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Wan Kei Group Holdings Limited

宏基集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1718)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period amounted to approximately HK\$155,868,000 (six months ended 30 September 2022: approximately HK\$179,842,000).
- Profit attributable to the equity shareholders of the Company for the Reporting Period amounted to approximately HK\$18,378,000 (six months ended 30 September 2022: approximately HK\$473,000).
- Basic and diluted earnings per share of the Company for the Reporting Period amounted to approximately HK cents 1.98 (six months ended 30 September 2022: approximately HK cents 0.05).
- The Board does not recommend the declaration of any interim dividend for the Reporting Period (six months ended 30 September 2022: nil).

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Wan Kei Group Holdings Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 September 2023 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2023

		For the six months ended 30 September	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	4	155,868	179,842
Direct costs		<u>(114,693)</u>	<u>(153,838)</u>
Gross profit		41,175	26,004
Other income, other gains and losses, net	5	942	5,694
General and administrative expenses		<u>(17,055)</u>	<u>(24,998)</u>
Profit from operations		25,062	6,700
Finance costs	6(a)	(4,587)	(5,386)
Share of results of an associate		<u>–</u>	<u>(42)</u>
Profit before taxation	6	20,475	1,272
Income tax expense	7	<u>(2,097)</u>	<u>(799)</u>
Profit for the period attributable to equity shareholders of the Company		<u>18,378</u>	<u>473</u>
Earnings per share			
– Basic (HK cents per share)	9	<u>1.98</u>	<u>0.05</u>
– Diluted (HK cents per share)	9	<u>1.98</u>	<u>0.05</u>

	For the six months ended 30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other comprehensive expenses for the period:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statement of foreign operation	(562)	(1,729)
Share of other comprehensive income of investment accounted for using the equity method	–	(325)
Debt investment at fair value through other comprehensive income (recycling):		
– net movement in fair value reserve	–	1,273
	<u>–</u>	<u>1,273</u>
Other comprehensive expenses for the period	<u>(562)</u>	<u>(781)</u>
Profit and total comprehensive income/(expenses) for the period attributable to equity shareholders of the Company	<u>17,816</u>	<u>(308)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

		As at 30 September 2023 (Unaudited) <i>HK\$'000</i>	As at 31 March 2023 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		9,192	9,407
Financial asset at fair value through other comprehensive income		6,163	8,560
Club membership		290	290
		<u>15,645</u>	<u>18,257</u>
Current assets			
Contract assets		152,052	131,180
Trade and other receivables	10	76,522	81,078
Loan receivables		2,842	7,091
Cash and cash equivalents		127,489	116,478
		<u>358,905</u>	<u>335,827</u>
Current liabilities			
Trade and other payables	11	43,665	43,472
Amount due to a related company	12	58,946	62,484
Amount due to a director of a subsidiary	12	127,628	124,578
Lease liabilities		1,321	974
Tax payable		4,751	2,708
		<u>236,311</u>	<u>234,216</u>
Net current assets		<u>122,594</u>	<u>101,611</u>
Total assets less current liabilities		<u>138,239</u>	<u>119,868</u>

		As at 30 September 2023 (Unaudited) <i>HK\$'000</i>	As at 31 March 2023 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Long service payment liabilities		993	993
Lease liabilities		1,373	872
Deferred tax liabilities		<u>720</u>	<u>666</u>
		<u>3,086</u>	<u>2,531</u>
Net assets		<u>135,153</u>	<u>117,337</u>
Capital and reserves			
Share capital	<i>13</i>	9,600	9,600
Reserves		<u>125,553</u>	<u>107,737</u>
Total equity		<u>135,153</u>	<u>117,337</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 October 2014 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is Unit No. 07, 16/F., Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The Group is principally engaged in the provision of (i) foundation construction; (ii) ground investigation services; (iii) financial services; and (iv) trading of beauty and skin care products.

The Company acts as an investment holding company and the Company's shares are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The unaudited condensed consolidated interim financial information is presented in Hong Kong Dollars (HK\$), unless otherwise stated. The unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 24 November 2023.

The unaudited condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's audit committee (the "**Audit Committee**").

2. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

3. CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied in the preparation of the interim financial statements for the current period are consistent with those of the annual financial statements for the year ended 31 March 2023, as described in those annual financial statements.

Application of new/revised HKFRSs

In the current period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**HKFRS**”, which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA which are effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The Group has not applied any new standard or interpretation that is not yet effective for the current period. The application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are foundation construction, ground investigation services, financial services and trading of beauty and skin care products.

Revenue represents revenue from construction contracts, ground investigation services, financial services and trading of beauty and skin care products. Disaggregation of revenue from contracts with customers of each significant category during the respective periods is as follows:

	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15:		
Revenue from construction contracts	115,005	150,009
Revenue from ground investigation services	40,460	28,150
Revenue from trading of beauty and skin care products	<u>–</u>	<u>–</u>
	<u>155,465</u>	<u>178,159</u>
Revenue from other sources		
Interest income from money lending business	<u>403</u>	<u>1,683</u>
	<u><u>155,868</u></u>	<u><u>179,842</u></u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b).

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foundation construction: this segment provides foundation construction works to customers in Hong Kong.
- Ground investigation services: this segment provides ground investigation services to customers in Hong Kong.
- Financial services: this segment provides investment, financing and money lending services.
- Trading of beauty and skin care products: this segment engages in the trading of beauty and skin care products.

Segment information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue, profit/(loss) from operations and assets were derived from activities outside Hong Kong.

(i) *Segment results, assets and liabilities*

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all current and non-current assets with the exception of unallocated head office and corporate assets, financial asset at fair value through other comprehensive income and tax recoverable (if any). Segment liabilities include all current and non-current liabilities with the exception of tax payable and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments. The measure used for reporting segment profit/(loss) is profit before taxation.

Disaggregation of revenue from customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and performance assessment of segment performance for the six months ended 30 September 2023 and 2022 are as follows:

	Six months ended 30 September 2023				Total
	Foundation construction	Ground investigation services	Financial services	Trading of beauty and skin care products	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregated by timing of revenue recognition					
– overtime	115,005	40,460	403	–	155,868
– at a point in time	–	–	–	–	–
Revenue from external customers	<u>115,005</u>	<u>40,460</u>	<u>403</u>	<u>–</u>	<u>155,868</u>
Reportable segment revenue	<u><u>115,005</u></u>	<u><u>40,460</u></u>	<u><u>403</u></u>	<u><u>–</u></u>	<u><u>155,868</u></u>
Reportable segment gross profit	<u><u>22,443</u></u>	<u><u>18,329</u></u>	<u><u>403</u></u>	<u><u>–</u></u>	<u><u>41,175</u></u>
Reportable segment profit	<u><u>10,698</u></u>	<u><u>12,575</u></u>	<u><u>3,576</u></u>	<u><u>2,551</u></u>	<u><u>29,400</u></u>
Interest income from bank deposit	–	–	6	–	6
Interest expense	3,054	–	61	–	3,115
Depreciation for the period	<u>338</u>	<u>874</u>	<u>232</u>	<u>–</u>	<u>1,444</u>

Six months ended 30 September 2022

	Foundation construction	Ground investigation services	Financial services	Trading of beauty and skin care products	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregated by timing of revenue recognition					
– overtime	150,009	28,150	1,683	–	179,842
– at a point in time	–	–	–	–	–
Revenue from external customers	<u>150,009</u>	<u>28,150</u>	<u>1,683</u>	<u>–</u>	<u>179,842</u>
Reportable segment revenue	<u>150,009</u>	<u>28,150</u>	<u>1,683</u>	<u>–</u>	<u>179,842</u>
Reportable segment gross profit	<u>15,647</u>	<u>8,674</u>	<u>1,683</u>	<u>–</u>	<u>26,004</u>
Reportable segment profit/(loss)	<u>6,423</u>	<u>5,248</u>	<u>(2,915)</u>	<u>336</u>	<u>9,092</u>
Interest income from bank deposit	–	–	16	–	16
Interest expense	3,051	–	44	–	3,095
Depreciation for the period	<u>332</u>	<u>817</u>	<u>937</u>	<u>–</u>	<u>2,086</u>

As at 30 September 2023

	Foundation construction	Ground investigation services	Financial services	Trading of beauty and skin care products	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Reportable segment assets	291,327	71,053	251,040	57,467	670,887
Additions to non-current segment assets during the period	248	15	–	–	263
Reportable segment liabilities	199,136	10,778	342,423	59,326	611,663

As at 31 March 2023

	Foundation construction	Ground investigation services	Financial services	Trading of beauty and skin care products	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Reportable segment assets	273,709	57,995	254,062	54,916	640,682
Additions to non-current segment assets during the year	945	955	1,505	–	3,405
Reportable segment liabilities	192,217	10,294	349,395	59,326	611,232

(ii) *Reconciliations of reportable segment revenue, profit or loss, assets and liabilities*

	Six months ended 30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Reportable segment revenue and consolidated revenue	<u>155,868</u>	<u>179,842</u>
Profit		
Reportable segment profit	29,400	9,092
Share of results of an associate	–	(42)
Unallocated head office and corporate expenses	<u>(8,925)</u>	<u>(7,778)</u>
Consolidated profit before taxation	<u>20,475</u>	<u>1,272</u>
	At	At
	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Assets		
Reportable segment assets	670,887	640,681
Elimination	<u>(312,095)</u>	<u>(306,769)</u>
	358,792	333,912
Financial asset at FVOCI	6,163	8,560
Unallocated head office and corporate assets	<u>9,595</u>	<u>11,612</u>
Consolidated total assets	<u>374,550</u>	<u>354,084</u>
Liabilities		
Reportable segment liabilities	611,663	611,232
Elimination	<u>(439,115)</u>	<u>(441,774)</u>
	172,548	169,458
Tax payable	4,751	2,708
Deferred tax liabilities	720	666
Unallocated head office and corporate liabilities	<u>61,378</u>	<u>63,915</u>
Consolidated total liabilities	<u>239,397</u>	<u>236,747</u>

5. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank and other interest income	613	815
Rental income from lease of machinery	–	214
Sales of raw materials	176	92
Gain on disposal of property, plant and equipment	135	446
Government grants (<i>note</i>)	–	4,026
Others	18	101
	<u>942</u>	<u>5,694</u>

Note: The government grants are mainly related to the employment support scheme. In 2022, the Group successfully applied for funding support from the employment support scheme under the anti-epidemic fund, set up by the Hong Kong government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(a) Finance costs		
Interest on borrowing from a related company	1,462	2,250
Interest on borrowing from a director of a subsidiary	3,050	3,050
Interest on lease liabilities	75	86
	<u>4,587</u>	<u>5,386</u>
(b) Staff costs (including directors' remuneration)		
Contributions to defined contribution retirement plans	1,030	1,408
Salaries, wages and other benefits	30,613	30,118
	<u>31,643</u>	<u>31,526</u>
(c) Other items		
Depreciation		
– owned property, plant and equipment	1,201	1,187
– right-of-use assets	852	1,537
Reversal of impairment losses on loan receivables	(8,463)	(93)
Reversal of impairment losses on trade and other receivables and contract assets	(248)	(39)
Gain on disposal of property, plant and equipment	(135)	(446)

7. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision for Hong Kong Profits Tax for the period	2,043	583
Deferred tax	54	216
	<u>2,097</u>	<u>799</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.
- (ii) The provision for Hong Kong Profits Tax for the period is calculated at 16.5% (six months ended 30 September 2022: 16.5%) of the estimated assessable profits for the period, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2022.

- (iii) The provision for Macau Complementary Tax is calculated at 12% of the estimated assessable profits for periods ended 30 September 2023 and 2022.
- (iv) The provision for People's Republic of China Income Tax is calculated at 25% of the estimated assessable profits for the period ended 30 September 2023 and 2022.

8. DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: nil).

9. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the respective periods. The calculation of basic earnings per share attributable to equity shareholders of the Company is based on the following:

	Six months ended	
	30 September	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to equity shareholders of the Company (<i>HK\$'000</i>)	18,378	473
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>in thousand</i>)	928,355	928,355
Basic earnings per share (<i>HK cents</i>)	<u>1.98</u>	<u>0.05</u>

Diluted earnings per share

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

10. TRADE AND OTHER RECEIVABLES

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Trade receivables, net of allowance	26,242	17,463
Deposits, prepayments and other receivables, net of allowance (<i>note</i>)	<u>50,280</u>	<u>63,615</u>
Financial assets measured at amortised cost	<u><u>76,522</u></u>	<u><u>81,078</u></u>

Note: Except for the amounts of approximately HK\$365,000 and HK\$260,000 as at 30 September 2023 and 31 March 2023 respectively, which are expected to be recovered after one year, all of the remaining balances are expected to be recovered within one year.

(a) Aging analysis

At 30 September 2023 and 31 March 2023, the aging analysis of the trade receivables, based on the invoice date for trading of beauty and skin care products and the date of progress certificates issued by customers for foundation construction and ground investigation services, and net of allowance for doubtful debts, is as follows:

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Within 1 month	12,536	6,181
1 to 2 months	804	522
2 to 3 months	1,610	–
Over 3 months	<u>11,292</u>	<u>10,760</u>
	<u><u>26,242</u></u>	<u><u>17,463</u></u>

11. TRADE AND OTHER PAYABLES

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Trade payables	26,201	23,414
Retention payables (<i>note</i>)	6,471	6,136
Other payables and accruals	<u>10,993</u>	<u>13,922</u>
	<u>43,665</u>	<u>43,472</u>

Note: Except for the amounts of approximately HK\$1,549,000 and HK\$985,000 as at 30 September 2023 and 31 March 2023 respectively, all of the remaining balances are expected to be settled within one year.

(a) Aging analysis

An aging analysis of trade payables based on the invoice date is as follows:

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Within 1 month	11,119	13,663
1 to 2 months	10,575	8,273
2 to 3 months	2,972	45
Over 3 months	<u>1,535</u>	<u>1,433</u>
	<u>26,201</u>	<u>23,414</u>

12. AMOUNT DUE TO A RELATED COMPANY/A DIRECTOR OF A SUBSIDIARY

The amount due to a related company, Bright Dynasty Trading Limited (“**Bright Dynasty**”), a related company which is 100% beneficially owned by Mr. Fong Hon Hung (“**Mr. Fong**”), was unsecured, repayable on demand and interest bearing at 5% (for the year ended 31 March 2023: 5%) per annum. Mr. Fong is a member of key management personnel of the Group, a director of a principal subsidiary, and is also the director of Bright Dynasty.

The amount due to a director of a subsidiary, Mr. Lau Woon Si (“**Mr. Lau**”), was unsecured, bearing interest rate at 5% (for the year ended 31 March 2023: 5%) per annum and repayable on demand. Mr. Lau is a member of key management personnel of the Group and is a director of a subsidiary.

13. SHARE CAPITAL

	Number of ordinary shares	Nominal amount HK\$'000
Ordinary shares of HK\$0.01 each authorised:		
As at 30 September 2023 and 31 March 2023	<u>2,000,000,000</u>	<u>20,000</u>
Ordinary shares, issued and fully paid:		
As at 30 September 2023 and 31 March 2023	<u>960,000,000</u>	<u>9,600</u>

14. COMMITMENTS

As at 30 September 2023, the Group had no capital commitments (31 March 2023: nil).

15. MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2023, the related parties that had transactions with the Group were as follows:

Name of related parties	Relationship with the Group
Chung Hang Enterprises Holdings Limited	A related company owned by Mr. Lau
Chung Wah Investment Company Limited	A related company owned by Mr. Lau

In addition to the transactions and balances disclosed in notes 6(a) and 12 in these condensed consolidated financial statements, the Group rented properties from the related parties during the period which were carried out in accordance with the terms agreed between the Group and the related parties and in the ordinary and usual course of business:

	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Repayment of lease liabilities		
– Chung Hang Enterprises Holdings Limited	360	360
– Chung Wah Investment Company Limited	690	690
	<hr/>	<hr/>
	1,050	1,050
	<hr/> <hr/>	<hr/> <hr/>

Key management personnel remuneration

	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	4,922	4,506
Post-employment benefits	20	17
	<hr/>	<hr/>
	4,942	4,523
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group was principally engaged in the provision of (i) foundation construction; (ii) ground investigation services; (iii) financial services; and (iv) trading of beauty and skin care products.

Foundation Construction

During the Reporting Period, the Group was principally engaged in the provision of foundation construction in Hong Kong. The foundation construction undertaken by the Group mainly consisted of the construction of socketed H-piles, mini piles, soldier piles, pipe piles and king posts. The Group undertook foundation construction projects in both public and private sectors. Revenue from foundation construction works amounted to approximately 73.8% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2022: approximately 83.4%).

Ground Investigation Services

The Group also acted as a contractor to provide ground investigation services in Hong Kong, and it undertook ground investigation services in both public and private sectors during the Reporting Period. Revenue from ground investigation services amounted to approximately 25.9% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2022: approximately 15.7%).

Financial Services

During the Reporting Period, revenue from financial services amounted to approximately 0.3% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2022: approximately 0.9%).

Trading of beauty and skin care products

There was no revenue generated from the Group's trading business during the Reporting Period (six months ended 30 September 2022: nil).

FINANCIAL REVIEW

Revenue

The Group's total revenue for the Reporting Period decreased by approximately HK\$23,974,000 or approximately 13.3%, from approximately HK\$179,842,000, for the six months ended 30 September 2022 to approximately HK\$155,868,000 for the Reporting Period, primarily as a result of the following:

Foundation Construction

The revenue from foundation construction works decreased by approximately 23.3%, from approximately HK\$150,009,000 for the six months ended 30 September 2022 to approximately HK\$115,005,000 for the Reporting Period, mainly due to the decrease in number of sizeable foundation construction projects tendered by the Group during the Reporting Period.

Ground Investigation Services

The revenue from ground investigation services increased by approximately 43.7%, from approximately HK\$28,150,000 for the six months ended 30 September 2022 to approximately HK\$40,460,000 for the Reporting Period, mainly due to the increase in number of sizeable ground investigation projects tendered by the Group during the Reporting Period.

Financial Services

The revenue for financial services amounted to approximately HK\$403,000 for the Reporting Period (six months ended 30 September 2022: approximately HK\$1,683,000).

Trading of beauty and skin care products

There was no revenue generated during the Reporting Period (six month ended 30 September 2022: nil).

Gross Profit and Gross Profit Margin

The Group's gross profit amounted to approximately HK\$41,175,000 for the Reporting Period (six months ended 30 September 2022: approximately HK\$26,004,000). The Group's overall gross profit margin during the Reporting Period was approximately 26.4% (six months ended 30 September 2022: approximately 14.5%).

Gross profit of the Group's foundation construction segment was approximately HK\$22,443,000 for the Reporting Period (six months ended 30 September 2022: approximately HK\$15,647,000). Gross profit margin of the foundation construction segment was approximately 19.5% for the Reporting Period (six months ended 30 September 2022: approximately 10.4%). The increase in gross profit margin was mainly due to the improvement in the bidding price of the new tenders.

Gross profit of the Group's ground investigation services segment was approximately HK\$18,329,000 for the Reporting Period, representing an increase of approximately 111.3% from approximately HK\$8,674,000 compared to the six months ended 30 September 2022. Gross profit margin of the ground investigation services segment increased from approximately 30.8% for the six months ended 30 September 2022 to approximately 45.3% for the Reporting Period. The increase in gross profit margin was mainly due to the improvement in the bidding price of the new tenders.

Gross profit of the Group's financial services was approximately HK\$403,000 for the Reporting Period (six months ended 30 September 2022: approximately HK\$1,683,000). Gross profit margin of the financial service amounted to approximately 100.0% for the Reporting Period (six months ended 30 September 2022: approximately 100.0%).

Other Income, Other Gains and Losses, Net

The other income, other gains and losses, net decreased by approximately HK\$4,752,000 from approximately HK\$5,694,000 for the six months ended 30 September 2022 to approximately HK\$942,000 for the Reporting Period. The decrease was mainly due to absence of government grants received from the employment support scheme under the anti-epidemic fund set up by the Hong Kong government during the Reporting Period (six months ended 30 September 2022: approximately HK\$4,026,000).

General and administrative expenses

The Group's general and administrative expenses for the Reporting Period were approximately HK\$17,055,000 (six months ended 30 September 2022: approximately HK\$24,998,000), representing a decrease of approximately 31.8% as compared to the corresponding period in 2022. The higher general and administrative expenses incurred during the six months ended 30 September 2022 as compared to that of the Reporting Period was mainly due to the partial reversal of previously recognised impairment losses on a credit-impaired trade receivable and loan receivables.

Finance Costs

For the Reporting Period, the finance costs were approximately HK\$4,587,000 (six months ended 30 September 2022: approximately HK\$5,386,000). The decrease was mainly due to the partial repayment of amount due to a related company of the Group during the year ended 31 March 2023.

Share of results of an associate

The Company acquired 35% of the issued share capital of Matsu Gami IP Development Limited (“**Matsu Gami**”) on 4 September 2020. On 27 March 2023, Matsu Gami was partially disposed at the exercise of put option and the Company remains as the holder of approximately 19.7% of the total issued shares of Matsu Gami. The Group recognised its interests in 19.7% of Matsu Gami as financial asset at FVOCI. During the Reporting Period, there is no sharing of results of an associate (six months ended 30 September 2022: share of loss approximately HK\$42,000).

For details, please refer to the announcements of the Company dated 10 December 2019, 9 June 2020, 4 September 2020, 10 August 2021, 10 September 2021, 29 August 2022, 20 September 2022, 20 October 2022 and 18 November 2022, 20 December 2022, 20 January 2023, 8 February 2023, 27 March 2023 and 2 August 2023.

Income Tax

The tax expense for the Reporting Period was approximately HK\$2,097,000 (six months ended 30 September 2022: approximately HK\$799,000). The change was mainly due to the increase in assessable profits of Hong Kong Profits Tax for the Reporting Period.

Financial asset at fair value through other comprehensive income

As at 30 September 2023, the financial asset at fair value through other comprehensive income represents approximately 19.7% equity interest of Matsu Gami. During the Reporting Period, the fair value loss amounted to approximately HK\$2,397,000 (six months ended 30 September 2022: nil).

Provision for expected credit losses in relation to trade receivable and loan receivables

In relation to the trade receivable for trading beauty and skin care products and loan receivables, the Group recognised reversal of expected credit losses of approximately HK\$9,102,000 due to the partial subsequent settlement of the outstanding balances for the Reporting Period, the aggregate amount of expected credit losses was approximately HK\$26,148,000 (after reversal was made) as at 30 September 2023 (the “**Impairment Loss**”).

(a) Trade receivable

Trade receivable for trading of beauty and skin care products, was past due during the year ended 31 March 2023 (“**YR2023**”). The Company has been closely negotiating with the customer and closely monitoring the repayment status. Despite several subsequent settlements, a supplemental agreement and a new guarantee agreement were signed with the customer and its fellow subsidiary on 28 June 2023, the Company has adopted a prudent approach to measure the expected credit losses (“**ECL**”) of the trade receivable. According to the signed supplemental agreement and guarantee agreement, the last installment will be repayable on or before 31 January 2024 based on the repayment schedule.

(b) Loan receivables

Loan receivables for money lending business are represented by loan receivable A (“**Loan receivable A**”) and loan receivable B (“**Loan receivable B**”). Prior to the grant of the Loan receivable A and Loan receivable B, the Group performed various due diligence and credit assessment work on each of the borrowers and guarantors, which include (i) obtaining of the latest management financial statements, statutory records and credit history (where applicable) to assess the background and financial position of the borrowers and to identify any indicators of high default risks; and (ii) considering the key terms by referencing the prevailing market interest rate and the financial position of the borrowers to compensate the associated credit risk (the “**Credit Risk Assessments**”). The Group, having not identified any indication of high default risk of the loans and having assessed the terms and conditions for the grant of the Loan receivable A and Loan receivable B based on Credit Risk Assessments, considered that the initial grant of the loans based on such terms and conditions was fair and reasonable and in the interest of the Company and its shareholders as a whole.

Loan receivable A was past due during the YR2023. As at 30 September 2023, the outstanding principal was approximately HK\$5,960,000. The Company has been closely negotiating with the customer and closely monitoring the repayment status. A supplemental agreement and a new guarantee agreement were signed with the customer and its fellow subsidiary on 28 June 2023. According to the signed supplemental agreement and guarantee agreement (which was additional to the existing personal guarantees executed by the ultimate beneficial owners of the borrower in favour of the lender), the last installment was repayable on or before 31 October 2023 based on the repayment schedule and was past due. The Company is in negotiation with the customer on extension of repayment schedule and the Company has adopted a prudent approach to measure the ECL of the relevant receivable.

Loan receivable B was past due since June 2020. As at 30 September 2023, the outstanding principal was approximately HK\$14,900,000. The Company has commenced the winding up process against the customer company responsible for the nonpayment of Loan receivable B in April 2023. The hearing of winding-up petition originally fixed on 28 June 2023 is adjourned to 7 August 2023, and the Group has been liaising with the borrower in the interim with the view of settling the outstanding repayment amount. To balance the legal fee that would have been further incurred and the recoverability of the receivable, a supplemental agreement and guarantee agreements were signed with the customer and its guarantors on 31 July 2023. Thus, the Company has withdrawn the winding-up petition in early August 2023. The last instalment will be repayable on or before 30 September 2025.

(c) Impairment loss and key value of inputs used and assumptions adopted in valuation

The Group has conducted a valuation in relation to impairment assessment over its trade receivable and loan receivables as at 30 September 2023 (the “**Valuation**”).

The Valuation adopted the expected credit loss model (the “**ECL Model**”) to measure the ECL of the trade receivable and loan receivables. The ECL Model was adopted in accordance with Hong Kong Financial Reporting Standards 9. Major inputs of the ECL Model include (i) probability of default (the “**PD**”) of the borrowers which in turn affecting the credit specific factor by, inter alia, assessing the loss stages and checking forward looking assumptions involved; (ii) loss given default; (iii) exposure at default; and (iv) discount factor reflecting time value of money.

The expected credit loss rate (the “**ECL rate**”) for trade receivable and Loan receivable A was relatively high in the Reporting Period due to significant increase in credit risks of the relevant receivables since initial recognition. The Company has been closely negotiating with the borrower of the Loan receivable A and entered into the supplemental agreement and additional guarantee to further secure the repayment of the outstanding amount of the loan on or before 31 October 2023 and was past due. The Company is in negotiation with the customer on extension of repayment schedule, the Board adopted a prudent approach when assessing the credit risk of Loan receivable A since initial recognition due to (i) the adverse impact the COVID-19 pandemic has on the local and global economy affecting the recovery of the borrower’s sales and accounts receivables and (ii) the trade receivable and Loan receivable A were past due during the YR2023. The ECL rate is 52.9%, resulting in the provision for expected credit losses of approximately HK\$8,056,000 for trade receivable with gross carrying amount of approximately HK\$15,228,000 and approximately HK\$3,192,000 for Loan receivable A with gross carrying amount of approximately HK\$6,034,000 as at 30 September 2023 which is credit-impaired. During the Reporting Period, approximately HK\$5,000,000 and approximately HK\$9,423,000 have been received for the settlement of trade receivable and Loan receivable A, respectively.

The ECL rate for Loan receivable B was relatively high in the Reporting Period due to significant increase in credit risks of the loan receivable since initial recognition. Due to (i) the adverse impact the COVID-19 pandemic has on the local and global economy, (ii) the Loan receivable B was past due since June 2020, and (iii) the Company has commenced the winding up process against the customer company responsible for the nonpayment of the Loan receivable B in April 2023 and has withdrew the winding-up petition in August 2023 as a result of the signing of a supplemental agreement and guarantee agreements in July 2023. The Group has provided a full provision of approximately HK\$14,900,000 for Loan receivable B with gross carrying amount of approximately HK\$14,900,000 as at 30 September 2023. During the Reporting Period, HK\$2,000,000 have been received for the settlement of Loan receivable B.

Money lending business

Within the Group's money lending business, prospective borrowers are sourced from the management's business networks. A credit committee ("**Credit Committee**") was established and the primary responsibility of this committee is to assess and approve loans. During the credit assessment phase, multiple approval criteria are considered, including the client's income source, outstanding debt, credit history, loan history with our company and relevant assessment results obtained during the application procedure.

As of 30 September 2023, the combined outstanding balances of the top two clients in the money lending business equated to 100% of the Group's total loan receivables (as of 31 March 2023: 100%).

Business model of the Group's money lending business

The Group's money lending business is managed through a wholly-owned subsidiary, Fortune Shiny (Hong Kong) Limited ("**Fortune Shiny**"), which holds a money lenders license issued under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). Fortune Shiny provides loan financing services to both individual and corporate clients who are third parties independent of the Company and its connected persons (as defined in the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Corporate loans are offered to corporate clients requiring loan financing for their corporate needs, while individual loans are provided to clients who require loan financing for their personal needs.

Fortune Shiny is capable of granting loan financing services to both corporate and individual clients with greater flexibility compared to licensed banks and was established to generate interest income by providing loan financing services in Hong Kong. The Group's money lending business is primarily financed through internal resources.

Credit assessment policy

Loan applications are evaluated and processed on a case-by-case basis, with each application assessed based on its individual merit. Prior to granting loans, the management conducts a financial background and credit check procedure.

The process for loan application involves collecting customer information including identity and financial documents, performing a customer due diligence check to verify identity and understand the purpose of the loan, conducting a background check including legal and property ownership searches, performing a valuation check on the collateral, conducting a credit assessment to determine the borrower's ability to repay, and performing an assessment to ensure compliance with the relevant requirements and regulations of anti-money laundering and counter-terrorist financing. The details of each step may vary depending on the specific circumstances of the loan application.

Overall, the loan application process involves a thorough evaluation of the borrower's financial standing, legal and financial history, collateral, and ability to repay the loan. By performing these checks and assessments, the Group can reduce the risk of default and ensure that their loans are being used for legitimate purposes.

Ongoing monitoring of loan recoverability and loan collection

To ensure recoverability, the Group places particular emphasis on the financial background, assets or capital base, repayment ability, and reputation of the borrower when establishing loan terms. The manager communicates with borrowers regularly to monitor the recoverability of loans and assess the conditions of the borrowers. Any delays in payment or defaults on significant terms of the loan agreement are reported to the management. To mitigate risk and potential credit losses, various measures may be implemented, including but not limited to revising repayment terms, executing a settlement agreement, and/or initiating legal proceedings against the borrower to recover any late payments and default interest. These measures are taken after considering the normal market practice and the actual circumstances during the credit collection processes and negotiations with the relevant customers with the ultimate goal of reducing the possibility of credit losses.

Credit committee

To manage credit risk and operations, the Credit Committee has been established. As at 30 September 2023, the Credit Committee consisted Mr. Yan Shuai, Mr. Zhu Jiayu, and Mr. Chong Ka Yee, with full authority to handle all credit-related matters of Fortune Shiny. All loans must be approved by the Credit Committee, following the authorization matrix for final approval.

The primary responsibilities of the Credit Committee include approving and supervising the Group's money lending business and monitoring the loan portfolio. The Credit Committee is also responsible for overseeing compliance and governance matters such as regularly reviewing and modifying the money lending policy to be in line with changes in the market environment.

Major terms of loans granted

Under the Group's money lending business for the Reporting Period, the Group offered a credit period of 6 months (as at 31 March 2023: 6 months) for the loan to its corporate customer with interest rate of 7.5% p.a. (as at 31 March 2023: 7.5% p.a.) secured by personal guarantee.

Breakdowns of material loan receivables

As of 30 September 2023, the Group had a total outstanding loan principal amount of approximately HK\$20,860,000 (as at 31 March 2023: approximately HK\$31,900,000) before taking into account the ECL. The outstanding principal amounts relate to Loan receivable A and Loan receivable B, which was two corporate loans (as at 31 March 2023: two corporate loans). Notably, the corporate loans accounted for 100% (as at 31 March 2023: 100%) of the outstanding principal amounts, with an average outstanding principal amount of approximately HK\$10,430,000 (as at 31 March 2023: approximately HK\$15,950,000) per loan account.

The interest rate for the outstanding principal amounts of the loan accounts ranged between 7.5% to 12% per annum (as at 31 March 2023: 7.5% to 12%). All loan receivables accounts as of 30 September 2023 were secured by guarantees.

Loan interest income

For the Reporting Period, the total loan interest income from the Group's money lending business was approximately HK\$403,000 (six months ended 30 September 2022: approximately HK\$1,683,000).

Profit Attributable to Equity Shareholders of the Company

For the Reporting Period, the Group recorded a net profit of approximately HK\$18,378,000, as compared to approximately HK\$473,000 for the corresponding period in 2022. The increase was mainly attributable to (i) the increase in gross profit margin of the foundation construction segment and ground investigation segment as a result of the improvement in the bidding price of the new tenders; and (ii) the partial reversal of previously recognised impairment losses on a credit-impaired trade receivable and credit-impaired loan receivables.

Use of net proceeds from the Placing

References are made to the Company's announcement on 29 November 2016 (the "2016 Announcement") in relation to placing of 160,000,000 new ordinary shares of the Company (the "Placing") which raised net proceeds of approximately HK\$134.0 million (the "Net Proceeds") and the announcements in relation to change in use of proceeds from the Placing dated 2 October 2018 (the "2018 Announcement"), 17 August 2021 (the "2021 Announcement"), 3 January 2023 (the "2023 Announcement"), 17 November 2023 and the annual reports of the Company for the years ended 31 March 2019, 31 March 2022 and 31 March 2023.

Part of the Net Proceeds from the Placing were utilised up to 30 September 2023 and are intended to be applied in accordance with the revised proposed application set out in the announcement dated 3 January 2023.

The below table sets out the details of the application of the Net Proceeds:

	Planned use of proceeds as disclosed in the 2016 Announcement <i>HK\$ million</i> <i>(approximately)</i>	Revised allocation as at 2 October 2018 <i>HK\$ million</i> <i>(approximately)</i> <i>(Note 1)</i>	Unutilised Net Proceeds as at 31 March 2021 <i>HK\$ million</i> <i>(approximately)</i>	Revised allocation as at 17 August 2021 <i>HK\$ million</i> <i>(approximately)</i> <i>(Note 2)</i>	Unutilised Net Proceeds as at 31 March 2022 <i>HK\$ million</i> <i>(approximately)</i>	Revised allocation as at 3 January 2023 <i>HK\$ million</i> <i>(approximately)</i> <i>(Note 3)</i>	Unutilised Net Proceeds as at 31 March 2023 <i>HK\$ million</i> <i>(approximately)</i>	Amount utilised during the Reporting Period <i>HK\$ million</i> <i>(approximately)</i>	Unutilised Net Proceeds as at 30 September 2023 <i>HK\$ million</i> <i>(approximately)</i>	Expected timeline
Investment, financing and money lending services	134.0	57.3	-	-	-	-	-	-	-	N/A
Funding the Acquisition (as defined below)	-	76.7	76.7	-	-	-	-	-	-	N/A
Funding further possible acquisition(s) (note 4)	-	-	-	70.7	70.7	25.7	25.7	-	25.7	By 31 March 2025
General working capital	-	-	-	6.0	-	45.0	31.4	21.8	9.6	By 31 March 2024
	<u>134.0</u>	<u>134.0</u>	<u>76.7</u>	<u>76.7</u>	<u>70.7</u>	<u>70.7</u>	<u>57.1</u>	<u>21.8</u>	<u>35.3</u>	

Notes:

- As disclosed in the 2018 Announcement, (i) the Group had used approximately HK\$20.8 million of the proceeds of the Placing for investment and financial services and for setting up a subsidiary with a money lenders licence and the Group intended to utilise up to approximately HK\$36.5 million of the Net Proceeds in developing the Group's money lending business in the next 12 months; and (ii) the Group intended to change the use of up to approximately HK\$76.7 million of the outstanding Net Proceeds to fund the acquisition of approximately 51.315% of the issued share capital of Blue Marble Limited at a total consideration of HK\$320,000,000 (the "Acquisition"). The Acquisition then lapsed on 2 April 2020. For details, please refer to the 2018 Announcement and the announcement of the Company dated 2 April 2020.

2. On 17 August 2021, the Company resolved to change the use of the outstanding Net Proceeds, being approximately HK\$76,700,000 as at 31 March 2021 as follows: (i) as to approximately HK\$70,700,000, to fund further possible acquisition(s), including possible exercising of the right to acquire 16% of the issued share capital of Matsu Gami; and (ii) as to the remaining balance of approximately HK\$6,000,000, for general working capital. As at 31 March 2022, the Board has not exercised the call option to acquire 16% of the issued share capital of Matsu Gami. For details, please refer to the 2021 Announcement and the announcement of the Company dated 10 September 2021.
3. On 3 January 2023, the Company resolved to change the use of the outstanding Net Proceeds, being approximately HK\$70,700,000 as at 31 March 2022 (the “**Unutilised Net Proceeds**”) as follows: (i) as to approximately HK\$25,700,000, to fund further possible acquisition(s) and (ii) as to the remaining balance of approximately HK\$45,000,000, for general working capital. As at 31 March 2023, the Board has not exercised the call option to acquire 16% of the issued share capital of Matsu Gami. For details, please refer to the 2023 Announcement.
4. The Unutilised Net Proceeds for the further possible acquisition (the “**Further Acquisitions**”) are intended to be fully utilised by 31 March 2025 in the acquisition of equity interests in target company(-ies) engaged in the food and beverage and/or the construction sectors, provided that, if any such opportunity(ies) arise in the meantime, the Group may also utilise the Unutilised Net Proceeds for Further Acquisitions (or part thereof) in the acquisition of target company(-ies) engaged in other sector(s) if such acquisition is considered by the Board to be conducive in broadening the source of the revenue for the Group or otherwise in the best interest of the Company and its shareholders as a whole.

The remaining Unutilised Net Proceeds as at 30 September 2023 were placed as bank balances with licensed bank in Hong Kong and will be applied in the manner consistent with the proposed allocations.

Reasons for the delayed use of proceeds

Set out below is a summary of the Company’s use and intended use of Net Proceeds and any change thereof since the completion of the Placing:

- (1) On 29 November 2016, the Company entered into a placing agreement with Kingston Securities Limited (as the placing agent) in relation to the Placing. As at 29 November 2016, the Company intended to utilise the Net Proceeds in developing a business in the investment and financing services sector and for setting up a subsidiary with money lender licence. Please refer to the 2016 Announcement for further details.

- (2) As at 2 October 2018, the Group had utilised approximately HK\$20.8 million of the Net Proceeds in developing the investment and financial services business and setting up a subsidiary with a money lender licence. The said subsidiary has been granted the money lenders licence and the Group intended to utilise up to approximately HK\$36.5 million of the Net Proceeds in developing the Group's money lending business in the next 12 months. Nonetheless, due to the increasing level of instability pertaining to the financial markets and competition in the financial services sector on one hand, and the benefits of the proposed entry to the e-sports markets on the other, the Company changed the use of up to approximately HK\$76.7 million of the Net Proceeds to fund the acquisition of approximately 51% of the issued share capital of Blue Marble Limited at a total consideration of HK\$320,000,000 (the "**E-sports Acquisition**"). Please refer to the 2018 Announcement for further details.
- (3) The E-sports Acquisition subsequently lapsed on 2 April 2020 and the unutilised Net Proceeds remained idle thereafter. Therefore, on 17 August 2021, the Board resolved to change the use of the outstanding Net Proceeds, being approximately HK\$76,700,000 as at 31 March 2021 as follows: (i) as to approximately HK\$70,700,000, by 31 March 2023 to fund further possible acquisition(s), including exercising the right to acquire 16% of the issued share capital of Matsu Gami at a consideration of HK\$35,025,000 (the "**Matsu Gami Call Option**") if Matsu Gami shall have fulfilled certain profit guarantee (the "**Matsu Gami Profit Guarantee**") and acquired certain intellectual property rights for the year ended 31 March 2021 or 31 March 2022; and (ii) as to the remaining balance of approximately HK\$6,000,000, by 31 March 2023 for general working capital. Please refer to the announcement of the Company dated 2 April 2020 and the 2021 Announcement for further details.
- (4) As disclosed in the announcement dated 29 August 2022 and the interim report of the Company for the six months ended 30 September 2022, due to non-fulfillment of the Matsu Gami Profit Guarantee, the Matsu Gami Call Option had lapsed. Since the lapse of the Matsu Gami Call Option, the Group has carried out investigation and research in order to identify suitable target(s) for acquisition, but no such target has been identified so far. As a result, HK\$70,700,000 of the Net Proceeds remained unutilised. In order to generate more working capital to meet its operation needs, on 3 January 2023 the Board resolved to re-allocate HK\$45,000,000 of such unutilised Net Proceeds to general working capital including staff costs, rental payment, audit fees, professional fees, and other operating expenses such as insurance by 31 March 2024, while the remaining HK\$25,700,000 of the Net Proceeds shall remain allocated to the funding of further possible acquisition(s) by 31 March 2025. Please refer to the 2023 Announcement for further details.

As illustrated above, the delay in the use of the Net Proceeds by the Group was due to (a) the lapse of the E-sports Acquisition and the Matsu Gami Call Option; and (b) the lack of suitable targets for acquisition in the market. Nevertheless, the Board expects to utilise (i) as to the remaining Unutilised Net Proceeds for Further Acquisitions, in the funding of further possible acquisition(s) as elaborated in the section headed “Use of Net Proceeds from the Placing” above by 31 March 2025; and (ii) as to any balance of the remaining Unutilised Net Proceeds, for general working capital by 31 March 2024.

Prospects

The Board is of the view that with the relaxation of COVID-19 restrictions, Hong Kong economy is expected to improve steadily. The HKSAR government continues its support to lift the economy, especially on the construction industry. We expected that construction projects will maintain a stable level in the next few years.

Meanwhile, in order to maintain a stable and sustainable development of the Group’s existing businesses as well as diversifying and expanding the Group’s businesses at the same time, the Company will leverage on its industrial experience and the advantage of its existing resources and talented team to seek cooperation and investment opportunities with high-quality companies in the food and beverage and/or the construction sectors, or other emerging industries.

Debts and Charge on Assets

The total interest-bearing borrowings of the Group, which consist of lease liabilities, borrowing from a director of a subsidiary and borrowing from a related company, increased from approximately 188,908,000 as at 31 March 2023 to approximately HK\$189,268,000 as at 30 September 2023, which were mainly denominated in Hong Kong Dollars. Interest on borrowings are charged at fixed rates. The Group currently does not have any interest rate hedging policy, and the Group monitors interest risks continuously and considers hedging any excessive risk when necessary.

Net Current Assets

As at 30 September 2023, the Group’s net current assets amounted to approximately HK\$122,594,000, which was approximately HK\$20,983,000 larger than its net current assets of approximately HK\$101,611,000 as at 31 March 2023. The increase was mainly due to the increase in contract assets of approximately HK\$20,872,000 as compared to that as at 31 March 2023. As at 30 September 2023, the Group’s current liabilities amounted to approximately HK\$236,311,000 representing an increase of approximately HK\$2,095,000 over approximately HK\$234,216,000 as at 31 March 2023. The increase was mainly due to the increase in tax payable of approximately HK\$2,043,000 as compared to that as at 31 March 2023.

Liquidity and Financial Resources

As at 30 September 2023, the Group had cash and bank balances of approximately HK\$127,489,000 (31 March 2023: approximately HK\$116,478,000), which were mainly denominated in Hong Kong Dollars.

During the Reporting Period, the Group did not employ any financial instrument for hedging purposes.

Cash Flow

The Group's net cash generated from operating activities was approximately HK\$6,890,000 during the Reporting Period, which was mainly generated from the foundation construction. Net cash generated from investing activities during the Reporting Period was approximately HK\$10,485,000, which was mainly related to the receipt of sale of financial asset at fair value through profit or loss of HK\$10,000,000. The net cash used in financing activities during the Reporting Period was approximately HK\$5,819,000. It was mainly related to the repayment to a related company.

The gearing ratio of the Group as at 30 September 2023 (defined as total interest-bearing liabilities divided by the Group's total equity) was approximately 140.0% (as at 31 March 2023: approximately 161.0%).

Treasury Policy

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

Foreign Exchange Exposure

Since the Group mainly operates in Hong Kong and most of the revenue and transactions arising from its operations are settled in Hong Kong Dollars, and the Group's assets and liabilities are primarily denominated in Hong Kong Dollars, the Directors believe that the Group's risk in foreign exchange is insignificant and that the Group has sufficient foreign exchange to meet its foreign exchange requirements. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and has not adopted any currency hedging policy or other hedging instruments during the Reporting Period.

Capital Structure

As at 30 September 2023, the Company's issued share capital was HK\$9,600,000 and the number of its issued ordinary shares was 960,000,000 of HK\$0.01 each.

Significant Investment, Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the Reporting Period, there were no significant investments held, nor were there any material acquisitions or disposals of subsidiaries and associated companies by the Company during the Reporting Period and up to the date of this announcement.

Contingent liabilities

The Group had no contingent liabilities as at 30 September 2023 and 31 March 2023.

Event after the Reporting Period

Share Consolidation

On 13 October 2023, the Board proposed to implement the share consolidation (the “**Share Consolidation**”) on the basis that every ten (10) issued and unissued existing ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Existing Share(s)**”) be consolidated into one (1) consolidated ordinary share of HK\$0.1 (the “**Consolidated Share(s)**”) so that following the Share Consolidation, the authorised share capital of the Company will be changed from HK\$20,000,000 divided into 2,000,000,000 Existing Shares with a par value of HK\$0.01 each to HK\$20,000,000 divided into 200,000,000 Consolidated Shares with a par value of HK\$0.1 each, of which 96,000,000 Consolidated Shares will be in issue. The Share Consolidation was approved by the Shareholders at the extraordinary general meeting of the Company held on 20 November 2023, and became effective on 22 November 2023.

The Share Consolidation will enable the Company to comply with the trading requirements under the Listing Rules and reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks or securities houses will charge a minimum transaction costs for each securities trade. In addition, the Board considers that the corresponding upward adjustment in the trading price per Consolidated Share as a result of the Share Consolidation will make investing in the shares of the Company more attractive to a broader range of investors, and thus further broaden the shareholder base of the Company.

Save as disclosed in this announcement, there are no other significant event after the Reporting Period up to the date of this announcement.

Employees and Remuneration Policy

As at 30 September 2023, the Group had 127 full-time employees (31 March 2023: 123 full-time employees).

The remuneration policy and packages of the Group's employees are periodically reviewed. Apart from mandatory provident fund and in-house training programmes, salary increment and discretionary bonuses may be awarded to employees according to the assessment of individual performance. The total remuneration cost incurred by the Group for the Reporting Period was approximately HK\$31,643,000 compared to approximately HK\$31,526,000 for the six months ended 30 September 2022.

INTERIM DIVIDEND

The Board does not recommend the declaration of any interim dividend for the Reporting Period (six months ended 30 September 2022: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the Reporting Period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules during the Reporting Period and up to the date of this announcement.

The Group commits to continuously improving its corporate governance practices by periodic review to ensure that the Group continues to meet the requirements of the Code.

Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company is not aware of any non-compliance with the required standard as set out in the Model Code by the Directors throughout the Reporting Period.

Audit Committee and Review of Financial Information

The audit committee of the Company (the “**Audit Committee**”) has reviewed with the Company’s management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the Reporting Period. The Group’s unaudited condensed consolidated interim financial statements for the Reporting Period has been reviewed by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.hkex1718.hk, and the interim report of the Company containing all the information required by the Listing Rules will be despatched to the Company’s shareholders and published on the Company’s and the Stock Exchange’s websites in due course.

By order of the Board
Wan Kei Group Holdings Limited
Yan Shuai
Chairman

Hong Kong, 24 November 2023

As at the date of this announcement, the executive Directors are Mr. Yan Shuai and Mr. Bai Huawei; the non-executive Directors are Mr. Zhang Zhenyi and Mr. Chui Kwong Kau; and the independent non-executive Directors are Mr. Lo Wa Kei Roy, Mr. Eric Todd, Mr. Jiang Senlin and Mr. Zhang Yi.