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LKS HOLDING GROUP LIMITED

樂嘉思控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1867)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2021

FINAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of LKS Holding Group Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2021, together with the comparative figures for the year ended 31 March 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

| | Notes | 2021 HK\$'000 | 2020 HK\$'000 |
|--|-------|------------------|------------------|
| Revenue | 3 | 221,894 | 295,885 |
| Direct costs | | (207,992) | (267,811) |
| Gross profit | | 13,902 | 28,074 |
| Other income, other gains and losses, net | 4 | 2,580 | 228 |
| Impairment losses under expected credit loss model, net of reversal | 5 | 2,010 | (6,920) |
| Loss on written-off of trade receivables | | (700) | – |
| Administrative and other operating expenses | | (14,950) | (17,524) |
| Finance costs | 6 | (992) | (1,200) |
| Profit before tax | | 1,850 | 2,658 |
| Income tax expense | 7 | (844) | (1,615) |
| Profit and total comprehensive income for the year | 8 | 1,006 | 1,043 |
| Earnings per share | | | |
| – Basic and diluted (HK cents) | 10 | 0.09 | 0.09 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2021

| | <i>Notes</i> | 2021 HK\$'000 | 2020 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current Assets | | | |
| Plant and equipment | | 835 | 1,711 |
| Right-of-use asset | <i>11</i> | 1,482 | 373 |
| Deposits and prepayments for life insurance policies | | 3,126 | 3,044 |
| Deferred tax assets | | 597 | 492 |
| | | <u>6,040</u> | <u>5,620</u> |
| Current Assets | | | |
| Trade and other receivables | <i>12</i> | 70,689 | 68,439 |
| Contract assets | | 39,969 | 43,167 |
| Amounts due from related parties | | 811 | 785 |
| Financial assets at fair value through profit or loss | | 14 | 12 |
| Tax recoverable | | 945 | 1,159 |
| Bank balances and cash | | 30,943 | 39,982 |
| | | <u>143,371</u> | <u>153,544</u> |
| Current Liabilities | | | |
| Trade and other payables | <i>13</i> | 6,321 | 9,334 |
| Borrowings | | 23,572 | 32,726 |
| Lease liability | | 1,191 | 405 |
| Provision for litigation | | 267 | – |
| | | <u>31,351</u> | <u>42,465</u> |
| Net Current Assets | | <u>112,020</u> | <u>111,079</u> |
| Total Assets Less Current Liabilities | | <u>118,060</u> | <u>116,699</u> |
| Non-Current Liability | | | |
| Lease liability | | <u>355</u> | <u>–</u> |
| Net Assets | | <u>117,705</u> | <u>116,699</u> |
| Capital and Reserves | | | |
| Share capital | | 11,200 | 11,200 |
| Reserves | | 106,505 | 105,499 |
| Total Equity | | <u>117,705</u> | <u>116,699</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

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

Notes:

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

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 11 February 2016 as an exempted company with limited liability.

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

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

The Company is an investment holding company. The Group is principally engaged in the provision of interior fitting-out, renovation, alteration and addition works services and interior design services.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

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

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

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

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

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

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

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

Except for the new and amendments to HKFRSs mentioned in the consolidated financial statements, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

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

Disaggregation of revenue from contracts with customers

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

Geographical information

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

Information about major customers

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

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

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

4. OTHER INCOME, OTHER GAINS AND LOSSES, NET

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

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

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

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

8. PROFIT FOR THE YEAR

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

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

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

Earning figures are calculated as follows:

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

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

11. RIGHT-OF-USE ASSET

| | Leased property HK\$'000 |
|---|---|
| As at 31 March 2021 | |
| Carrying amount | <u>1,482</u> |
| As at 31 March 2020 | |
| Carrying amount | <u>373</u> |
| For the year ended 31 March 2021 | |
| Depreciation charge | <u>1,113</u> |
| For the year ended 31 March 2020 | |
| Depreciation charge | <u>1,118</u> |

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---------------------------------|--------------------------------|-------------------------|
| Total cash outflow for leases | <u>1,071</u> | <u>1,123</u> |
| Additions to right-of-use asset | <u>2,222</u> | <u>–</u> |

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

Rent concession

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

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Note: At 31 March 2021, the other receivable accounting to approximately HK\$3,421,000 (2020: approximately HK\$2,081,000) represented a cash collateral paid to insurance companies for the issuance of surety bonds.

13. TRADE AND OTHER PAYABLES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Direct Costs

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

Gross Profit

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

Impairment losses under expected credit loss model, net of reversal

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

Administrative and Other Operating Expenses

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

Finance Costs

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

Income Tax Expense

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

GEARING RATIO

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

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

TREASURY POLICY

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

CHARGE ON GROUP ASSETS

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

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

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

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

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL STRUCTURE

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

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

CAPITAL COMMITMENTS

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

LITIGATION

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

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

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

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

CONTINGENT LIABILITIES

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

USE OF PROCEEDS

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

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

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

EVENTS AFTER THE REPORTING PERIOD

Arbitration proceedings against Lai Si

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

Change of Controlling Shareholder and The Offer

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

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

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

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

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

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

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

RESULTS AND DIVIDENDS

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

CORPORATE GOVERNANCE PRACTICE

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

The Company has applied the principles and code provisions in Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Up to the date of this announcement, to the best knowledge of the Board, the Company has complied with the CG Code except for the deviation from provision A.2.1 of the CG Code which is explained below:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

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

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

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

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

REVIEW OF THIS ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 March 2021 as set out in this preliminary announcement have been agreed by the Group’s auditors, Asian Alliance (HK) CPA Limited, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by Asian Alliance (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Asian Alliance (HK) CPA Limited on this preliminary announcement.

APPRECIATION

The Company would like to thank the Group's customers, suppliers, business partners for their support. The Company would also like to offer the highest gratitude to its shareholders for their devotion and to the Group's employees for their loyalty and contributions made during the year.

By order of the Board
LKS Holding Group Limited
Liu Zhancheng
Chairman and Executive Director

Hong Kong, 29 June 2021

As at the date of this announcement, the Board comprises Mr. Liu Zhancheng, Ms. Qin Mingyue and Mr. Ye Zuobin as executive Directors; and Dr. Su Lixin, Mr. Liang Rongjin and Dr. Yan Bing as independent non-executive Directors.