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Creative Enterprise Holdings Limited

創毅控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3992)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

FINANCIAL HIGHLIGHTS

- Total revenue for FY2020 increased by 9.5% to approximately HK\$783.9 million from approximately HK\$715.8 million for FY2019.
- Adjusted operating profit for FY2020 increased by 14.4% to approximately HK\$37.3 million from approximately HK\$32.6 million for FY2019.^{Note 1}
- Adjusted profit for FY2020 increased by 16.3% to approximately HK\$29.9 million from approximately HK\$25.7 million for FY2019.^{Note 1}
- As at 31 March 2020, cash and cash equivalents was approximately HK\$84.4 million, representing a decrease of 13.4% as compared to that as at 31 March 2019.
- The Board does not recommend the payment of final dividends in respect of FY2020.
- Current ratio for FY2020 increased by 5.6% to approximately 3.8 from approximately 3.6 for FY2019.

Note 1: Excluding one-off listing expenses of HK\$12.3 million, adjusted operating profit and profit for the year for FY2019 was HK\$32.6 million and HK\$25.7 million respectively.

The board (the “**Board**”) of directors (the “**Directors**”) of Creative Enterprise Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2020 (“**FY2020**”), together with the comparative figures for the year ended 31 March 2019 (“**FY2019**”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For FY2020

	<i>Notes</i>	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Revenue	3	783,935	715,807
Other income and gains, net	4	215	807
Employee benefits expenses	5	(647,909)	(578,797)
Subcontracting costs		(55,770)	(67,013)
Other operating expenses		(43,125)	(38,175)
Listing expenses		<u>—</u>	<u>(12,338)</u>
Operating profit	6	<u>37,346</u>	<u>20,291</u>
Finance income		130	46
Finance costs		<u>(544)</u>	<u>(1,595)</u>
Finance costs, net	7	<u>(414)</u>	<u>(1,549)</u>
Profit before income tax		36,932	18,742
Income tax expense	8	<u>(7,013)</u>	<u>(5,385)</u>
Profit for the year		<u>29,919</u>	<u>13,357</u>
Other comprehensive loss:			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations		<u>(8,142)</u>	<u>(4,123)</u>
Other comprehensive loss for the year, net of tax		<u>(8,142)</u>	<u>(4,123)</u>
Total comprehensive income for the year		<u>21,777</u>	<u>9,234</u>
Earnings per share			
Basic and diluted earnings per share (expressed in HK\$ cents)	9	<u>5.98</u>	<u>3.23</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		20,754	21,426
Right-of-use assets		1,102	—
Investment in insurance contracts		27,119	24,278
Trade and other receivables	<i>10</i>	3,604	2,373
Deferred tax assets		192	87
		<u>52,771</u>	<u>48,164</u>
Current assets			
Trade and other receivables	<i>10</i>	205,166	173,988
Tax recoverable		—	1,621
Pledged bank deposits		45,212	39,095
Cash and bank balances		89,664	97,689
		<u>340,042</u>	<u>312,393</u>
Total assets		<u>392,813</u>	<u>360,557</u>
EQUITY			
Share capital		5,000	5,000
Share premium		111,783	111,783
Reserves		165,748	143,971
Total equity		<u>282,531</u>	<u>260,754</u>

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		—	277
Lease liabilities		543	—
Long service payment liabilities		20,066	13,149
Deferred tax liabilities		21	—
		<u>20,630</u>	<u>13,426</u>
Current liabilities			
Trade and other payables	<i>11</i>	66,829	57,634
Borrowings		21,269	27,778
Lease liabilities		506	—
Tax payable		790	441
Amounts due to related parties		258	524
		<u>89,652</u>	<u>86,377</u>
Total liabilities		<u>110,282</u>	<u>99,803</u>
Total equity and liabilities		<u>392,813</u>	<u>360,557</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA are set out below. The consolidated financial statements have been prepared under the historical cost convention, except that investment in insurance contracts are stated at its cash surrender value.

1.1 New and amended standards adopted by the Group

The Group has adopted the following standards and amendments for the first time for their annual reporting period commencing 1 April 2019.

HKFRS 16	Leases
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HK (IFRIC) Interpretation 23	Uncertainty Over Income Tax Treatments
Annual Improvements to HKFRSs 2015–2017 cycle	

Except for the adoption of HKFRS 16 as described in Note 1.3 below, the adoption of these amendments and interpretation does not have any significant impact on the consolidated financial statements of the Group.

1.2 New standards and amendments and interpretations to existing standards that are not yet effective

Up to the date of this announcement, the HKICPA has issued the following new standards, amendments and interpretations to existing standards which are not yet effective and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS 3 (Revised)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced
Conceptual Framework for Financial Reporting 2018		1 January 2020

The directors of the Company are in the process of assessing the financial impact on the Group of the adoption of the above new standards and amendments to existing standards. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

1.3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases (“**HKFRS 16**”) on the Group’s consolidated financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparative information for the prior reporting period, as permitted under the specific transitional provisions in the standard. Accordingly, no adjustments were recognised to the opening balance of retained earnings at the date of initial application.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as finance leases under the principles of HKAS 17 Leases (“**HKAS 17**”). The Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The Group applied the practical expedient permitted by the standard that allow the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases. Once a lease arrangement is regarded as a short-term lease as defined in the standard, a lessee may elect not to recognise a right-of-use asset and a lease liability in relation to the lease arrangement.

Since the remaining lease term of all operating leases of the Group as at 1 April 2019 are less than 12 months, the Group has elected not to recognise lease liabilities and associated right-of-use assets of these leases on adoption of HKFRS 16.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, the Group relied on its assessment made by applying HKAS 17, for contracts entered into before the transition date.

2 SEGMENT INFORMATION

The executive Directors have been identified as the chief operating decision-makers (“**CODM**”) of the Group who review the Group’s internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of operating profit.

The Group is engaged in the provision of property management and related services in Hong Kong. Since the CODM considers all business is included in a single operating segment and the operation of provision of property management and related services is attributable to all of the Group’s revenue, and all of the results and assets during FY2020, no operating segment analysis is presented accordingly (FY2019: Same).

Geographical information

The Group's revenue is derived from customers in Hong Kong. All the assets of the Group were also located in Hong Kong as at 31 March 2020 and 2019. Accordingly, no analysis by geographical information is provided.

Information about major customer

The Group's largest customer contributes revenue amounting to approximately HK\$589,446,000 for FY2020 (FY2019: HK\$539,364,000).

No other single customers contributed 10% or more to the Group's revenue for FY2020 (FY2019: Nil).

3 REVENUE

Revenue mainly represents income from (i) property management services; (ii) provision of security services and cleaning services and (iii) provision of staff secondment services. An analysis of the Group's revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Property management services income	616,330	568,629
Income from the provision of security services	148,454	140,090
Income from the provision of cleaning services	18,311	4,024
Secondment service income	840	—
Window inspection services	—	3,064
	<u>783,935</u>	<u>715,807</u>

All of the Group's revenue are recognised over time.

The Group has a right for consideration from customers in an amount that corresponds directly with the value to the customer of the entity's performance completed to date for all its service contracts, the entity recognised revenue in the amount to which the entity has a right to invoice or based on the stage of completion. In accordance with HKFRS 15, the transaction price allocated to these unperformed contracts related to service contracts or those contracts with remaining contract period less than one year are exempted for disclosure. As a result, the Group has made no disclosure on the transaction price allocated to these unperformed contracts.

4 OTHER INCOME AND GAINS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Gain/(loss) on disposal of property, plant and equipment	15	(111)
Fair value gain on an investment property	—	800
Subsidy income from Anti-Epidemic Fund	200	—
Others	—	118
	<u>215</u>	<u>807</u>

5 EMPLOYEE BENEFITS EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Wages, salaries and other allowances (including directors' emoluments)	618,446	553,589
Pension costs — defined contribution plan	25,407	22,865
Accrual for unutilised annual leave	2,885	1,481
Provision for long service payment	1,171	862
	<u>647,909</u>	<u>578,797</u>

6 EXPENSES BY NATURE

Profit before income tax is stated after charging the following items:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	1,600	1,940
Cleaning material costs	8,807	7,646
Depreciation of property, plant and equipment	1,651	1,816
Depreciation of right-of-use assets	312	—
Donation	58	1,202
Employee benefits expenses (<i>Note 5</i>)	647,909	578,797
Insurance fee	8,525	7,028
Legal and professional fees	4,212	1,509
Listing expenses	—	12,338
Allowance for impairment of trade and other receivables	11	347
Subcontracting costs	55,770	67,013
Operating lease payments	—	234
Rental expenses relating to short-term leases	398	—

7 FINANCE COSTS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank interest income	----- 130 -----	----- 46 -----
Interests on borrowings	(512)	(1,000)
Interests on finance lease liabilities	—	(43)
Interests on lease liabilities	(32)	—
Guarantee fees to shareholders	----- — -----	----- (552) -----
	(544)	(1,595)
	(414)	(1,549)

8 INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year, except for the first HK\$2 million of a qualified entity's assessable profit which is calculated at 8.25%, in accordance with the two-tiered tax rate regime with effect from the year of assessment 2018–2019.

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax		
— Provision for current year	6,628	5,593
— Under provision in prior years	469	—
Deferred income tax	----- (84) -----	----- (208) -----
	7,013	5,385

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before income tax	<u>36,932</u>	<u>18,742</u>
Calculated at the Hong Kong Profits Tax rate	5,929	2,927
Income not subject to taxation	(159)	(230)
Expenses not deductible for taxation purposes	786	2,631
Tax losses not recognised	—	57
Utilisation of previously unrecognised tax losses	(12)	—
Under provision in prior years	<u>469</u>	<u>—</u>
	<u><u>7,013</u></u>	<u><u>5,385</u></u>

9 EARNINGS PER SHARE — BASIC AND DILUTED

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective years. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation completed on 27 September 2018 and the Capitalisation Issue which took place on 11 December 2018.

	2020	2019
Profit attributable to owners of the Company (<i>HK\$'000</i>)	29,919	13,357
Weighted average number of ordinary shares in issue (<i>thousands</i>)	500,000	413,014
Basic earnings per share (<i>HK\$ cents</i>)	<u><u>5.98</u></u>	<u><u>3.23</u></u>

(b) Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary shares outstanding as at 31 March 2020 (2019: Nil).

10 TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current:		
Retention money receivables	2,702	2,373
Deposit for property, plant and equipment	<u>902</u>	<u>—</u>
	<u>3,604</u>	<u>2,373</u>
Current:		
Trade and unbilled receivables	189,505	165,639
Less: allowance for impairment	<u>(1,378)</u>	<u>(1,367)</u>
Trade and unbilled receivables — net	<u>188,127</u>	<u>164,272</u>
Reimbursement receivables	5,867	6,504
Less: allowance for impairment	<u>(406)</u>	<u>(406)</u>
Reimbursement receivables — net	5,461	6,098
Utilities and other deposits	1,028	413
Prepayments	3,779	3,125
Other receivables	<u>6,771</u>	<u>80</u>
Total prepayments, deposits and other receivables	<u>17,039</u>	<u>9,716</u>
	<u>205,166</u>	<u>173,988</u>
Total trade and other receivables	<u>208,770</u>	<u>176,361</u>

The following is an aging analysis of trade and unbilled receivables, presented based on the invoice date at the end of the reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Unbilled	<u>17,452</u>	<u>17,371</u>
Trade receivables:		
Less than 1 month	68,524	57,724
1 month and less than 3 months	84,789	78,203
3 months and less than 6 months	8,504	3,356
Over 6 months	<u>10,236</u>	<u>8,985</u>
	<u>172,053</u>	<u>148,268</u>
Total trade and unbilled receivables	<u>189,505</u>	<u>165,639</u>

11 TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<u>6,800</u>	<u>11,487</u>
Provision for unutilised annual leave	12,288	9,403
Accrued wages, salaries and pensions	42,328	34,829
Other accrued expenses and deposits received	<u>5,413</u>	<u>1,915</u>
Total other payables	<u><u>60,029</u></u>	<u><u>46,147</u></u>
	<u><u>66,829</u></u>	<u><u>57,634</u></u>

At 31 March 2020 and 2019, the ageing analysis of the trade payables based on invoice date was as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 90 days	5,650	11,187
91 to 180 days	<u>1,150</u>	<u>300</u>
	<u><u>6,800</u></u>	<u><u>11,487</u></u>

12 CONTINGENT LIABILITIES

In carrying out the ordinary course of business, the Group is subject to the risk of being named as defendant in legal actions, claims and disputes in connection with its business activities. The nature of the legal proceedings initiated against the Company mainly includes claims for compensation by the Group's existing or former employees for work related injuries. The Group maintains insurance cover and, in the opinion of the directors of the Group, based on current available evidence, any such existing claims and legal proceedings against the Company have no material financial impact to the Company as at 31 March 2020 and 2019.

13 DIVIDENDS

Dividends for FY2020 and FY2019 represented dividends declared by the Company's subsidiary to the then equity holders of the subsidiary. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this announcement.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim dividends declared and paid	<u>—</u>	<u>5,000</u>

The Directors do not recommend the payment of final dividends for FY2020 (FY2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview and Prospects

The Group is principally engaged in the provision of property management services and other related services in Hong Kong for both public and private properties, which include estate general management, tenancy management, rent and management fees collection services, security, cleaning, minor repair and maintenance, project management services, as well as legal and administrative support services.

For the year ended 31 March 2020, the Hong Kong Housing Authority (“**HKHA**”) remains as the Group’s largest customer, and the Group’s existing property management portfolio comprised thirty-one (31) HKHA contracts (including sixteen (16) property management services contracts, eleven (11) stand-alone security services contracts, three (3) stand-alone cleansing services contracts, and one (1) secondment contract); sixty-four (64) private property management services contracts; five (5) private stand-alone cleansing services contracts; two (2) Urban Renewal Authority (“**URA**”) stand-alone security services contracts, two (2) URA stand-alone cleansing services contracts; as well as two (2) Department of Health cleansing services (at quarantine centres) contracts.

The Group considers that the property management services market in Hong Kong, being labour-intensive and vulnerable to macro-economic conditions, is still growing and full of challenges. In order to enhance the growth of the property management business, increase our market share and to achieve our goal, the Company dedicates to (i) tender for additional property management services contracts, stand-alone security services contracts and stand-alone cleaning services contracts from the Hong Kong Housing Authority, (ii) expend the service for Home Ownership Scheme (“**HOS**”) estates, non-residential properties and private housing estates; and (iii) expand the business through acquisition of property management company(ies) which provide property management services in the private sector in Hong Kong.

Major Services Contracts Acquired/Renewed

For the year ended 31 March 2020, the Group has successfully acquired one (1) new public property management contract, two (2) new stand-alone security services contracts, four (4) new stand-alone cleansing services contracts, one (1) new public secondment contract and seven (7) new private property management contracts. We have also successfully re-tendered for two (2) public property management contracts, one (1) public stand-alone security services contract and two (2) private property management contracts. During the year, we further extended two (2) public property contracts and twenty-seven (27) private property contracts.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2019 and 2020, all of the Group's revenue was derived from its operation in Hong Kong. The following table sets out the Group's revenue by contract type for the year ended 31 March 2019 and 2020:

	2020		2019		Change	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Property management services	616,330	78.6	568,629	79.4	47,701	8.4
Stand-alone security services	148,454	19.0	140,090	19.6	8,364	6.0
Stand-alone cleaning services	18,311	2.3	4,024	0.6	14,287	355.0
Other services (<i>Note</i>)	<u>840</u>	<u>0.1</u>	<u>3,064</u>	<u>0.4</u>	<u>(2,224)</u>	<u>(72.6)</u>
Total	<u>783,935</u>	<u>100.0</u>	<u>715,807</u>	<u>100.0</u>	<u>68,128</u>	<u>9.5</u>

Note: Other services comprise secondment services and window inspection services.

The Group's total revenue improved by approximately 9.5% from approximately HK\$715.8 million for the year ended 31 March 2019 to approximately HK\$783.9 million for the year ended 31 March 2020. The increase was primarily attributable to (i) the additional service fee income from the eight (8) public new contracts (one (1) property management contract, two (2) stand-alone security services contracts, four (4) stand-alone cleansing services contracts and one (1) secondment contract), as well as seven (7) new private property management contracts acquired; and (ii) the upward adjustment on service fee for some of the Group's existing contracts in accordance with the adjustment mechanism as stipulated in those contracts.

Property Management Services

The Group continues to increase its portfolio through securing new contracts and renewing existing contracts. For its property management services, revenue increased by approximately 8.4% from approximately HK\$568.6 million for the year ended 31 March 2019 to approximately HK\$616.3 million for the year ended 31 March 2020. The increase in revenue of approximately HK\$47.7 million was primarily attributable to (i) the Company having successfully tendered for seven (7) new private property management contracts commencing in the first quarter up to the last quarter of the year ended 2020 respectively; (ii) the Company having been further awarded one (1) new public property management services contract in the third quarter of the year; and (iii) the upward price adjustment on the Group's services to some public properties under the adjustment mechanism.

Stand-alone Security Services

Revenue generated from stand-alone security services contracts increased by approximately 6.0% from approximately HK\$140.1 million for the year ended 31 March 2019 to approximately HK\$148.5 million for the year ended 31 March 2020. Such increase was primarily due to (i) two (2) new security services contracts obtained from the Housing Authority and Urban Renewal Services Department; and (ii) the upward price adjustment on the Group's services to some security services contracts.

Stand-alone Cleaning Services

Revenue generated from stand-alone cleaning services contracts increased by approximately 355.0% from approximately HK\$4.0 million for the year ended 31 March 2019 to approximately HK\$18.3 million for the year ended 31 March 2020. Such increase was primarily due to (i) four (4) new cleaning services contracts during the year; and (ii) the upward price adjustment on the Group's services to some security services contracts.

Other Services

Revenue generated from other services comprising secondment services and window inspection services amounted to approximately HK\$0.8 million for the year ended 31 March 2020. The revenue generated was primarily attributable to one (1) new secondment services obtained from the Housing Authority that commences in the last quarter of the year ended 2020.

Other Income and Gains, Net

Other income and gains, net decreased by approximately 73.4% from approximately HK\$0.8 million for the year ended 31 March 2019 to approximately HK\$0.2 million for the year ended 31 March 2020. Such decrease was primarily due to the decrease in fair value gain in our investment property.

Employee Benefits Expenses

Employee benefits expenses comprised staff costs of the Group's (i) estate management staff, which mainly includes staff for estate general management, tenancy management, financial management, project management, repairs and maintenance, management and headquarters; (ii) security staff; and (iii) cleaning staff. As at 31 March 2020, the Group had a total of 4,818 employees (2019: 4,299 employees).

Employee benefits expenses continue to represent one of the Group's major costs. Such expenses increased by approximately 11.9% from approximately HK\$578.8 million for the year ended 31 March 2019 to approximately HK\$647.9 million for the year ended 31 March 2020. Such increase was primarily due to (i) the increase in the number of staff employed for the year ended 31 March 2020 to accommodate new contracts awarded and the business growth of the Group; and (ii) the general increase in the average salary of the Group's staff.

Subcontracting Costs

Subcontracting costs decreased by approximately 16.8% from approximately HK\$67.0 million for the year ended 31 March 2019 to approximately HK\$55.8 million for the year ended 31 March 2020. Such decrease was primarily due to the decrease in subcontracting fee due to (i) cessation in subcontracting of security services for Shek Lei II Estate in the last quarter of the year ended 31 March 2020; and (ii) cessation in subcontracting of cleansing contracts for Sau Mau Ping and Shek Lei II Estate respectively in the third and fourth quarter of the year ended 31 March 2020.

Other Operating Expenses

Other operating expenses amounted to approximately HK\$43.1 million for the year ended 31 March 2020, representing an increase of approximately 13.0% from HK\$38.2 million for the year ended 31 March 2019. Other operating expenses mainly included insurance expense, office supplies expense, guarantee fee for performance bonds, entertainment and estate maintenance expense.

The increase in other operating expenses was mainly attributable to the increase in insurance expense, claimed charges and professional fee.

Operating Profit and Operating Profit Margin

As a result of the foregoing, adjusted operating profit for the year ended 31 March 2020 increased by approximately 14.4% from approximately HK\$32.6 million^{Note 1} for the year ended 31 March 2019 to approximately HK\$37.3 million for the year ended 31 March 2020. Despite the keen competition and rising costs, the Group successfully maintained a stable adjusted operating profit margin amounted to approximately 4.6% for the year ended 31 March 2019 and approximately 4.8% for the year ended 31 March 2020.

Finance Costs

Finance costs were approximately HK\$0.5 million for the year ended 31 March 2020, representing a decrease of approximately 65.9% from HK\$1.6 million for the year ended 31 March 2019.

Income Tax Expense

Income tax expense was approximately HK\$7.0 million for the year ended 31 March 2020 (2019: HK\$5.4 million). Profit before income tax amounted to approximately HK\$36.9 million for the year ended 31 March 2020 compared to that of approximately HK\$31.1 million for the year ended 31 March 2019 (excluding the non-recurring listing expenses of HK\$12.3 million for the year ended 31 March 2019).

Major Services Contracts Acquired/Renewed

For the year ended 31 March 2020, the Group had successfully acquired a total of twenty (20) new contracts. It was able to renew almost all of its existing property management services contracts and stand-alone security services contracts upon initial terms expired.

Note 1: Excluding one-off listing expenses of HK\$12.3 million, adjusted operating profit for FY2019 was HK\$32.6 million.

The following table sets out the number of contracts the Group was providing services to at the end of the reporting period:

Type of contracts	Number of contracts
(1) Public contracts from HKHA (including property management, secondment and stand-alone security and cleansing services contracts)	31
(2) Public security and cleansing services contracts from URA	4
(3) Public cleansing services contracts from Department of Health (quarantine centres)	2
(4) Private contracts (including property management and stand-alone cleansing services contracts)	69

Dividends

The Board does not recommend the payment of final dividends by the Company for the year ended 31 March 2020 (2019: Nil). There are no arrangements under which a shareholder of the Company (“**Shareholder**”) has waived or agreed to waive any dividend.

Capital Structure, Liquidity and Financial Resources

For the year ended 31 March 2020. There has been no change in the capital structure of the Group since then. The capital of the Company only comprises ordinary Shares.

As at 31 March 2020, the Company's issued share capital was HK\$5,000,000 and the number of issued ordinary Shares was 500,000,000 of HK\$0.01 each.

	For the year ended/ as at 31 March	
	2020	2019
Financial position		
Current assets (<i>HK\$'000</i>)	340,042	312,393
Current liabilities (<i>HK\$'000</i>)	89,652	86,377
Net current assets (<i>HK\$'000</i>)	250,390	226,016
Total assets (<i>HK\$'000</i>)	392,813	360,557
Borrowings (<i>HK\$'000</i>)	21,269	28,055
Cash and bank balances (<i>HK\$'000</i>)	89,664	97,689
Pledged bank deposits (<i>HK\$'000</i>)	45,212	39,095
Total equity (<i>HK\$'000</i>)	282,531	260,754
Key financial ratios		
Return on equity (<i>Note 1</i>)	11.0%	6.7%
Return on total assets (<i>Note 2</i>)	7.9%	4.4%
Current ratio (<i>Note 3</i>)	3.8	3.6
Gearing ratio (<i>Note 4</i>)	7.8%	11.0%

Notes:

1. Return on equity is calculated by dividing net profit for the year by the average of the total equity attributable to owners of the Company as at the beginning and as at the end of the relevant year and multiplied by 100%.
2. Return on total assets is calculated by dividing net profit for the year by the average of the total assets as at the beginning and as at the end of the relevant year and multiplied by 100%.
3. Current ratio is calculated by dividing current assets by current liabilities as at the end of the relevant period.
4. Gearing ratio is calculated by dividing total debt by total equity attributable to owners of the Company as at the end of the relevant period. Total debt is defined as the sum of borrowings, finance lease liabilities and amounts due to related parties.

The Group finances its liquidity and capital requirements primarily through cash generated from operations, bank borrowings and equity contribution from the Shareholders.

Cash and cash equivalents were cash and bank balances deducted by bank overdrafts balances. As at 31 March 2020, the Group had cash and cash equivalents of approximately HK\$84.4 million (2019: approximately HK\$97.5 million), which comprised cash and bank balances of approximately HK\$89.7 million (2019: approximately HK\$97.7 million) and bank overdrafts of approximately HK\$5.3 million (2019: approximately HK\$0.2 million).

Return on Equity

The return on equity increased from 6.7% for the year ended 31 March 2019 to 11.0% for the year ended 31 March 2020.

Return on Total Assets

The return on total assets increased from 4.4% for the year ended 31 March 2019 to 7.9% for the year ended 31 March 2020.

Current Ratio

The Group's current ratio increased from 3.6 times as at 31 March 2019 to 3.8 times as at 31 March 2020 mainly due to more trade and other receivables as at 31 March 2020.

Gearing Ratio

The Group's gearing ratio as at 31 March 2020 was 7.8% (2019: 11.0%). The total borrowings decreased from approximately HK\$27.6 million as at 31 March 2019 to approximately HK\$21.3 million as at 31 March 2020. On the other hand, the Group's total equity increased during the year ended 31 March 2020 due to profit making during the year.

Performance Bond

As at 31 March 2020, 52 bond certificates issued by the banks amounting to approximately HK\$136.8 million (2019: approximately HK\$115.0 million) on behalf of the Group to the clients as required in the service contracts.

Capital Expenditure

The Group purchased property, plant and equipment amounting to approximately HK\$1.5 million for the year ended 31 March 2020 (2019: approximately HK\$0.9 million).

Capital Commitments

Capital expenditure on acquisition of property, plant and equipment contracted but not recorded in the consolidated financial statements amounted to approximately HK\$387,000 (2019: Nil).

Major Investment, Acquisitions and Disposals

The Group did not have any major investment, acquisitions, and disposals during the year ended 31 March 2020. There was no future plan for material investments or capital assets by the Group.

Contingent Liability

Save as disclosed in Note 12 to this announcement, as at 31 March 2020, the Group did not have other material contingent liabilities.

Significant Litigation

On 23 November 2017, Creative Property Services Consultants Limited (“**Creative Property**”), an indirectly owned subsidiary of the Company, as plaintiff commenced a legal action in the High Court of Hong Kong against the incorporated owners of a private housing court in Hong Kong (the “**Defendant**”) for a sum of approximately HK\$6 million in relation to the outstanding fees for management services provided by the Company during the period from 1 May 2016 to 30 November 2017. In the action, the Defendant counterclaimed for an order to surrender and hand over all “the Defendants’ Documents and Properties”, an account for “all property and any sums” received by Creative Property on its behalf and damages. Expert directions are granted on 15 May 2020, and the Case Management Summons was fixed to 15 October 2020. There is hence no judgement or settlement as at the date of this announcement.

After consulting our legal counsel, our Directors are of the view that it is quite unlikely that there is any unfavourable outcome to Creative Property. Our Directors have a strong case in claiming for the outstanding service fees in a total sum of approximately HK\$6 million against the Defendant. Further, after consulting our legal counsel, based on the provisions in the professional liability insurance taken out by Creative Property and the insurer’s confirmation letter, our Directors are of the view that the counterclaim will be covered by the said professional liability insurance.

Save as disclosed above, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

Charges over Assets of the Group

As at 31 March 2020, the Group had pledged its leasehold land and buildings of approximately HK\$15.5 million (2019: approximately HK\$15.9 million), bank deposits of approximately HK\$45.2 million (2019: approximately HK\$39.1 million) and investment in insurance contracts of approximately HK\$12.6 million (2019: approximately HK\$12.3 million) to banks for securing its performance bonds of approximately HK\$136.8 million (2019: approximately HK\$115.0 million) and bank borrowings of approximately HK\$16.0 million (2019: approximately HK\$27.4 million) under certain banking facilities.

Foreign Currency Risk

The Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollar. During the year ended 31 March 2020, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates between the currencies.

The Group did not engage in any derivatives arrangement and did not commit to any financial instruments to hedge its foreign exchange exposure during the year ended 31 March 2020.

Changes to Information in respect of the Directors

On 11 December 2018, the shares in the Company (the “**Shares**”) were successfully listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Since the date of Listing, there was no change to the information required to be disclosed by the Directors pursuant to Rule 13.51(2)(a) to (e) and (g) of the Listing Rules where applicable.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed a total workforce of approximately 4,818 staff members.

Apart from basic salaries, discretionary bonus and contribution to retirement benefits schemes, share options may also be granted to staff with reference to the individual's performance. Moreover, the Group also provides internal and external training to its staff to enable them to achieve self-improvement and to enhance their job-related skills.

Use of Proceeds from Listing

The actual net proceeds from the issue of new Shares under the share offer as set out in the prospectus of the Company dated 29 November 2018 (the “**Prospectus**”) (after deducting the underwriting fees and other Listing expenses borne by the Company) were approximately HK\$99.4 million which will be used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

The aggregate net proceeds from the Listing (involving the issue of a total of 125,000,000 ordinary Shares at the offer price of HK\$1.0 per Share), after deducting related underwriting fees and other expenses in connection with the Listing, were approximately HK\$99.4 million.

Up to 31 March 2020, a portion of the net proceeds from the Listing had been utilised with reference to the section headed “Future Plans and Use of Proceeds” of the Prospectus as follows:

Use of net proceeds	Net proceeds from the Listing <i>HK\$ million</i>	Actual utilisation up to 31 March 2020 <i>HK\$ million</i>	Unutilised amounts as at 31 March 2020 <i>HK\$ million</i>
Working capital and cash deposit to secure the performance bonds for undertaking additional contracts	61.6	26.4	35.2
Upgrade of computer system and accounting system	4.6	0.3	4.3
Acquisition of property management company in Hong Kong	18.9	—	18.9
General working capital	<u>2.5</u>	<u>2.3</u>	<u>0.2</u>
Total	<u><u>87.6</u></u>	<u><u>29.0</u></u>	<u><u>58.6</u></u>

The unutilised amount of the net proceeds will be applied in the manner consistent with that mentioned in the Prospectus. As at 31 March 2020, the unutilised net proceeds were deposited in short-term demand deposits with licensed banks in Hong Kong. The Directors expect to improve the overall performance of the Group through the upcoming utilisation of the net proceeds from the Listing.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus for the period from 19 November 2018, being the latest practicable date as defined in the Prospectus, to the date of this announcement (the “**Review Period**”) with the Group’s actual business progress for the Review Period is set out as follows:

Business objectives stated in the Prospectus

Actual business progress

Tendering for additional property management services contracts, stand-alone security services contracts and stand-alone cleaning services contracts

As at 31 March 2020, the Company was awarded four (4) new property management contracts, three (3) new stand-alone security services contract, three (3) new stand-alone cleansing contracts, and one (1) new secondment contract by the Housing Authority; as well as one (1) stand-alone security services contract and two (2) stand-alone cleansing services contracts by the Urban Renewal Services Department.

As at 31 March 2020, the Company also successfully tendered for two (2) special cleansing services contracts at the quarantine centres at Chun Yeung Estate and Chai Wan Lei Yue Mun Park and Holiday Village.

Expanding our service for HOS estates, non-residential properties and private housing estates

As at 31 March 2020, the Company successfully tendered for the property management contracts of three (3) HOS estates and nine (9) private properties.

Upgrading our computer system and accounting system

As at 31 March 2020, the Company had replaced/purchased new computer sets, hard disks, routers and relevant accounting software to maximize efficiency.

Growing our business through acquisition of property management company in Hong Kong

As at 31 March 2020, the Company had not acquired any property management company in Hong Kong.

Share Option Scheme

A share option scheme was conditionally adopted on 15 November 2018 (the “**Share Option Scheme**”), which became effective on the date of Listing. The Share Option Scheme is a share incentive scheme and is established to reward the contributions that the eligible participants (as defined in the Prospectus) (including but not limited to any employee, director, supplier, customer, adviser, consultant, shareholder, partner or joint-venture partner of the Group or any entity in which any member of the Group holds an equity interest) had or may have made to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the date of Listing (i.e. 50,000,000 Shares) unless approved by the Shareholders and the total number of the Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being unless approved by the Shareholders. Subject to early termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption. An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange’s daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share. Further details of the Share Option Scheme are set out in the section headed “4. Share Option Scheme” in Appendix IV to the Prospectus.

For the year ended 31 March 2020, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

CORPORATE GOVERNANCE PRACTICES

The Company is committed in establishing and maintaining good corporate governance practices and procedures with a view to enhance investors’ confidence and the Company’s accountability and transparency. Details of the corporate governance practices will be disclosed in the Company’s annual report for FY2020 (the “**2020**

Annual Report”). The Board is of the view that, since the date of Listing, the Company has complied with all the code provisions on the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

Compliance with the Model Code for Directors’ Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code from the date of Listing up to 31 March 2020.

The Company had also established written guidelines on no less exacting terms than the Model Code for securities transactions by the relevant employees of the Group, who are likely to be in possession of inside information of the Group.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during FY2020.

Change of Compliance Adviser

The Company and First Shanghai Capital Limited (“**First Shanghai**”) have mutually agreed to terminate the compliance adviser agreement dated 26 June 2018 with effect from 1 July 2019 due to the change of First Shanghai’s handling officer. Zhongtai International Capital Limited (“**Zhongtai International**”) has been appointed as the compliance adviser to the Company as required pursuant to Rule 3A.27 of the Listing Rules with effect from 1 July 2019 until the date, pursuant to Rule 3A.19 of the Listing Rules, on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the date of its initial listing (being the financial year ending 31 March 2020), or until the compliance adviser agreement entered into between the Company and Zhongtai International is terminated in accordance with its terms, whichever is earlier.

Interest of Compliance Adviser

Neither Zhongtai International, the then compliance adviser of the Group for year ended 31 March 2020, nor its directors, employees or associates had any interests in relation to the Company as at 31 March 2020.

Audit Committee

The Audit Committee assists the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The annual results of the Company for the year ended 31 March 2020 had been reviewed by the Audit Committee, which consists of three independent non-executive Directors of the Company, namely Mr. Wong Chung Kin Quentin, Mr. Tang Yiu Ming and Mr. Wong Si Yuen, with Mr. Wong Chung Kin Quentin as the chairman of the Audit Committee.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 18 August 2020, the notice of which will be published and despatched to the Shareholders as soon as practicable in accordance with the Company's Articles of Association and the Listing Rules.

Change of Address of Hong Kong Branch Share Registrar and Transfer Office

With effect from 11 July 2019, the Hong Kong Branch Share Registrar and Transfer Office of the Company, Tricor Investor Services Limited (the "**Branch Share Registrar**"), had changed its address from Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong to

**Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong**

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

Closure of Register of Members

In order to establish entitlements to attend and vote at the forthcoming annual general meeting to be held on 18 August 2020, the register of members of the Company will be closed from 13 August 2020 to 18 August 2020 (both days inclusive), during which no transfer of Shares will be registered.

Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates are lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 August 2020.

Publication of Results and the 2020 Annual Report

The 2020 Annual Report will be despatched to the Shareholders. Should the Shareholders have any difficulties in accessing the corporate communications electronically, please request the printed report, free of charge, at any time by writing to the Company or Tricor Investor Services Limited, the Company's Hong Kong share registrar.

Scope of Work of the Auditors

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for FY2020 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance had been expressed by PricewaterhouseCoopers on this announcement.

EVENTS AFTER THE REPORTING PERIOD

New contracts awarded

On 1 April 2020, Creative Property was awarded one (1) new public property management contract and one (1) secondment contract; as well as three (3) standalone security services contracts by retendering. Save as disclosed in this announcement, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 March 2020 and up to the date of this annual results announcement.

Outbreak of novel coronavirus

Following the outbreak of Coronavirus Disease 2019 (“**COVID-19**”), the Group has responded promptly by adopting rigorous measures to protect the health and safety of our staff and clients. To strengthen epidemic control in the estate vicinity, we have deployed extra manpower and resources to carry out additional cleansing and disinfection tasks. The Group provides daily essential protective gears including face masks and sanitizing products for over 4,000 employees (office, cleansing and security staff) and disinfection/cleansing materials for the intensified cleansing tasks. The prices of protective gears such as face masks and sanitizing products has rocketed if products are not out of stock, particularly during the early outbreak of COVID-19. We have made every possible effort to strive for continuous supply of the necessary gears even at a more costly price. For the procurement of face masks in particular, many of the suppliers imposed stringent payment terms such as cash payment and short settlement period in addition to the high costs.

As the epidemic is expected to persist, the Group is aware of the need to have additional reserves for funding the necessary manpower and resources daily and continuously. The Group is therefore of the view that the expenditure in the additional cleansing tasks would likely affect the Company’s financial performance in the next and coming years. The increased expenditure originally prompted the Directors to consider reducing headquarters manpower including staff layoffs to ease and offset the additional expenses. A decision to implement staff layoffs was eventually shelved for the time being due to the subsidy of the Government’s Employment Support Scheme. The Group would continue to pay close attention to the development of the epidemic and evaluate its impact on the financial position and operation of the Group.

Save as disclosed in the section headed “Management Discussion and Analysis” of this announcement, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 March 2020 and up to the date of this announcement.

On behalf of the Board
Creative Enterprise Holdings Limited
Poon Kin Leung
Chairman

Hong Kong, 26 June 2020

As at the date of this announcement, the executive Directors are Mr. Poon Kin Leung, Mr. Lee Siu Wah Albert, Mr. Lam Siu Hung Christopher, Mr. Wong King Cheung, Mr. Lai Wai Man and Mr. Wu Ka Chai. The independent non-executive Directors are Mr. Wong Chung Kin Quentin, Mr. Tang Yiu Ming and Mr. Wong Si Yuen.