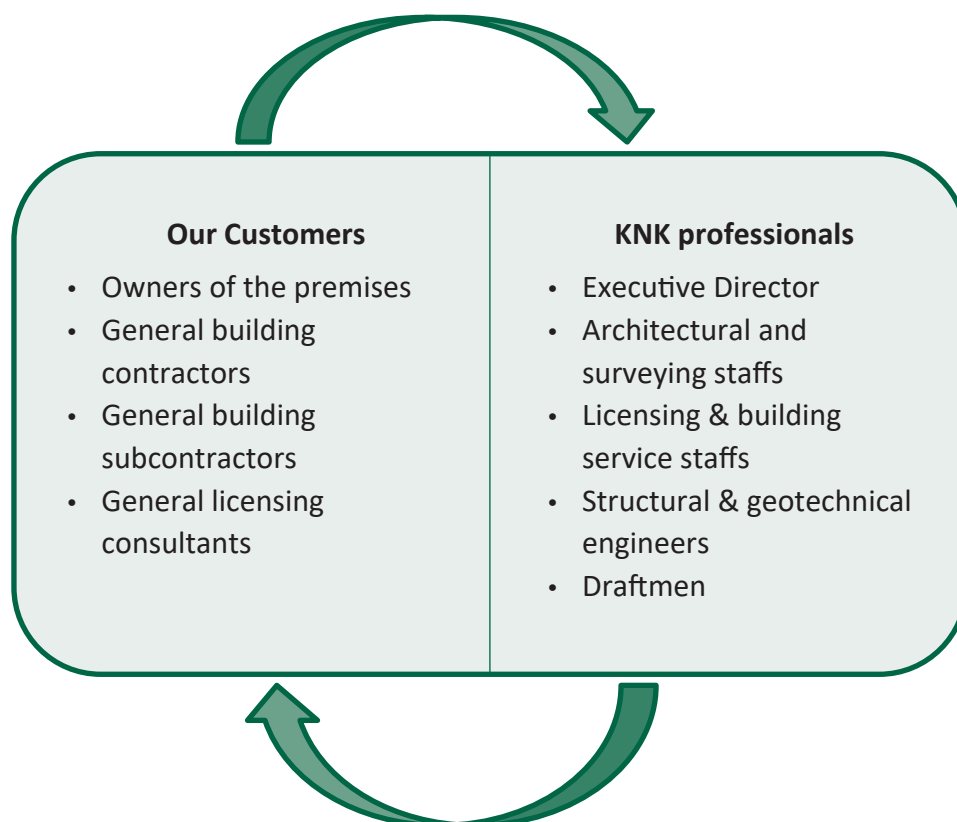
A sustainable and stable workforce is a means of better facilitating the work of every party, creating common values with the hope to deliver up-to-standard quality service for a sustainable development and future.

To achieve the goal, we also put a strong emphasis on assuring comprehensive welfares and safeguards for employees. The Company implemented a compensation and benefits system to further provide employees with competitive remuneration.

We are eager to provide a harmonious working environment for our employees. We offer various leisure and gathering events to lighten the office atmosphere and strengthen the bond among employees.

B5 · Supply Chain Management

As a professional architectural consultancy service provider, our management has set up comprehensive and effective compliance procedures to ensure its full compliance in daily operation with all applicable laws and professional requirements. Our Executive Director oversees each of our engagement and the provision of back-to-back support to our customers.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6 · Quality Management & Service Liability

To ensure its overall operations are in line with all legal compliance requirements, the management of the Group also disseminates information on related changes by email or other means to update employees on new developments. The Group reviews its internal and external operations practices from time to time.

- Constant communication – Operational project managers work closely with customers throughout each job engagement. We constantly make changes to our design to meet customer needs.
- Routine reporting – Our project managers are required to report project status to our Executive Director from time to time.

Handling of Sensitive Information

Throughout the course of our operation, we are not required to handle advertising, labeling, and privacy matters of customers, suppliers, and business partners. Apart from our service quality, KNK emphasises confidentiality of personal data and privacy of our clients. We strictly adhere to the provisions of the Personal Data (Privacy) Ordinance and require our employees to keep secret with respect to confidential information pertaining to its operations.

Customers' feedbacks

The Group pays high attention to the quality of its services. The Group has established relevant quality and safety inspection measures such as communicating with our customers and confirming their project expectation and direction prior to launching any project, and actively coordinates projects with customers in the process of providing services. In the reporting period, we do not have any material complaints.

During the Reporting Period, we have strictly complied with all the applicable laws and regulations relating to health and safety, advertising, labeling and privacy matters relating to services provided. There are no claims or compensations or requests as such in relation to service liability. We have taken every necessary step to prevent infringement of our own intellectual property rights.

B7 · Anti-Corruption

The Group is committed to upholding a high standard of business ethics and to standards to prohibit bribery and corrupt practices. Anti-corruption procedures are put into our practice and embedded in our employment handbook to regulate employees in practising business ethics.

Particularly, we conduct our business or affairs in compliance with the Prevention of Bribery Ordinance (POBO) of Hong Kong. The Group prohibits:

- a) soliciting or accepting any advantage from others as a reward for or inducement to doing any act or showing favour in relation to the Group's business or affairs; or offering any advantage to an agent of another as a reward for or inducement to doing any act or showing favour in relation to his principal business or affairs;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- b) offering any advantage to any public servant (incl. Government/public body employee) as a reward for or inducement to his performing any act in his official capacity or his showing any favour or providing any assistance in business dealing with the Government/a public body; or
- c) offering any advantage to any staff of a Government department or public body while they are having business dealing with the latter.

During the Reporting Period, we strictly complied with all the applicable laws and regulations relating to bribery, extortion, fraud and money laundering. An example is the Prevention of Bribery Ordinance in Hong Kong.

We will take disciplinary or legal actions against any acts of bribery and corruption. There was neither record on any corruption-related cases nor receipt of any reports of suspected cases which involved the Group or its employees.

B8 · Community Investment

The Group regards contributions to society as part of its mission.

Our business development strategy also pays close attention to community welfare. The Group has been devoted to promoting community development by taking the lead and encouraging employees to care for the community.

The Group has a vision and plan to support reputable non-profit-making and charity organisations which focus on helping poor elderly or improving children education for poor families.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX 1: HKEX ESG REPORTING GUIDE INDEX

SEHK ESG Reporting Guide General Disclosures		Reference Section/Remark	Comply or Explain
A. Environment			
A1 Emission	Information on:	Environment aspect	Complied
	(a) the policies; and		
	(b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.		
KPI A1.1	The types of emissions and respective emissions data.	Environmental Performance	Complied
KPI A1.2	Greenhouse gas emissions in total, and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Performance	Complied
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable – No hazardous waste was generated	Explained
KPI A1.4	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environment aspect: – Resources Efficiency Management – Environmental Performance	Complied
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environment aspect – Resources Efficiency Management	Complied
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Our Environment aspect – Resources Efficiency Management	Complied

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SEHK ESG Reporting Guide General Disclosures	Reference Section/Remark	Comply or Explain
A2 Use of Resources Policies on efficient use of resources including energy, water and other raw materials.	Our Environment aspect – Resources Efficiency Management	Complied
KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Our Environment aspect – Environmental Performance	Complied
KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Our Environment aspect – Environmental Performance	Complied
KPI A2.3 Description of energy use efficiency initiatives and results achieved.	Our Environment aspect – Resource Efficiency Management	Complied
KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable – water consumption were insignificant	Explained
KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable – Packaging materials used in operation were insignificant.	Explained
A3 The Environment and Natural Resources Policies on minimizing the operation's significant impact on the environment and natural resources.	Not applicable – we did not have significant impact on environment and natural resources during our operation.	Explained
KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Not applicable. We did not have significant impacts of activities on the environment and natural resources.	Explained

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SEHK ESG Reporting Guide General Disclosures		Reference Section/Remark	Comply or Explain
B. Social			
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment & Labour Standards	Complied
B2 Health and Safety	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	Complied
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Staff Development and Training	Complied
B4 Labour Standard	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.	Employment & Labour Standards	Complied
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	Supply Chain Management	Complied

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SEHK ESG Reporting Guide General Disclosures		Reference Section/Remark	Comply or Explain
B6 Product Responsibility	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	Quality Management and Service Liability	
B7 Anti-corruption	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.</p>	Anti-corruption principles and practices are embedded into Employment handbook. Please refer to "Anti-corruption" section for details.	Compiled
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests	Our Group is in consideration of setting up policy on community investment in the future	Compiled

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Poon Kai Kit Joe (潘啟傑), previously named Poon Hoi Ming, aged 54, is the founder of our Group, the chairman of the Board and an executive Director. Mr. Poon is responsible for the overall corporate development of our Group, overseeing the management of our Company and giving guidance or decision on design, administration and policy matters. Mr. Poon also collaborates with project directors and architects to assume full responsibility for the projects. Mr. Poon was appointed as a Director on 29 July 2015.

Mr. Poon has over 20 years of experience in the architectural service industry. He established Prompt Shine Investment Limited (currently known as KKCAAL) in 1993. Since 1999, he led Prompt Shine Investment Limited to specialise in architectural expertise while simultaneously providing structural, building services, interior design, project management and licensing services.

Mr. Poon graduated from the University of Hong Kong with a bachelor's degree of Arts in Architectural Studies in November 1988. He was then awarded with a bachelor's degree of Architecture from the University of Hong Kong in December 1990.

Mr. Poon is a director of Energetic Way, Energetic Tree, Global Crown Limited, Lucky Unicorn Holdings Limited and KKCAAL.

Ms. Sin Pui Ying (冼佩瑩) (“**Ms. Sin**”) has been appointed as an executive Director with effect from 29 August 2019.

Ms. Sin, aged 40, is a member of the Hong Kong Institute of Certified Public Accountants. She holds a bachelor's degree in Business Administration (Accounting and Finance) from the University of Hong Kong. Ms. Sin has over 17 years of experience in finance and accounting. Prior to joining the Company, she worked in several listed companies in Hong Kong and was responsible for accounting, internal audit, investment and corporate finance matters.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Pui Chung (“**Mr. Lee**”) (李沛聰) has been appointed as an independent non-executive Director, the chairman of the Audit Committee and Special Investigation Committee of the Company, and a member of the Remuneration Committee and Nomination Committee of the Company with effect from 18 July 2019.

Mr. Lee, aged 33, has over 11 years of experience in accounting, finance and auditing. He worked in Zioncom Holdings Limited (Stock code: 8287) and served as the financial controller and company secretary from June 2015 to November 2018. Mr. Lee is currently the financial controller and company secretary of IMS Group Holdings Limited (Stock code: 8136). Mr. Lee is a fellow member of the Hong Kong Institute of Certified Public Accountants and a full member of CPA Australia. Mr. Lee obtained a bachelor of business administration degree in accountancy from City University of Hong Kong in November 2008.

Ms. Lai Pik Chi Peggy (黎碧芝) (“**Ms. Lai**”) has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee of the Company, and a member of the Audit Committee, Nomination Committee and Special Investigation Committee of the Company with effect from 29 August 2019.

Ms. Lai, aged 55, has over 20 years of auditing, accounting and financial management experience. She obtained a master degree of business administration from the University of Manchester in the United Kingdom in June 2010. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Lai served as an executive director from October 2008 to May 2011, and the chairman of the board from January 2009 to May 2011 of Mandarin Entertainment (Holdings) Limited (now known as KEYNE LTD) (stock code: 9), a company listed on the Main Board of the Stock Exchange. She was the chief financial officer and company secretary from May 2012 to May 2016 and remained as the company secretary until 30 June 2016 of CIG Yangtze Ports PLC (now known as China Infrastructure & Logistics Group Ltd) (stock code: 1719), a company listed on the Main Board of the Stock Exchange. She is currently the company secretary of OCI International Holdings Limited (stock code: 329), a company listed on the Main Board of the Stock Exchange. She is also an independent non-executive director of KPa-BM Holdings Ltd (stock code: 2663) since September 2015, an independent non-executive director of Zhejiang United Investment Holdings Group Limited (stock code: 8366) since November 2019 and non-executive director of Larry Jewelry International Company Limited (stock code: 8351) since February 2020.

Mr. Chan Chung Yin Victor (陳仲然) (“Mr. Chan”) have been appointed as an independent non-executive Director, the chairman of the Nomination Committee of the Company and a member of the Audit Committee, Remuneration Committee and Special Investigation Committee of the Company with effect from 29 August 2019.

Mr. Chan, aged 59, obtained his Bachelor of Arts degree from the University of Hong Kong in 1984. He has been admitted as a Solicitor of the High Court of Hong Kong since 1991 and has over 26 years of experience in commercial law, and civil and criminal litigations. He is now the principal of his own solicitors firm, Messrs. Victor Chan & Co.

Mr. Chan was an independent non-executive director of Teamway International Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1239), from 28 September 2018 to 20 June 2019. He was also an independent non-executive director of Sanai Health Industry Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1889) from 5 October 2018 to 3 April 2019. Mr. Chan was a non-executive director of On Real International Holdings Limited (stock code: 8245) from 16 January 2019 to 31 March 2020, and an executive director of Elegance Optical International Holdings Limited (stock code: 907) since 15 July 2019. He was an independent non-executive director of Elegance Optical International Holdings Limited (stock code: 907) from 29 September 2018 to 11 January 2019.

SENIOR MANAGEMENT

Mr. Lee Hon Ho (李漢豪), aged 56, joined our Group on 10 September 2011 as a senior project architect and was then promoted to a senior associate director and the head of alteration and addition and minor work division of our Group. He is responsible for the architectural and interior design of alteration and addition works and minor works. Prior to joining our Group, Mr. Lee Hon Ho worked as a project architect in KLS International Architects & Planners Co., Ltd from May 2004 to September 2011.

He obtained a bachelor's degree of Art in Architecture Studies from the University of Hong Kong in November 1985 and was awarded a professional degree in Architecture from Politecnico di Milano in Italy in July 1993.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Kin Piu (黃健彪), aged 49, joined our Group on 9 March 2009 and has been a project manager of our Group since then. He is responsible for project management of alteration & addition works and minor works including preparation of statutory submission documents. He also supervises site works and liaises with customers, consultants and contractors. Prior to joining our Group, Mr. Wong Kin Piu worked as project manager in Mega Projects Construction Limited From September 2006 to February 2009. He gained skills in site planning, management and technical co-ordinations to solve problems without jeopardizing the fundamental design intention through experience in plenty of building services improvements project experience.

Mr. Wong Kin Piu was awarded the higher diploma in Building Surveying from the City University of Hong Kong in November 1993. He was also awarded BSc (Hon) in Construction Management from the University of Wolverhampton in September 2008.

Mr. Wong Yiu Chung (黃耀聰), aged 55, has joined our Group since 1 July 2015 and has been an associate director of our Group since July 2015. He is in charge of building services division and he is responsible for managing the building services design team, project management and license consultant. Mr. Wong Yiu Chung has around 20 years experience in building services system planning, design and quality control. Prior to joining our Group, he worked as project manager in Asia Standard Development Holdings Limited from October 1993 to April 2006, in charge of all building services works and successfully completed over 30 development projects including residential, commercial, industrial buildings and hotels.

Mr. Wong Yiu Chung was awarded a Certificate in Mechanical Engineering (Air-conditioning and Refrigeration) from Morrison Hill Technical Institute in June 1990. Then he was awarded a Higher Certificate in Building Services Engineering from Hong Kong Polytechnic in November 1993. Mr. Wong Yiu Chung has mastery on heating, ventilation, refrigerating and air-conditioning engineering and had obtained the membership of American Society of Heating, Refrigerating and Air-conditioning Engineers, Inc in September 1994.

Mr. Kwong Chun Man (鄺振文), aged 41, joined our Group as the financial controller on 17 August 2015 and was appointed as the company secretary of our Company on 21 September 2015 and is responsible for our Group's accounting and corporate finance matters.

Mr. Kwong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Kwong is also a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the Information Systems Audit and Control Association. Mr. Kwong obtained a Bachelor of Art in Computing degree at The Hong Kong Polytechnic University in November 2001.

Before joining our Group, Mr. Kwong was employed by Deloitte Touche Tohmatsu from 2001 to 2008 and was a manager when he left the employment. He was a vice president of Orient Securities Limited, an indirect wholly owned subsidiary of Orient Securities International Holdings Limited (stock code: 8001), from 1 June 2013 to 16 August 2015 and was responsible for its financial reporting and overall financial planning and budgeting. Mr. Kwong was appointed as independent non-executive Director of Zioncom Holdings Limited (stock code: 8287) on 26 June 2019.

REPORT OF DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES AND REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability on 29 July 2015 under the Companies Law of the Cayman Islands and acts as an investment holding company. Under a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange (the “Group Reorganisation”), the Company has become the ultimate holding company of the Group on 21 September 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Unit E, 33rd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company and its subsidiaries (together the “Group”) are principally engaged in the provision of comprehensive architectural and structural engineering consultancy services.

The Company’s shares have been listed on the GEM of the Stock Exchange since 12 December 2016 (the “Listing Date”).

BUSINESS REVIEW AND PERFORMANCE

Review of the Group’s Business and Performance

Details of a fair review of the Group’s business (including an analysis using key financial performance indicators) and the possible future development of the Group’s business are set out in the sections headed “Executive Director Statement” and “Management Discussion and Analysis” of this annual report.

Compliance with Laws and Regulations

During the year ended 31 March 2020, the Group has complied with the relevant laws and regulations that have a significant impact on it.

Environmental Policies and Performance

While the direct impact of the Group’s business to the environment is minimal due to the nature of our business, we are committed to providing architectural consultancy services in a manner that minimises potential adverse impact on the environment. To achieve this aim, we have adopted a set of environmental protection policies including but not limited to shutting down lights and various office electronic equipment when not in use and reducing the paper consumption.

Relationship with Key Stakeholders

As developing and retaining talents are vital to the Group’s success, the Group not only provides competitive remuneration packages and opportunities for career advancement, but also gives support in different areas to its employees. During the period under review, there were no significant disputes between the Group and its employees.

In addition, the Group also kept maintaining a long-term healthy relationships with its major customers and subcontractors by keeping engaging new projects from them and engaging them on projects that need their participations.

RESULTS

The Group's results for the year ended 31 March 2020 and the state of affairs of the Group at that date are set out in the consolidated financial statements from pages 51 to 105 of this annual report.

The Directors do not recommend payment of any dividend for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out in the section headed "Financial Summary" on page 106 of this annual report. The summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 24 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 13 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2020, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately HK\$Nil (2019: HK\$18,150,000).

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

As stated in the Prospectus, the principal business objective of our Group is to further strengthen our position in the architectural services industry in Hong Kong in order to achieve sustainable growth in our business and create long-term shareholder's value. We will continue to play an active role in seeking opportunities in the architectural and structural engineering consultancy service industry in Hong Kong in order to achieve sustainable growth in our business and create long-term shareholder's value.

REPORT OF DIRECTORS

The Group plans to achieve this objective by capitalising on the network of our pre-IPO investor and increasing our capacity through our recruitment plan and upgrading computer system and software.

Business Objectives as stated in the Prospectus

Capitalising on the network of our pre-IPO investor

Increasing our capacity through our recruitment plan and upgrading computer system and software

Actual Business Progress during the financial year ended 31 March 2020

As mentioned in annual report 2019, the pre-IPO investor introduced a project to the Group with contract sum over HK\$33 million. Such project was completed in 2019.

Besides this, the pre-IPO investor keeps introducing potential customers and professional staff to the Group to support the development of the Group.

At the same time, the directors and senior management of the Group will keep exploring and capture valuable opportunities to the Group, despite under risks applicable to general environment including interest rate risk, political risk and demand and supply in the market. The directors and senior management will keep working hard to provide high level of services to our customers.

Since listing, the Group started to recruit additional professional and supporting staff and 16 additional staff were employed since listing.

On upgrading computer system and software, the Group has invested proceeds from listing to develop architectural related system and other supporting system to improve the efficiency of job management and delivery of services. The systems are still under development phase.

In this aspect, the directors believe that most importantly the competence of the staff recruited should be able to capture the needs of various projects, supported by various computer systems. So the Group will only recruit staff with adequate knowledge and experience, and it is mainly the reason why the recruitment plan is a bit fall behind the schedule as planned.

USE OF PROCEEDS

Among the net proceeds of approximately HK\$25.1 million from the placing transaction conducted in 12 December 2016, up to the latest practicable date for the purpose of this announcement, approximately HK\$2.5 million has been used as general working capital of the Group, comprising (i) approximately HK\$0.9 million as Directors' remuneration and staff salaries payment; and (ii) approximately HK\$1.6 million as compliance and professional fee and general expenses. Also approximately HK\$6.5 million was used as salaries to recruit additional staff since listing to support the expansion of business and approximately HK\$5.7 million was used to purchase new property, plant and equipment and development and upgrade of the BIM system. The remaining balance of HK\$10.4 million was kept in the Group's bank accounts. The Directors do not intend to change the intended usage of the proceed as disclosed in the Prospectus.

SUBSIDIARIES

A list of subsidiaries together with their places of operations and incorporation and particulars of their issued share capital are out in note 30 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 March 2020 and up to the date of the report were:

Executive Directors

Mr. Poon Kai Kit Joe
Ms. Sin Pui Ying (appointed on 29 August 2019)
Ms. Chan Ka Yee (resigned on 29 August 2019)
Mr. Sun Xiao Li (resigned on 8 November 2019)
Mr. Gu Jintai (removed on 13 December 2019)
Ms. Shi Lijie (removed on 13 December 2019)
Mr. Feng Wei (retired on 12 August 2019)

Independent Non-executive Directors

Mr. Lee Pui Chung (appointed on 18 July 2019)
Ms. Lai Pik Chi Peggy (appointed on 29 August 2019)
Mr. Chan Chung Yin Victor (appointed on 29 August 2019)
Mr. Kong Kam Wang (resigned on 28 August 2019)
Mr. Sung Hak Keung Andy (retired on 12 August 2019)
Mr. Wong Kai Tat (resigned on 28 August 2019)

In accordance with articles of the Company's Articles of Association, Mr. Poon Kai Kit Joe and Mr. Chan Chung Yin Victor will retire as Directors by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of Directors and senior management of the Group are set out from pages 33 to 35 of this annual report.

REPORT OF DIRECTORS

DIRECTORS' SERVICE CONTRACTS

The Independent Non-executive Directors were appointed for a fixed term of three years under a letter of appointment issued by our Company. Their appointment is renewable from each general meeting on which he is standing for re-election and is subject to (i) the rotation, removal, vacation or termination of his office as a Director or disqualification at act as a Director as set out in the applicable laws, the articles of association of the Company and the GEM Listing Rules; and (ii) the terms of the letter of appointment.

There have been no service contracts entered into by the Company with any of the Directors which contain an unexpired period which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in the Company's Prospectus and the related party transactions as set out in note 26 to the consolidated financial statements, none of the Directors or entities connected with any of them has or had any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during, or at the end of, the year ended 31 March 2020.

Save as disclosed in the Prospectus, there were no arrangements subsisting during, or at the end of, the year ended 31 March 2020 to which the Company, its subsidiary(ies), its controlling shareholder(s), or the subsidiary(ies) of its controlling shareholder(s) is a party and whose objects were, or one of whose objects was, to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the Prospectus, there were no contracts of significance between the Company or any of its subsidiaries and the controlling Shareholders of the Company subsisting during the year ended 31 March 2020.

DONATION

During the year ended 31 March 2020, the Group did not make any donation (2019: nil).

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of Hong Kong Companies Ordinance when the Directors' Report prepared by the Directors is approved in accordance with section 391 of Hong Kong Companies Ordinance.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The remuneration committee was established for reviewing and determining the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under a share option scheme. The Company has conditionally adopted a share option scheme. The details of the share option scheme are set out in the paragraph headed "Share Option Scheme" below.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled for Friday 25 September 2020. In order to determine entitlements to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 22 September 2020 to Friday 25 September 2020 (both dates inclusive), during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Monday, 21 September 2020.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 March 2020, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the ordinary shares with a par value of HK\$0.01 each in the Company ("Shares"), underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer set out in rules 5.46 of the GEM Listing Rules (the "Required Standard of Dealings") were as follows:

Long position in Shares and underlying shares

Name of Directors	Capacity/Nature of interests	Number of share held (Note 3)	Approximate percentage of issued share capital (Note 2)
Mr. Poon Kai Kit Joe (Note 1)	Interest of a controlled corporation	194,800,000 (L)	46.60%
Ms. Chan Ka Yee (Note 1)	Interest of a controlled corporation	194,800,000 (L)	46.60%

Long position in ordinary shares of Energetic Way Limited ("Energetic Way") (Note 4)

Name of Directors	Capacity/Nature of interests	Number of share held (Note 3)	Approximate percentage of issued share capital (Note 2)
Mr. Poon Kai Kit Joe (Note 1)	Beneficial Interest/Interest of Spouse	2 (L) (Note 4)	100%
Ms. Chan Ka Yee (Note 1)	Beneficial Interest/Interest of Spouse	2 (L) (Note 4)	100%

Notes:

- 196,000,000 shares were registered in the name of Energetic Way Limited, which was owned as to 50% by Mr. Poon Kai Kit Joe ("Mr. Poon") and 50% by Ms. Chan Ka Yee ("Ms. Chan"), spouse of Mr. Poon. Under the SFO, Mr. Poon and Ms. Chan were deemed to be interested in the shares held by Energetic Way Limited by virtue of Energetic Way Limited being controlled by Mr. Poon and Ms. Chan.
- The percentage is calculated on the basis of 418,000,000 shares of the Company in issue as at 31 March 2020.

REPORT OF DIRECTORS

- The letter “L” denotes the entity’s/person’s long position in the shares.
- Each of Mr. Poon and Ms. Chan was beneficially interested in 1 ordinary share of Energetic Way and each of Mr. Poon and Ms. Chan, being spouse of each other, was also deemed to be interested in the 1 ordinary share held by Ms. Chan and Mr. Poon respectively.

Save as disclosed above, as at 31 March 2020, none of the Directors or the Chief Executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OF THE COMPANY IN THE SHARES AND UNDERLYING SHARES

As at 31 March 2020, so far as is known to the Directors and the Chief Executives and based on the public records filed on the website of the Stock Exchange and records kept by the Company, the interests and short positions of the persons or corporations (other than the Directors and the Chief Executives) in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity/Nature of interests	Number of share capital (Note 2)	Approximate percentage of issued share held (Note 3)
Energetic Way Limited (Note 1)	Beneficial interest	194,800,000 (L)	46.60%
Ke Yuexian	Beneficial interest	83,624,000 (L)	20.01%

Notes:

- 196,000,000 shares were registered and owned by Energetic Way Limited, of which 50% of the issued share capital was legally and beneficially owned by Mr. Poon and 50% by Ms. Chan, spouse of Mr. Poon. Therefore, Mr. Poon and Ms. Chan were deemed to be interested in the shares held by Energetic Way Limited by virtue of Energetic Way Limited being controlled by Mr. Poon and Ms. Chan.
- The letter “L” denotes the person’s/entity’s long position in the shares.
- The percentage is calculated on the basis of 418,000,000 shares of the Company in issue as at 31 March 2020.

Save as disclosed above, as at 31 March 2020, there was no person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed above, so far as is known to the Directors, there was no other person who had interest or short position in the Shares and underlying Shares that is discloseable under Chapter 18 of the GEM Listing Rules.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed “INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” and “SHARE OPTION SCHEME” in this report, at no time during year ended 31 March 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, at no time during the year ended 31 March 2020 had the Directors and the Chief Executives (including their spouses and children under 18 years of age) any interest in, or been granted, or exercised any rights to subscribe for the Shares (or warrants or debentures, if applicable) and its associated corporations (within the meaning of the SFO).

PURCHASE, REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

SHARES ISSUED FOR THE YEAR ENDED 31 MARCH 2020

No Share was issued during the year ended 31 March 2020.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

No convertible securities, options, warrants and similar rights were issued or granted by the Group during the year ended 31 March 2020.

SHARE OPTION SCHEME

The purpose of the share option scheme is to enable the Company to grant options to any employee, adviser, consultant, agent, contractors, client, supplier, customer and/or such other person, who in the sole discretion of the Board has contributed or may contribute to our Group (the “Eligible Participant”). The Company conditionally adopted a share option scheme (the “Scheme”) on 21 November 2016 which has become effective since 12 December 2016 (the “Effective Date”) whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe for the shares of the Company to the Eligible Participant. The Scheme will be valid and effective for a period of ten years commencing from the Effective Date. Terms used below shall have the same meaning as those defined in the section “D. Share Option Scheme” in Appendix IV to the Prospectus.

An offer of the grant of option(s) shall be made to an Eligible Participant by letter in such form as the Board may from time to time determine requiring the Eligible Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the Eligible Participant concerned until 5:00 p.m. on the 20th business days following the Offer Date provided that no such offer shall be open for acceptance after the Scheme Period or after the Scheme has been terminated.

REPORT OF DIRECTORS

An Option shall be deemed to have been granted and accepted when the duplicate of the offer letter as referred to above comprising acceptance of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK\$1.00 or any other amount as determined by the Board by way of consideration for the grant thereof is received by our Company within the period open for acceptance referred to above. Such remittance shall in no circumstances be refundable.

The subscription price for the shares subject to Options will be a price determined by the Board and notified to each participant and shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer of the grant of option; and (iii) the nominal value of a share.

As at the date of this report, the maximum number of shares available for issue under the Scheme is 41,800,000 shares, representing approximately 10% of the issued share capital of the Company as at the date of adoption of the Scheme.

The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the GEM Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time of refreshment. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each Eligible Participant (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of the Company in any 12-month period up to and including the date of offer of the grant of option shall not exceed 1% of the total number of shares in issue for the time being. Any further grant of options in excess of this limit is subject to shareholder's approval in general meeting.

As at the date of this report and since the adoption of the Scheme, no share option has been granted by the Company.

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors, senior management and five individuals of the Group with highest emoluments are set out in note 9 to the consolidated financial statements respectively.

COMPETING INTERESTS

As at 31 March 2020, none of the Directors, the controlling Shareholders and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group and none of them had or may have any other conflicts of interest with the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 March 2020, the Company did not enter into any connected transactions which required reporting, annual review, announcements and/or independent shareholders' approval under the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2020, there was 1 customer with revenue contribution over 10% of the total revenue of the Group, in which the largest customer contributed 19% of the total revenue of the Group.

For the year ended 31 March 2020, the aggregate revenue to the top five customers of the Group accounted for approximately 38% (2019: 55%) of the Group's total revenue.

As far as the Directors aware, neither the Director nor their associates nor any shareholder (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in that customer of the Group.

Due to the nature of the Group's business activities, the Group has no supplier.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group are set out in note 26 to the consolidated financial statements.

During the year ended 31 March 2020, the Group monitored services provided to and subcontracting services provided from related parties with an executive Director of the Company. Since the applicable ratios of the annual caps of services provided to and subcontracting services provided from for each of them is less than 5% and less than HK\$3,000,000, these transactions fall within the exemption under Rule 20.74(1) of the GEM Listing Rules and no reporting, announcement and independent shareholders' approval are required.

BORROWINGS

As at 31 March 2020, the Group had nil bank borrowing and an approximately HK\$10.9 million borrowings from independent third parties which is repayable within one year. Also the Company issued a bond of HK\$5 million which is repayable within one years.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the Independent Non-executive Directors to be independent.

INTEREST OF COMPLIANCE ADVISER

As at 31 March 2020, neither Ample Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to rule 6A.32 of GEM Listing Rules.

REPORT OF DIRECTORS

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 31 to the consolidated financial statements, up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the year ended 31 March 2020.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2020 (2019: Nil).

CORPORATE GOVERNANCE

The Group is committed to promoting high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") in Appendix 15 of the GEM Listing Rules. Throughout the year ended 31 March 2020 and up to the date of this report, to the best knowledge of the Board, the Company has complied with all the code provisions set out in the CG Code save for the deviation from code provision A.2.1 as mentioned in the section headed "Chairman and Chief Executive Officer" in this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Crowe (HK) CPA Limited resigned as auditor of the Company on 29 April 2020, and Mazars CPA Limited, Certified Public Accountants, was appointed as auditor of the Company to fill the vacancy with effect from 29 April 2020. Save as disclosed above, there was no change in auditor during the past three years.

A resolution will be submitted to the 2020 AGM to re-appoint Mazars CPA Limited as auditor of the Company.

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

During the course of audit of the consolidated financial statements of the Group for the year, the auditor has raised concern on the Group's loan receivables and other borrowings. The management of the Company (the "Management") has considered the auditor's rationale and understood their consideration in arriving the disclaimer of opinion. The Management is unable to reach the former Executive Directors to obtain the information and supporting documents of the loan receivables and other borrowings. The Management will continue to take all possible actions in order to retrieve all necessary information.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the Audit Committee have critically reviewed the basis for disclaimer of opinion, the Management's position concerning the basis for disclaimer of opinion and actions taken by the Company for addressing the basis for disclaimer of opinion. The Audit Committee agreed with the Management's position and requested the Management to use its best endeavors to retrieve all necessary information. The Audit Committee has also discussed with the auditor regarding actions taken and to be taken by the Company, and considered the auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

PLAN TO ADDRESS THE DISCLAIMER OF OPINION

In order to address the disclaimer of opinion, the Company is in the process of obtaining bank statements directly from the banks where Golden Legend and Jin Hao have bank accounts over there. At the same time, the Management is studying where and how loan agreements can be obtained, including but not limited to contacting accounting service providers to Golden Legend and Jin Hao.

On behalf of the board

Sin Pui Ying

Director

Hong Kong, 29 June 2020

INDEPENDENT AUDITOR'S REPORT



MAZARS CPA LIMITED
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong

**To the shareholders of
KNK Holdings Limited**

(incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of KNK Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 51 to 105, which comprise the consolidated statement of financial position as at 31 March 2020, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – loan receivables

During the year ended 31 March 2019, an indirectly owned subsidiary, Jin Hao (Shenzhen) Holdings Limited (“Jin Hao”) advanced loans to a company of approximately HK\$4.09 million. During April to May 2019, another indirectly owned subsidiary, Golden Legend Capital Limited (“Golden Legend”) and Jin Hao advanced in aggregate of approximately HK\$6.07 million to several individuals and companies and were recorded under loan receivables as set out in Note 17 to the consolidated financial statements. Both Golden Legend and Jin Hao are inactive and were managed by certain ex-directors of the Company. The current management is unable to reach those ex-directors to obtain the supporting documents of those loan receivables of approximately HK\$10.16 million, in aggregate, and contact details of those debtors. The current management has written off the loan receivables because the loan receivables were not settled and no required information and supporting documents are available to allow them to chase the debtors for the loan receivables. We were unable to obtain sufficient appropriate audit evidence and reasonable representations from management that those loan receivables represented genuine loans to independent third parties. Accordingly, we were unable to satisfy ourselves as to the original loan receivables recognised, the appropriateness of the write-off of loan receivables made and the related disclosures in the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

2. Scope limitation – other borrowings

As at 31 March 2020, there were other borrowings of HK\$5.5 million as set out in Note 19 to the consolidated financial statements and on the statement of financial position of the Company as set out in Note 29 to the consolidated financial statements. During the year, all proceeds of the Group's other borrowings were received through Golden Legend and Jin Hao. The current management is unable to reach certain ex-directors who are also the directors and management of these two subsidiaries to obtain the supporting documents, including bank statements of these two subsidiaries, loan agreements, and representations in relation to the other borrowings. As we were unable to obtain sufficient appropriate audit evidence and reasonable representations from management in respect of the amount of the other borrowings as at 31 March 2020, we were unable to determine the existence, rights, obligations and completeness on the other borrowings. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded other borrowings.

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

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

Our responsibility is to conduct an audit of the consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We are independent of the Company 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.

Mazars CPA Limited

Certified Public Accountants

Hong Kong, 29 June 2020

The engagement director on the audit resulting in this independent auditor's report is:

Chan Hiu Fun

Practising Certificate number: P05709

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2020

	Note	2020 HK\$'000	2019 HK\$'000
Revenue	6	29,779	45,848
Cost of services		(35,501)	(40,664)
<hr/>			
Gross (loss) profit		(5,722)	5,184
Other income	7	344	376
Administrative expenses		(13,572)	(10,500)
Finance costs	8	(673)	(199)
Share of results of associates	15	(2,484)	(9)
Write-off of loan receivables	17	(10,159)	–
Loss allowance on contract assets	16	(2,003)	–
Loss on derecognition of subsidiaries	3(c)	(41)	–
<hr/>			
Loss before tax	8	(34,310)	(5,148)
Income tax expenses	10	(24)	(7)
<hr/>			
Loss and total comprehensive loss for the year attributable to owners of the Company		(34,334)	(5,155)
<hr/>			
Loss per share			
Basic	11	HK(8.21) cents	HK(1.23) cents
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Diluted	11	HK(8.21) cents	HK(1.23) cents
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2020

	Note	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	13	568	1,451
Right-of-use assets	14	514	–
Interests in associates	15	7,847	7,831
Deposits and prepayment		–	1,200
		8,929	10,482
Current assets			
Trade and other receivables	16	9,945	9,656
Loan receivables	17	–	4,092
Tax recoverable		1,988	1,460
Bank balances and cash		11,149	29,419
		23,082	44,627
Current liabilities			
Trade and other payables	18	3,775	652
Other borrowings	19	5,500	4,092
Term loan	20	5,350	–
Bond payable	21	5,000	–
Lease liabilities	22	715	–
Tax payable		77	27
		20,417	4,771
Net current assets		2,665	39,856
Total asset less current liabilities		11,594	50,338
Non-current liabilities			
Bond payable	21	–	5,000
Lease liabilities	22	616	–
Deferred tax liabilities	23	–	26
		616	5,026
NET ASSETS		10,978	45,312

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2020

	Note	2020 HK\$'000	2019 HK\$'000
Capital and reserves			
Share capital	24(a)	4,180	4,180
Reserves		6,798	41,132
TOTAL EQUITY		10,978	45,312

These consolidated financial statements on pages 51 to 105 were approved and authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by

Director
Sin Pui Ying

Director
Poon Kai Kit Joe

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

	Attributable to owners of the Company				Total equity HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000 Note 24(b)(i)	Other reserves HK\$'000 Note 24(b)(ii)	Accumulated profits (losses) HK\$'000	
At 1 April 2018	4,180	33,785	5,000	7,502	50,467
Loss and total comprehensive loss for the year	-	-	-	(5,155)	(5,155)
At 31 March 2019	4,180	33,785	5,000	2,347	45,312
At 1 April 2019	4,180	33,785	5,000	2,347	45,312
Loss and total comprehensive loss for the year	-	-	-	(34,334)	(34,334)
At 31 March 2020	4,180	33,785	5,000	(31,987)	10,978

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	Note	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	25(a)	(14,824)	(9,589)
Income taxes paid		(528)	(1,934)
Net cash used in operating activities		(15,352)	(11,523)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		–	(850)
Investment in an associate		(2,500)	(7,840)
Loans advanced		(6,067)	(4,092)
Net cash used in investing activities		(8,567)	(12,782)
FINANCING ACTIVITIES			
Proceeds from issuance of bonds		–	5,000
Proceeds from other borrowings		5,500	4,092
Repayment of other borrowings		(4,092)	–
Proceeds from term loan		5,350	–
Payment of lease liabilities and interests		(909)	–
Interest paid		(200)	(199)
Net cash from financing activities	25(b)	5,649	8,893
Net decrease in cash and cash equivalents		(18,270)	(15,412)
Cash and cash equivalents at beginning of year		29,419	44,831
Cash and cash equivalents at end of year, represented by bank balances and cash		11,149	29,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

1. GENERAL INFORMATION

KNK Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited. The addresses of its registered office and principal place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit E, 33/F., Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in provision of comprehensive architectural and structural engineering consultancy services. The principal activities of its subsidiaries are set out in note 30 to the consolidated financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Energetic Way Limited, a company incorporated in the British Virgin Islands.

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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 4 to the consolidated financial statements. A summary of the principal accounting policies adopted by the Group is set out in note 3 to the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Deconsolidation of subsidiaries

During the year, the Group has lost contact of the directors of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited (the “Deconsolidated Subsidiaries”). The Deconsolidated Subsidiaries are indirectly held by the Company via Golden Legend Consortium Limited whose director has left the Group. The Group has not yet completed the change of the director of Golden Legend Consortium Limited. Without the completion of the change of director of Golden Legend Consortium Limited, the Group is unable to exercise its control over the Deconsolidated Subsidiaries. As such, the results, assets and liabilities of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited have not been included into the consolidated financial statements of the Group since 3 October 2019 and 1 October 2019 respectively. The deconsolidation of the Deconsolidated Subsidiaries had resulted in a loss of approximately HK\$41,000, which was determined based on the carrying amounts of the assets and liabilities of Golden Legend Capital Limited and Jin Hao (Shenzhen) Holdings Limited as at 3 October 2019 and 1 October 2019 respectively.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	Over the term of the lease
Office equipment	20%
Furniture and fixtures	20%
Motor vehicle	33-1/3%

(e) Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company’s statement of financial position, which is presented within these notes, an interest in a subsidiary is stated at cost less impairment loss. The carrying amount of the interest in a subsidiary is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's interest in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(g) Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Classification and measurement

Financial assets (except for trade receivables and contract assets) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit and loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables and contract assets are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement (Continued)

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its 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 at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include trade and other receivables, loan receivables and bank balances and cash.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, other borrowings, term loan and bond payable. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Impairment of financial assets

The Group recognises loss allowances for expected credit losses (“ECL”) on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped together based on the past due information.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument’s credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial asset that meets any of the following criteria.

- (i) 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); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Impairment of financial assets (Continued)

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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 in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The financial instruments determined to have low credit risks are set out in note 27 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Impairment of financial assets (Continued)

Simplified approach of ECL

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events 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 include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower.
- (b) a breach of contract, such as a default or past due event.
- (c) 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.
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- (e) the disappearance of an active market for that financial asset because of financial difficulties.
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount when the financial asset is 1 year past due based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, right-of-use assets and interests in associates may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

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 cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income in profit or loss immediately.

(i) Revenue recognition

Rental income

Rental income under operating leases is recognised when the assets are let out and on the straight-line basis over the lease term.

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The nature of the goods or services provided by the Group is provision of comprehensive architectural and structural engineering consultancy services.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Identification of performance obligations (Continued)

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) 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.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Service income from provision of comprehensive architectural and structural engineering consultancy services is recognised over time when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Timing of revenue recognition (Continued)

For revenue recognised over time under HKFRS 15, provided the outcome of the performance obligation can be reasonably measured, the Group applies the input method (i.e. based on the proportion of the actual inputs deployed to date as compared to the estimated total inputs) to measure the progress towards complete satisfaction of the performance obligation because there is a direct relationship between the Group's inputs and the transfer of control of goods or services to the customers and reliable information is available to the Group to apply the method. Otherwise, revenue is recognised only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation. The principal input applied in input methods is labour hours and/or third party and related party costs incurred.

Variable consideration

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The variable consideration is estimated by using either the expected-value or the most-likely-amount method whichever is better to predict the entitled amount. The estimated variable consideration is then included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised of the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

(j) Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as advance payments from customers when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net advance payment from customers is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Contract assets and contract liabilities (Continued)

It is common for the Group to receive from the customer the whole or some of the contractual payments before the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue. During that period, any significant financing components, if applicable, will be included in the contract liability and will be expensed as accrued unless the interest expense is eligible for capitalisation.

On the other hand, in accordance with the standard payment schedules of the Group, payments are normally not due or received from the customer until the services are completed or when the goods are delivered. However, for such transactions, revenue is recognised over time and therefore, a contract asset is recognised until it becomes a receivable or payments are received. During that period, any significant financing components, if applicable, will be included in the contract asset and recognised as interest income.

(k) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

(l) Foreign currency translation

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company’s functional currency is Hong Kong dollars (“HK\$”).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(m) Lease

Applicable from 1 April 2019

The Group assesses whether a contract is, or contains, a lease at inception of the contract. 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Lease (Continued)

Applicable from 1 April 2019 (Continued)

As lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group accounts for each lease component within a lease contract as a lease separately. 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.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the Group; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, 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, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option – in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Office premises	3 years
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The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Lease (Continued)

Applicable from 1 April 2019 (Continued)

As lessee (Continued)

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

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

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Lease (Continued)

Applicable from 1 April 2019 (Continued)

As lessee (Continued)

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.
- (b) the Group determines the lease term of the modified contract.
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

As lessor

The Group classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and sublease as two separate contracts. The sublease is classified as an operating lease if the head lease is a short-term lease to which the Group has applied the recognition exemption. Otherwise, the sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

As lessor – operating lease

The Group applies the derecognition and impairment requirements in HKFRS 9 to the operating lease receivables.

A modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Lease (Continued)

Applicable before 1 April 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(p) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Taxation (Continued)

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the year when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(q) Related parties

A related party is a person or entity that is related to the Group:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Group and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

(r) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(s) Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKASs 1 and 8	Definition of Material ^[1]
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform ^[1]
Amendments to HKFRS 3	Definition of a Business ^[2]
Amendments to HKFRS 16	COVID-19-Related Rent Concessions ^[3]
HKFRS 17	Insurance Contracts ^[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ^[5]

[1] Effective for annual periods beginning on or after 1 January 2020

[2] Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after 1 June 2020

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

[5] The effective date to be determined

The directors of the Company do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the results of the Group.

4. CHANGES IN ACCOUNTING POLICIES

Adoption of new/revised HKFRSs

The HKICPA has issued a number of new/revised HKFRSs that are first effective for the current accounting period of the Group. Of these, the changes in accounting policy relevant to the consolidated financial statements are as follows:

HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases

HK(IFRIC)-Int 23: Uncertainty over Income Tax Treatments

The Interpretation supports the requirements in HKAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The adoption of the Interpretation does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 28 Investments in Associates and Joint Ventures

The amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using HKFRS 9.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 9: Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income instead of at FVPL if specified conditions are met.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

HKFRS 16: Leases

HKFRS 16 replaces HKAS 17 and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

4. CHANGES IN ACCOUNTING POLICIES (Continued)

Adoption of new/revised HKFRSs (Continued)

HKFRS 16: Leases (Continued)

In accordance with the transitional provisions, the Group has applied HKFRS 16 for the first time at 1 April 2019 (i.e. the date of initial application, the "DIA") using the modified retrospective approach in which comparative information has not been restated. Instead, the Group recognised the cumulative effect of initially applying HKFRS 16 as an adjustment to the balance of accumulated profits or other component of equity, where appropriate, at the DIA.

The Group also elected to use the transition practical expedient not to reassess whether a contract was, or contained, a lease at the DIA and the Group applied HKFRS 16 only to contracts that were previously identified as leases applying HKAS 17 and to contracts entered into or changed on or after the DIA that are identified as leases applying HKFRS 16.

As lessee

Before the adoption of HKFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of HKFRS 16, the Group accounted for the leases in accordance with the transition provisions of HKFRS 16 and the Group's accounting policies applicable from the DIA.

As lessee – leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and the Group applied the following practical expedients on a lease-by-lease basis.

- (a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (b) Adjusted the right-of-use assets at the DIA by the provision for onerous leases recognised immediately before the DIA by applying HKAS 37, as an alternative to performing an impairment review at the DIA.
- (c) Did not recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the DIA.
- (d) Excluded initial direct costs from the measurement of the right-of-use assets at the DIA.
- (e) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

4. CHANGES IN ACCOUNTING POLICIES (Continued)

Adoption of new/revised HKFRSs (Continued)

HKFRS 16: Leases (Continued)

As lessee – leases previously classified as operating leases (Continued)

At the DIA, except for those that were previously or will be accounted for as investment property using the fair value model, right-of-use assets were, on a lease-by-lease basis, measured at either,

- (a) their carrying amount as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the DIA; or
- (b) an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the DIA. The weighted average incremental borrowing rate applied to the lease liabilities at the DIA is 5.125%.

Reconciliation of operating lease commitments disclosed applying HKAS 17 at 31 March 2019 and lease liabilities recognised at the DIA is as follows.

	HK\$'000
Operating lease commitments at 31 March 2019	628
Discounted using the lessee's incremental borrowing rate at the DIA	616
Add: Liabilities for renewal option previously not reflected in operating lease commitments	1,531
Lease liabilities at 1 April 2019	2,147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

4. CHANGES IN ACCOUNTING POLICIES (Continued)

Adoption of new/revised HKFRSs (Continued)

HKFRS 16: Leases (Continued)

As lessee – leases previously classified as operating leases (Continued)

At the DIA, all right-of-use assets were presented within the line item “right-of-use assets” on the consolidated statement of financial position. Besides, lease liabilities were shown separately on the consolidated statement of financial position. As a result, transfer was made at the DIA to reflect the changes in presentation:

	31 March 2019 HK\$'000	Impact on initial application of HKFRS 16 HK\$'000	1 April 2019 HK\$'000
Assets			
Right-of-use assets	–	2,147	2,147
Liabilities			
Lease liabilities	–	(2,147)	(2,147)
Equity			
Accumulated profits	2,347	–	2,347

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty

Loss allowance for ECL

The Group's management estimates the loss allowance for trade receivables and contract assets measured at amortised cost by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of such financial assets measured at amortised cost. Details of the key assumption and inputs used in estimating ECL are set out in note 27 to the consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

Revenue from contracts with customers within HKFRS 15

As explained in principal accounting policy, revenue recognition on an uncompleted project is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. Actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Impairment of interests in associates and receivables

The Group assesses annually if interests in associates have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKFRS 9 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

Determination of discount rate for calculating lease liabilities – as lessee

The Group uses the lessee's incremental borrowing rate to discount future lease payments since interest rate implicit in the leases is not readily determinable. In determining the discounts rate for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

Useful lives and impairment of property, plant and equipment and right-of-use assets

The directors review the residual value, useful lives and depreciation/amortisation method of property, plant and equipment and right-of-use assets at the end of each reporting period, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired, the directors have to assess whether an event has occurred that may affect the asset value. If any such indication exists, the recoverable amounts of the asset would be determined by reference to value in use and fair value less costs of disposal. Value in use is determined using the discounted cash flow method. Owing to inherent risk associated with estimations in the timing and magnitude of the future cash flows and fair value less costs of disposal, the estimated recoverable amount of the asset may be different from its actual recoverable amount and profit or loss could be affected by accuracy of the estimations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

6. REVENUE AND SEGMENT INFORMATION

6(a) Revenue and business segment

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within HKFRS 15		
Contract revenue from provision for comprehensive architectural and structural engineering consultancy services recognised over time	29,779	45,848

The Group's operation is mainly derived from provision for comprehensive architectural and structural engineering consultancy services. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the directors of the Company) reviews the overall results and financial position of the Group as a whole prepared in accordance with accounting policies which conform to HKFRSs. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts as all contract works have an original expected duration of one year or less.

6(b) Geographical information

All of the Group's external revenue during the year are derived from services rendered in Hong Kong, the place of domicile of the Group's operating entities.

The geographical location of the non-current assets is based on (i) the physical location of the asset in the case of property, plant and equipment and right-of-use assets; and (ii) the location of the operation to which they are allocated in the case of deposits and prepayments. In the case of interest in the associate, it is based on the location of the operation of such associate.

Since all of the property, plant and equipment and right-of-use assets employed by the Group are located in Hong Kong, the location of the operation to which deposits and prepayments are allocated and the operations of the associates are in Hong Kong, no geographical information is presented accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

6(b) Geographical information *(Continued)*

Information about major customers

Revenue from customers contributing individually over 10% or more of the Group's revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A (note (i))	–	16,649
Customer B	5,795	–

Note (i): The corresponding revenue did not contribute 10% or more of the Group's total revenue during the year ended 31 March 2020.

7. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Rental income from subleases of right-of-use assets/rented premises	294	294
Reversal of loss allowance on trade receivables	–	21
Sundry income	50	61
	344	376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

8. LOSS BEFORE TAX

This is stated after charging:

	2020 HK\$'000	2019 HK\$'000
Finance costs		
Interest on bond payable	420	199
Interest on term loan	160	–
Interest expenses on lease liabilities	93	–
	673	199
Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	20,541	19,144
Contributions to defined contribution plans	1,229	313
	21,770	19,457
Less: Amount included in cost of services rendered	(17,484)	(15,016)
	4,286	4,441
Other items		
Auditor's remuneration	500	540
Depreciation of property, plant and equipment	656	657
Depreciation of right-of-use assets	781	–
Operating lease charges for office premise	–	769
Provision for impairment losses		
– Property, plant and equipment (including in administrative expenses)	227	–
– Right-of-use assets (including in administrative expenses)	852	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments paid or payable to the Company's directors are as follows:

	2020				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Contributions to defined contribution plan HK\$'000	
Executive directors:					
Poon Kai Kit Joe ⁽¹⁾	–	3,960	1,160	768	5,888
Sin Pui Ying ⁽¹⁾⁽⁵⁾	–	142	–	–	142
Chan Ka Yee ⁽⁵⁾	772	180	–	128	1,080
Gu Jintai ⁽²⁾	71	–	–	–	71
Shi Lijie ⁽³⁾	71	–	–	–	71
Feng Wei ⁽⁶⁾	88	–	–	–	88
Sun Xiao Li ⁽⁴⁾	71	–	–	–	71
Independent non-executive directors:					
Chan Chung Yin Victor ⁽⁷⁾	71	–	–	–	71
Lai Pik Chi Peggy ⁽⁷⁾	71	–	–	–	71
Lee Pui Chung ⁽¹⁰⁾	126	–	–	–	126
Kong Kam Wang ⁽⁸⁾	75	–	–	–	75
Sung Hak Keung Andy ⁽⁹⁾	66	–	–	–	66
Wong Kai Tat ⁽⁸⁾	75	–	–	–	75
	1,557	4,282	1,160	896	7,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

	2019				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to defined contribution plan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Poon Kai Kit Joe ⁽¹⁾	–	4,620	–	18	4,638
Chan Ka Yee ⁽⁵⁾	240	448	–	18	706
Gu Jintai ⁽²⁾	233	–	–	–	233
Shi Lijie ⁽³⁾	180	–	–	–	180
Feng Wei ⁽⁶⁾	76	–	–	–	76
Fok Yat Cheong ⁽¹²⁾	60	–	–	–	60
Cheung Hoi Chung ⁽¹¹⁾	244	–	–	–	244
Sun Xiao Li ⁽⁴⁾	240	–	–	–	240
Independent non-executive directors:					
Kong Kam Wang ⁽⁸⁾	180	–	–	–	180
Sung Hak Keung Andy ⁽⁹⁾	180	–	–	–	180
Wong Kai Tat ⁽⁸⁾	180	–	–	–	180
	1,813	5,068	–	36	6,917

⁽¹⁾ On 16 December 2019, Mr. Poon Kai Kit Joe resigned as the chairman of the Group and Ms. Sin Pui Ying performed the duties of Chairman of the Board until a new Chairman of the Board is elected.

⁽²⁾ Mr. Gu Jintai was appointed as an executive director on 13 April 2018 and removed from his office of executive director of the Company on 13 December 2019.

⁽³⁾ Ms. Shi Lijie was appointed as an executive director on 29 June 2018 and appointed as Vice Chairman of the board of directors on 13 August 2018, and then removed from her office of executive director of the Company on 13 December 2019.

⁽⁴⁾ Mr. Sun Xiao Li was appointed as an executive director on 17 January 2018 and resigned as an executive director of the Company on 8 November 2019.

⁽⁵⁾ Ms. Chan Ka Yee resigned and Ms. Sin Pui Ying was appointed as an executive director of the Company on 29 August 2019.

⁽⁶⁾ Mr. Feng Wei was appointed as an executive director on 6 December 2018 and retired as an executive director of the Company on 12 August 2019.

⁽⁷⁾ Mr. Chan Chung Yin Victor and Ms. Lai Pik Chi Peggy were appointed as independent non-executive directors of the Company on 29 August 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

- (8) Mr. Kong Kam Wang and Mr. Wong Kai Tat resigned as independent non-executive directors of the Company on 28 August 2019.
- (9) Mr. Sung Hak Keung Andy retired as an independent non-executive director of the Company on 12 August 2019.
- (10) Mr. Lee Pui Chung was appointed as an independent non-executive director of the Company on 18 July 2019.
- (11) Mr. Cheung Hoi Chung was resigned as an executive director on 6 December 2018.
- (12) Mr. Fok Yat Cheong resigned as an executive director on 16 June 2018.

No directors and five highest paid individuals have waived emoluments in respect of the years ended 31 March 2020 and 2019.

No emoluments have been paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The five individuals whose emoluments were the highest in the Group for the year include one director (2019: one) whose emoluments are reflected in the analysis presented above. Details of the emoluments of the remaining four individuals (2019: four) are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other emoluments	2,640	4,027
Contributions to defined contribution plan	54	90
Discretionary bonuses	2,424	1,689
	5,118	5,806

The emoluments were paid to the remaining four (2019: four) highest paid individuals as follows:

Emoluments band	Number of individuals	
	2020	2019
HK\$1,000,001 to HK\$1,500,000	4	4
	4	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

10. TAXATION

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2019 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25% and profits above HK\$2 million 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%.

Hong Kong Profits Tax has been provided at the rate of 8.25% on the estimated assessable profits arising from Hong Kong in accordance with the two-tiered profits tax rates regime for qualifying Hong Kong subsidiary. (2019: Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising from Hong Kong for the non-qualifying Hong Kong subsidiaries and in accordance with the two-tiered profits tax rates regime for qualifying Hong Kong subsidiary).

The Cayman Islands levies no tax on the income of the Company and the Group.

No provision for People's Republic of China ("PRC") Enterprise Income Tax for the PRC subsidiary in 2020 as there is no estimated profits for the year (2019: HK\$Nil).

	2020 HK\$'000	2019 HK\$'000
Current tax		
Hong Kong Profits Tax:		
Current year	50	40
Deferred taxation		
Origination and reversal of temporary differences, net	(26)	(33)
Total tax charge for the year	24	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

10. TAXATION (Continued)

Reconciliation of tax expense

	2020 HK\$'000	2019 HK\$'000
Loss before taxation	(34,310)	(5,148)
Income tax at applicable tax rate of 16.5% (2019:16.5%)	(5,661)	(849)
Results of associates	410	1
Non-deductible expenses	3,170	954
Tax exempt revenue	–	(9)
Differences in tax rates	(501)	(2)
Unrecognised temporary differences	233	(16)
Unrecognised tax losses	2,423	–
Tax effect of the two-tiered profits tax rates regime	(50)	(41)
Others	–	(31)
Tax expense for the year	24	7

The applicable tax rate is the Hong Kong profits tax rate of 16.5% (2019: 16.5%).

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share is as follows:

(a) Basic loss per share

	2020	2019
Loss attributable to owners of the Company (HK\$'000)	(34,334)	(5,155)
Weighted average number of ordinary shares ('000)	418,000	418,000
Basic loss per share (HK cents)	(8.21)	(1.23)

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share as there was no potential dilutive ordinary shares in issue during the years ended 31 March 2020 and 2019.

12. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2020 (2019: HK\$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Reconciliation of carrying amount – year ended 31 March 2019					
At the beginning of the year	461	4	793	–	1,258
Additions	340	–	–	510	850
Depreciation	(287)	(2)	(198)	(170)	(657)
At end of the reporting period	514	2	595	340	1,451
Reconciliation of carrying amount – year ended 31 March 2020					
At the beginning of the year	514	2	595	340	1,451
Depreciation	(287)	(1)	(198)	(170)	(656)
Impairment loss	(227)	–	–	–	(227)
At end of the reporting period	–	1	397	170	568
At 31 March 2019					
Cost	1,031	9	992	510	2,542
Accumulated depreciation	(517)	(7)	(397)	(170)	(1,091)
	514	2	595	340	1,451
At 31 March 2020					
Cost	1,031	9	992	510	2,542
Accumulated depreciation and impairment losses	(1,031)	(8)	(595)	(340)	(1,974)
	–	1	397	170	568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

14. RIGHT-OF-USE ASSETS

The Group as lessee

	Office premises HK\$'000
Reconciliation of carrying amount – year ended 31 March 2020	
At beginning of the year – upon adoption of HKFRS 16	2,147
Depreciation	(781)
Impairment loss	(852)
	<hr/>
At the end of the reporting period	514
	<hr/>
At 31 March 2020	
Cost	2,147
Accumulated depreciation and impairment losses	(1,633)
	<hr/>
Net carrying amount	514
	<hr/>
Total cash outflow for leases	909
	<hr/>

The Group leases an office premises for its daily operations. Lease term is 3 years with an option to extend 2 years.

The Group performed an impairment assessment on right-of-use assets in accordance with HKAS 36. Based on the assessment, an impairment loss of HK\$852,000 was recognised and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2020. The impairment loss was made against the right-of-use assets in respect of the Group's office premises of which cash flow forecast has been revised downward based on management's assessment. The recoverable amount of the right-of-use assets was determined by the estimated cash flows generated from subleasing of the office premises.

Restrictions or covenants

The lease imposes a restriction that, unless the approval is obtained from the lessor, the right-of-use asset can only be used by the Group and the Group is prohibited from selling or pledging the underlying assets.

Extension options

The lease contract of office premises contains an extension option. The extension option aims to provide flexibility to the Group in managing the leased assets. The extension option of the leases of office premises is normally exercised because there are significant leasehold improvements.

Commitments under leases

At 31 March 2019

The Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	HK\$'000
Within one year	628
In the second to fifth years inclusive	–
	<hr/>
	628
	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

15. INTERESTS IN ASSOCIATES

	2020	2019
	HK\$'000	HK\$'000
Unlisted shares, at cost	10,340	7,840
Share of post-acquisition results	(2,493)	(9)
	7,847	7,831

Details of the associates at the end of the reporting period are as follows:

Name of associate	Principal place of business and place of incorporation	Registered capital	Proportion of effective ownership interest held by the Group		Principal activities
			2020	2019	
Kin On Engineering (International) Limited	Hong Kong	HK\$16,000,000	49%	49 %	Interior design, renovation and building work and such other work related to implementation of architecture and structural engineering consultancy services
Regatta Asia Limited	Hong Kong	HK\$5,000,000	50%	–	Development of Architectural related IT applications and systems

The above associates are accounted for using the equity method in the consolidated financial statements.

Significant judgements and assumptions

The Company and the other shareholder each hold 50% issued shares of Regatta Asia Limited respectively. The other shareholder is elected to be chairman of its Board of Directors with the power to make the final decision of the business if there is inconsistency. The Company does not have the power either absolutely control or jointly control Regatta Asia Limited. The Company exercises significant influence by the representative to the Board of Directors or equivalent governing body of Regatta Asia Limited.

Relationship with associates

Kin On Engineering (International) Limited, a subcontractor for interior design, renovation and building work, is expected to provide the Group the architecture and structural engineering consultancy services in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

15. INTERESTS IN ASSOCIATES (Continued)

Financial information of individually material associate

Summarised financial information of the material associate of the Group is set out below, which represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.

	Kin On Engineering (International) Limited HK\$'000
At 31 March 2020	
Gross amount	
Non-current assets	9,700
Current assets	4,125
Current liabilities	(160)
	<hr/>
Equity	13,665
	<hr/>
Reconciliation	
Gross amount of equity	13,665
	<hr/>
Group's ownership interests	49%
	<hr/>
Group's share of equity and carrying amount of interest	6,696
	<hr/>

	Kin On Engineering (International) Limited HK\$'000
Year ended 31 March 2020	
Gross amount	
Revenue	7,879
	<hr/>
Loss from operations	(2,317)
Other comprehensive income	-
	<hr/>
Total comprehensive loss	(2,317)
	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

15. INTERESTS IN ASSOCIATES (Continued) Financial information of individually material associate (Continued)

Kin On
Engineering
(International)
Limited
HK\$'000

At 31 March 2019

Gross amount

Current assets	16,142
Current liabilities	(160)

Equity	15,982
--------	--------

Reconciliation

Gross amount of equity	15,982
------------------------	--------

Group's ownership interests	49%
-----------------------------	-----

Group's share of equity and carrying amount of interests	7,831
--	-------

Kin On
Engineering
(International)
Limited
HK\$'000

Year ended 31 March 2019

Gross amount

Revenue	–
---------	---

Loss from operations	(18)
Other comprehensive income	–

Total comprehensive loss	(18)
--------------------------	------

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

15. INTERESTS IN ASSOCIATES (Continued)

Financial information of individually immaterial associate

The table below shows the carrying amount and the Group's share of results of associate that is not individually material and accounted for using the equity method.

	Regatta Asia Limited
	At 31 March 2020
	HK\$'000
Carrying amount of interests	1,151
	Period from 30 September 2019 to 31 March 2020
	HK\$'000
Group's share of:	
Loss for the year	(1,349)
Other comprehensive income	–
Total comprehensive loss	(1,349)

16. TRADE AND OTHER RECEIVABLES

	Note	2020 HK\$'000	2019 HK\$'000
Trade receivables			
Trade receivables from third parties		4,650	3,754
Contract assets		4,006	4,073
Less: Loss allowance		(2,003)	–
		2,003	4,073
	16(a)	6,653	7,827
Other receivables			
Deposits and prepayments		3,120	1,657
Due from an associate	16(b)	160	160
Due from ultimate holding company	16(b)	12	12
		3,292	1,829
		9,945	9,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

16. TRADE AND OTHER RECEIVABLES (Continued)

16(a) Trade receivables and contract assets

Trade receivables

As of the end of the reporting period, the ageing analysis of trade receivables based on invoice date and net of loss allowance, is as follows:

	2020 HK\$'000	2019 HK\$'000
1-30 days	2,257	785
31-60 days	704	550
61-90 days	335	336
91-180 days	480	433
Over 180 days	874	1,650
	4,650	3,754

The Group does not allow any credit period to its customers.

Information about the Group's exposure to credit risks and loss allowance for trade receivables is included in note 27.

Contract assets

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract assets from contracts with customers within HKFRS 15 during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	4,073	997
Loss allowance	(2,003)	–
Transferred to trade receivables	(67)	(567)
Recognition of revenue	–	3,643
At the end of the reporting period	2,003	4,073

At 31 March 2020, the contract assets are expected to be recovered within 1 year.

16(b) Due from an associate/ultimate holding company

The amounts due are unsecured, interest-free and have no fixed repayment term.

During the year, the greatest outstanding balance of amount due from the ultimate holding company of which directors, Poon Kai Kit Joe and Chan Ka Yee, own equity interest was HK\$12,000 (2019: HK\$12,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

17. LOAN RECEIVABLES

At 31 March 2019, loan receivables of HK\$4.09 million represented loan advanced to an independent third party by an indirectly owned subsidiary, Jin Hao (Shenzhen) Holdings Limited (“Jin Hao”). The loan was unsecured, interest-bearing at 5% per annum and for the period from 27 March 2019 to 26 September 2019. However, the amount has not been repaid.

During April to May 2019, another indirectly owned subsidiary, Golden Legend Capital Limited (“Golden Legend”) and Jin Hao advanced HK\$0.9 million, HK\$3.5 million and HK\$1.67 million to certain individuals, certain companies and a company connected with certain ex-directors of the Company respectively. Both Golden Legend and Jin Hao are inactive and were managed by certain ex-directors of the Company. The current management is unable to reach those ex-directors to obtain the supporting documents of those loan receivables of approximately HK\$10.16 million, in aggregate, and contact details of those debtors. The loan receivables have not been settled and no required information and supporting documents are available to allow the management to chase the debtors for the loan receivables. The management considers that the repayment of those loan receivables of HK\$10.16 million, in aggregate, is remote and the Group therefore wrote off the loan receivables.

18. TRADE AND OTHER PAYABLES

	Note	2020 HK\$'000	2019 HK\$'000
Trade payables			
Trade payables – third parties	18(a)	950	–
Contract liabilities	18(b)	430	100
		1,380	100
Other payables			
Accrued charges and other creditors		2,015	552
Interest payables		380	–
		3,775	652

18(a) Trade payables

As of the end of the reporting period, the ageing analysis of trade payables based on invoice date, is as follows:

	2020 HK\$'000	2019 HK\$'000
1-30 days	950	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

18. TRADE AND OTHER PAYABLES (Continued)

18(b) Contract liabilities

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts with customers within HKFRS 15 during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	100	322
Recognition of revenue	(100)	(222)
Receipt of advances	430	–
	<hr/>	<hr/>
At the end of the reporting period	430	100

At 31 March 2020, the contract liabilities are expected to be recognised as revenue within 1 year.

19. OTHER BORROWINGS

At 31 March 2019, other borrowings represented an advance from an independent third party. The amount was unsecured, interest-bearing at 2% per annum and for the period from 21 March 2019 to 20 September 2019. The amount has been settled during the year ended 31 March 2020.

During the year ended 31 March 2020, the Group received an advance of HK\$5.5 million. The proceeds of the Group's other borrowings were received through Golden Legend and Jin Hao. The current management is unable to reach certain ex-directors who are also the directors and management of these two subsidiaries to obtain the supporting documents, including bank statements of these two subsidiaries, loan agreements, and representations in relation to the other borrowings.

20. TERM LOAN

The Company entered into an unsecured loan agreement with an on-demand loan facility limit of HK\$10 million with an independent third party on 8 January 2020. The Company has drawn the loan of HK\$5.35 million on 8 January 2020.

The loan is unsecured, interest-bearing at 12% per annum and repayable on 7 July 2020.

21. BOND PAYABLE

	2020 HK\$'000	2019 HK\$'000
Unsecured bond carried at fixed coupon rate of 8% per annum	5,000	5,000

The Group entered into a subscription agreement with an independent third party (the "Subscriber"), issued a 8% coupon unlisted bond on 30 August 2018 with the principal amount of HK\$5,000,000. The amount is repayable on or before 31 August 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

22. LEASE LIABILITIES

	2020 HK\$'000
Lease liabilities	
Current portion	715
Non-current portion	616
	<hr/>
	1,331
	<hr/>

23. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position was as follows:

	2020 HK\$'000	2019 HK\$'000
At beginning of year	(26)	(59)
Credit to profit or loss	26	33
	<hr/>	<hr/>
At end of the reporting period	–	(26)
	<hr/>	<hr/>

Unrecognised deferred tax assets arising from

	2020 HK\$'000	2019 HK\$'000
Before multiplied by the applicable tax rates:		
Deductible temporary differences	1,557	–
Tax losses	14,685	–
	<hr/>	<hr/>
At end of the reporting period	16,242	–
	<hr/>	<hr/>

Neither the tax losses nor the deductible temporary differences expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because the future taxable profit is unpredictable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

24. SHARE CAPITAL AND RESERVE

24(a) Share capital

	2020		2019	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
At beginning and at end of the reporting period	418,000	4,180	418,000	4,180

24(b) Reserves

i) Share premium

Under the Cayman Companies Law, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) Other reserve

Other reserve represented the sum of (i) the difference between the issued share capital of K&K Chartered Architect & Associates Limited (which were transferred to Energetic Tree Limited ("Energetic Tree") pursuant to the group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited ("Group Reorganisation")) and the newly issued share capital of Energetic Tree to Energetic Way Limited ("Energetic Way"); and (ii) the difference between the issued share capital and share premium of Energetic Tree and the newly issued share capital of the Company to Energetic Way and Alpha Advantage International Limited as a result of the share swap pursuant to the Group Reorganisation.

iii) Distributable reserves

As at 31 March 2020, the Company's reserves available for distribution, calculated in accordance with the Cayman Companies Law, amounted to approximately HK\$Nil (2019: HK\$18,150,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

25. OTHER CASH FLOW INFORMATION

25(a) Cash used in operations

	2020 HK\$'000	2019 HK\$'000
Loss before tax	(34,310)	(5,148)
Depreciation of property, plant and equipment	656	657
Depreciation of right-of-use assets	781	–
Impairment loss on property, plant and equipment	227	–
Impairment loss on right-of-use assets	852	–
Loss allowance on contract assets	2,003	–
Reversal of loss allowance on trade receivables	–	(21)
Interest expenses	673	199
Share of results of associates	2,484	9
Write-off of loan receivables	10,159	–
Changes in working capital:		
Trade and other receivables	(1,092)	(2,114)
Trade and other payables	2,743	(3,171)
	(14,824)	(9,589)
Cash used in operations	(14,824)	(9,589)

25(b) Changes in liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

2020	Lease liabilities HK\$'000	Bond payable HK\$'000	Term loan HK\$'000	Other borrowings HK\$'000	Total HK\$'000
At beginning of the year	–	5,000	–	4,092	9,092
Date of initial application					
– HKFRS 16	2,147	–	–	–	2,147
Interest expenses	93	420	160	–	673
Accrued in interest payable	–	(220)	(160)	–	(380)
Net cash flows	(909)	(200)	5,350	1,408	5,649
At end of the year	1,331	5,000	5,350	5,500	17,181
2019			Bond payable HK\$'000	Other borrowings HK\$'000	Total HK\$'000
At beginning of the year			–	–	–
Interest expenses			199	–	199
Net cash flows			4,801	4,092	8,893
At end of the year			5,000	4,092	9,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions in the ordinary course of the Group's business.

(a) Related party transactions

Related party relationship	Nature of transaction	2020 HK\$'000	2019 HK\$'000
A company controlled by the family member of the Company's director	Subcontracting charges	(795)	(624)
	Consultancy fee received	425	907
	Rental income	24	24
A company managed by the shareholder of the ultimate holding company	Consultancy fee received	300	–
	Rental income	2	2

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 9 to the consolidated financial statements, is as follows:

	2020 HK\$'000	2019 HK\$'000
Short-term employee benefits	10,759	9,973
Post-employment benefits	943	125
	11,702	10,098

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are liquidity risk and credit risk. The board of directors generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below:

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants (if any), to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities and derivative financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle, is summarised below:

Non-derivative financial liabilities

	Within 1 year/ On demand HK\$'000	Over 1 year but within 2 years HK\$'000	Total HK\$'000
At 31 March 2020			
Trade payables	950	–	950
Lease liabilities	768	629	1,397
Accrued charges and other creditors	2,015	–	2,015
Term loan	5,511	–	5,511
Other borrowings	5,500	–	5,500
Bond payable	5,201	–	5,201
Interest payables	380	–	380
	20,325	629	20,954
	Within 1 year/ On demand HK\$'000	Over 1 year but within 2 years HK\$'000	Total HK\$'000
At 31 March 2019			
Accrued charges and other creditors	552	–	552
Other borrowings	4,133	–	4,133
Bond payable	400	5,201	5,601
	5,085	5,201	10,286

Credit risk

The carrying amount of trade and other receivables and bank balances recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables and contract assets (Continued)

At the end of the reporting period, the Group had a concentration of credit risk as 22% (2019: 23%) and 50% (2019: 56%) of the total trade receivables were due from its largest customer and the five largest customers respectively.

The Group applies a simplified approach in calculating ECL for trade receivables and contract assets and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the past years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

Trade receivables

As at 31 March 2020

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit- impaired
1-30 days past due	–	2,257	–	No
31-60 days past due	–	704	–	No
61-90 days past due	–	335	–	No
91-180 days past due	–	480	–	No
Over 180 days past due	–	874	–	No
		4,650	–	

As at 31 March 2019

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit- impaired
1-30 days past due	–	785	–	No
31-60 days past due	–	550	–	No
61-90 days past due	–	336	–	No
91-180 days past due	–	433	–	No
Over 180 days past due	–	1,650	–	No
		3,754	–	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables and contract assets (Continued)

Contract assets

As at 31 March 2020

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit- impaired
Outstanding over 180 days	50%	4,006	2,003	No

As at 31 March 2019

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit- impaired
Outstanding within 1-30 days	0%	4,073	–	No

Except as indicated above, the loss allowance for trade receivables and contract assets as a result of applying the ECL model was insignificant and the Group has not recognised any loss allowance for the years ended 31 March 2020 and 2019.

Amounts due from an associate and ultimate holding company

The Group considers that the amounts due from an associate and ultimate holding company have low credit risk based on the borrowers' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. Impairment on amounts due from these related companies is measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties by reference to, among others, their management or audited accounts, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Group considers the ECL of these financial assets to be insignificant after taking into account the financial position and credit quality of the counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Bank balances

The credit risk on bank balances is low because the counterparties are high credit rating.

There was no change in the estimation techniques or significant assumptions made during the year.

Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2020 and 2019.

28. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments according to changes in economic conditions, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies and procedures during the years ended 31 March 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, the statement of financial position of the Company and the movements in its reserves are set out below:

	Note	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Investments in subsidiaries		–	–
Investment in associate		6,696	7,840
Deposits and prepayments		–	1,200
		6,696	9,040
Current assets			
Deposits and prepayments		1,693	1,274
Amount due from subsidiaries		12,734	1,939
Amount due from an associate		160	160
Bank balances and cash		1,253	17,854
		15,840	21,227
Current liabilities			
Other payables		1,792	270
Term loan		5,350	–
Other borrowings		5,500	–
Bond payable		5,000	–
Amount due to a subsidiary		–	2,667
		17,642	2,937
Net current (liabilities) assets		(1,802)	18,290
Total assets less current liabilities		4,894	27,330
Non-current liabilities			
Bond payable		–	5,000
Net assets		4,894	22,330
Capital and reserves			
Issued capital		4,180	4,180
Reserves	29(a)	714	18,150
Total equity		4,894	22,330

The statement of financial position was approved and authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by

Director
Sin Pui Ying

Director
Poon Kai Kit Joe

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2020

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(a) Movements of the reserves

	Issued capital HK\$'000	Share premium HK\$'000	Accumulated (losses) HK\$'000	Total equity HK\$'000
At 1 April 2018	4,180	33,785	(10,074)	27,891
Loss and total comprehensive loss for the year	–	–	(5,561)	(5,561)
At 31 March 2019	4,180	33,785	(15,635)	22,330
At 1 April 2019	4,180	33,785	(15,635)	22,330
Loss and total comprehensive loss for the year	–	–	(17,436)	(17,436)
At 31 March 2020	4,180	33,785	(33,071)	4,894

30. SUBSIDIARIES

Details of the Company's subsidiaries at 31 March 2020 are as follows:

Name of the company	Place and date of incorporation	Place of operation	Particular of issued and paid-up capital/ registered capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Energetic Tree Limited	British Virgin Islands	note (i)	US\$100	100%	100%	–	Investment holding
Lucky Unicorn Holdings Limited	British Virgin Islands	note (i)	HK\$1	100%	100%	–	Investment holding
Golden Legend Consortium Limited	British Virgin Islands	note (i)	US\$1,000	100%	100%	–	Investment holding
K & K Chartered Architect & Associates Limited	Hong Kong	Hong Kong	HK\$2	100%	–	100%	Provision of comprehensive architectural and structural engineering consultancy services
Global Crown Limited	Hong Kong	Hong Kong	HK\$1	100%	–	100%	Provision of comprehensive architectural and structural engineering consultancy services

Notes:

- i) These companies are investment holding companies which have no specific principal place of operation.
- ii) As disclosed in note 3(c), as at 31 March 2020, the Group does not have control over the subsidiaries, Golden Legend and Jin Hao. Both Golden Legend and Jin Hao are inactive.

31. EVENTS AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of COVID-19 has certain impacts on the business operation and overall economy on the global business environment. To a certain extent, the outbreak will impact the comprehensive architectural and structural engineering consultancy services business of the Group.

Despite the challenges, governments and international organisations have implemented a series of measures to contain the epidemic. The Group stays alert to the development and situation of the COVID-19, continue to assess its impacts on the financial position and operating results of the Group, and take necessary action to maintain stability of the businesses. Up to the date of this annual report, the assessment of financial impact on COVID-19 is still in progress.

FINANCIAL SUMMARY

RESULTS

	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
REVENUE	29,334	33,178	40,016	45,848	29,779
Cost of services rendered	(10,368)	(12,524)	(22,523)	(40,664)	(35,501)
Other income	86	–	341	376	344
General and administrative expenses	(2,808)	(5,295)	(7,590)	(10,500)	(13,572)
Listing expenses	(7,658)	(5,226)	–	–	–
Profit/(loss) from operations	8,586	10,133	10,244	(4,940)	(18,950)
Finance cost	–	–	–	(199)	(673)
Share of results of an associate	–	–	–	(9)	(2,484)
Write-off of loan receivables	–	–	–	–	(10,159)
Loss allowance on contract assets	–	–	–	–	(2,003)
Loss on derecognition of subsidiaries	–	–	–	–	(41)
PROFIT/(LOSS) BEFORE TAXATION	8,586	10,133	10,244	(5,148)	(34,310)
Income tax expenses	(2,662)	(2,732)	(2,216)	(7)	(24)
PROFIT/(LOSS) FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE COMPANY	5,924	7,401	8,028	(5,155)	(34,334)
Other comprehensive income for the year	–	–	–	–	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE COMPANY	5,924	7,401	8,028	(5,155)	(34,334)
(LOSS)/EARNINGS PER SHARE					
Basic and diluted	2.12 cents	2.30 cents	1.92 cents	(1.23) cents	(8.21) cents

ASSETS AND LIABILITIES

	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Total assets	13,342	57,854	54,810	55,109	32,011
Total liabilities	(3,729)	(2,875)	(4,343)	(9,797)	(21,033)
Net assets	9,613	54,979	50,467	45,312	10,978