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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 2018**

#### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the Reporting Period, amounted to approximately HK\$78,929,000 (six months ended 30 September 2017: approximately HK\$139,530,000).
- Loss attributable to the Shareholders for the Reporting Period amounted to approximately HK\$34,321,000 (six months ended 30 September 2017: approximately HK\$26,371,000).
- Basic and diluted loss per share of the Company for the Reporting Period amounted to approximately HK cents 3.58 (six months ended 30 September 2017: approximately HK cents 2.75).
- The Board does not recommend the declaration of any interim dividend for the Reporting Period (six months ended 30 September 2017: nil).

## INTERIM 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 2018 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2017 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	4	78,929	139,530
Direct costs		<u>(93,261)</u>	<u>(147,392)</u>
Gross loss		(14,332)	(7,862)
Other revenue	5	2,340	3,959
Other net income		1,772	879
General and administrative expenses		<u>(22,546)</u>	<u>(19,509)</u>
Loss from operations		(32,766)	(22,533)
Finance costs	6(a)	<u>(2,889)</u>	<u>(3,344)</u>
Loss before taxation	6	(35,655)	(25,877)
Income tax credit/(expense)	7	<u>1,334</u>	<u>(494)</u>
Loss and total comprehensive income for the period attributable to equity shareholders of the Company		<u><u>(34,321)</u></u>	<u><u>(26,371)</u></u>
Loss per share			
– Basic (HK cents per share)	9	<u><u>(3.58)</u></u>	<u><u>(2.75)</u></u>
– Diluted (HK cents per share)	9	<u><u>(3.58)</u></u>	<u><u>(2.75)</u></u>

Note: The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	As at 30 September 2018 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	As at 31 March 2018 (Audited) <i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	22,837	32,336
Club memberships	400	400
	<u>23,237</u>	<u>32,736</u>
<b>Current assets</b>		
Contract assets	61,470	–
Gross amounts due from customers for contract work	–	32,243
Loans and advances to customers	10,080	–
Trade and other receivables	10      24,079	63,582
Amount due from a director	179	–
Tax recoverable	1,099	791
Cash and cash equivalents	387,652	415,137
	<u>484,559</u>	<u>511,753</u>
<b>Current liabilities</b>		
Gross amounts due to customers for contract work	–	24,754
Trade and other payables	11      37,731	25,022
Amount due to a related company	12      98,475	96,787
Amount due to a director of a subsidiary	12      69,280	55,265
Provision for onerous contract	–	443
Deferred income	1,126	1,126
Obligations under finance leases	5,542	5,417
Tax payable	1,778	1,778
	<u>213,932</u>	<u>210,592</u>
<b>Net current assets</b>	<u>270,627</u>	<u>301,161</u>
<b>Total assets less current liabilities</b>	<u>293,864</u>	<u>333,897</u>

		As at <b>30 September</b> <b>2018</b> <b>(Unaudited)</b> <i>Notes</i> <b>HK\$'000</b>	As at 31 March 2018 (Audited) <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Obligations under finance leases		475	3,271
Long service payment liabilities		384	384
Deferred income		94	657
Deferred tax liabilities		<u>3,139</u>	<u>4,558</u>
		<u>4,092</u>	<u>8,870</u>
<b>Net assets</b>		<u><b>289,772</b></u>	<u><b>325,027</b></u>
<b>Capital and reserves</b>			
Share capital	13	9,600	9,600
Reserves		<u>280,172</u>	<u>315,427</u>
<b>Total equity</b>		<u><b>289,772</b></u>	<u><b>325,027</b></u>

*Note:* The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

# 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 Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is Room 1802, 18/F., Capital Centre, No. 151 Gloucester Road, Wanchai, Hong Kong.

The Group is principally engaged in the provision of (i) foundation construction; (ii) ground investigation services; and (iii) financial services.

The Company acts as an investment holding company and the Company's shares were 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 thousands of units of Hong Kong Dollar (HK\$), unless otherwise stated. The unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 28 November 2018.

The 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 condensed consolidated 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. PRINCIPAL ACCOUNTING POLICIES

Excepted as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements.

## Application of new and amendments to HKFRSs

In the current period, the Group has applied, for the first time, the following new and 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 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfers of Investment Property

Other than as further explained below, the adoption of the new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements of the Group.

### ***HKFRS 15 Revenue from Contracts with Customers***

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of retained profits at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 April 2018:

*HK\$’000*

#### **Retained profits**

Change in timing of contract costs recognition for construction contracts	(1,019)
Related tax	<u>85</u>
Net decrease in retained profits as at 1 April 2018	<u><u>(934)</u></u>

In prior reporting periods, the Group accounted for revenue from construction contracts based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work can be measured reliably.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Over time revenue recognition:

Measurement of progress towards complete satisfaction of a performance obligation

#### *Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method for construction contract, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group’s performance in transferring control of goods or services.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 “Financial Instrument” (“**HKFRS 9**”). In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 April 2018:

	Carrying amounts previously reported at 31 March 2018 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Remeasurement <i>HK\$'000</i>	Carrying amounts under HKFRS 15 at 1 April 2018 <i>HK\$'000</i>
<b>Current assets</b>				
Contract assets	–	51,169	–	51,169
Trade and other receivables	63,582	–	(947)	62,635
Gross amounts due from customers for contract work	32,243	(32,749)	506	–
Retention receivables	44,195	(43,326)	(869)	–
<b>Current liabilities</b>				
Gross amounts due to customers for contract work	24,754	(24,906)	152	–
Provision for onerous contract	443	–	(443)	–
<b>Non-current liabilities</b>				
Deferred tax liabilities	4,558	–	(85)	4,473
<b>Equity</b>				
Retained profits	90,444	–	(934)	89,510

#### 4. REVENUE AND SEGMENT REPORTING

##### (a) Revenue

The principal activities of the Group are foundation construction, ground investigation services and financial services.



Revenue represents revenue from construction contracts, from ground investigation services and from financial services. The amount of each significant category of revenue recognised in revenue during the respective periods is as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue from construction contracts	<b>61,635</b>	121,652
Revenue from ground investigation services	<b>17,214</b>	17,878
Revenue from financial services	<b>80</b>	–
	<u><b>78,929</b></u>	<u>139,530</u>

**(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 three 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.

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 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, tax recoverable and deferred tax assets (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 (loss)/profit is (loss)/profit before taxation.

Information regarding the Group's reportable segments as provided to the Group's most senior management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 September 2018 and 2017 are as follows:

	<b>Foundation construction HK\$'000 (Unaudited)</b>	<b>Ground investigation services HK\$'000 (Unaudited)</b>	<b>Financial services HK\$'000 (Unaudited)</b>	<b>Total HK\$'000 (Unaudited)</b>
Six months ended 30 September 2018				
Revenue from external customers	<u>61,635</u>	<u>17,214</u>	<u>80</u>	<u>78,929</u>
Reportable segment revenue	<u>61,635</u>	<u>17,214</u>	<u>80</u>	<u>78,929</u>
Reportable segment gross (loss)/profit	<u>(18,660)</u>	<u>4,248</u>	<u>80</u>	<u>(14,332)</u>
Reportable segment (loss)/profit	<u>(27,818)</u>	<u>655</u>	<u>(4,315)</u>	<u>(31,478)</u>
Interest income from bank deposit	–	–	1,257	1,257
Interest expense	1,202	–	–	1,202
Depreciation for the period	4,279	389	401	5,069

	Foundation construction <i>HK\$'000</i> (Unaudited)	Ground investigation services <i>HK\$'000</i> (Unaudited)	Financial services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 30 September 2017				
Revenue from external customers	<u>121,652</u>	<u>17,878</u>	<u>–</u>	<u>139,530</u>
Reportable segment revenue	<u>121,652</u>	<u>17,878</u>	<u>–</u>	<u>139,530</u>
Reportable segment gross (loss)/profit	<u>(11,632)</u>	<u>3,770</u>	<u>–</u>	<u>(7,862)</u>
Reportable segment loss	<u>(19,973)</u>	<u>(45)</u>	<u>(2,425)</u>	<u>(22,443)</u>
Interest income from bank deposit	–	–	1,205	1,205
Interest expense	1,094	–	–	1,094
Depreciation for the period	8,073	490	203	8,766

	Foundation construction <i>HK\$'000</i> (Unaudited)	Ground investigation services <i>HK\$'000</i> (Unaudited)	Financial services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
<b>As at 30 September 2018</b>				
<b>Reportable segment assets</b>	<b>221,867</b>	<b>23,426</b>	<b>423,366</b>	<b>668,659</b>
Additions to non-current segment assets during the period	553	27	90	670
<b>Reportable segment liabilities</b>	<b>132,773</b>	<b>4,724</b>	<b>406,095</b>	<b>543,592</b>

	Foundation construction	Ground investigation services	Financial services	Total
	As at	As at	As at	As at
	31 March	31 March	31 March	31 March
	2018	2018	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)
<b>Reportable segment assets</b>	228,591	23,392	399,333	651,316
Additions to non-current segment assets during the period	745	38	3,731	4,514
<b>Reportable segment liabilities</b>	111,975	4,098	377,215	493,288

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>		
Reportable segment revenue and consolidated revenue	<b><u>78,929</u></b>	<u>139,530</u>
<b>Loss</b>		
Reportable segment loss	<b>(31,478)</b>	(22,443)
Unallocated head office and corporate expenses	<b><u>(4,177)</u></b>	<u>(3,434)</u>
Consolidated loss before taxation	<b><u>(35,655)</u></b>	<u>(25,877)</u>

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
<b>Assets</b>		
Reportable segment assets	668,659	651,316
Elimination of inter-segment receivables	<u>(162,452)</u>	<u>(108,649)</u>
	506,207	542,667
Tax recoverable	1,099	791
Unallocated head office and corporate assets	<u>490</u>	<u>1,031</u>
	507,796	544,489
Consolidated total assets	<u><u>507,796</u></u>	<u><u>544,489</u></u>
<b>Liabilities</b>		
Reportable segment liabilities	543,592	493,288
Elimination of inter-segment liabilities	<u>(428,960)</u>	<u>(376,985)</u>
	114,632	116,303
Tax payable	1,778	1,778
Deferred tax liabilities	3,139	4,473
Unallocated head office and corporate liabilities	<u>98,475</u>	<u>96,908</u>
	218,024	219,462
Consolidated total liabilities	<u><u>218,024</u></u>	<u><u>219,462</u></u>

## 5. OTHER REVENUE

	Six months ended 30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	1,257	1,205
Sales of raw materials	1,083	594
Rental income from lease of machinery	–	1,940
Others	<u>–</u>	<u>220</u>
	2,340	3,959
	<u><u>2,340</u></u>	<u><u>3,959</u></u>

## 6. LOSS BEFORE TAXATION

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>(a) Finance costs</b>		
Interest on borrowing from a related company	1,687	2,250
Interest on borrowing from a director of a subsidiary	1,016	792
Finance charges on obligations under finance leases	186	263
Interest on bank overdraft	—	39
	<u>2,889</u>	<u>3,344</u>
<b>(b) Staff costs (including directors' remuneration)</b>		
Contributions to defined contribution retirement plans	782	987
Salaries, wages and other benefits	29,037	29,812
	<u>29,819</u>	30,799
Add: Amount included in gross amounts due from/(to) customers for contract work	—	(530)
	<u>29,819</u>	<u>30,269</u>
<b>(c) Other items</b>		
Depreciation	5,069	9,060
Add: Amount included in gross amounts due from/(to) customers for contract work	—	(294)
	<u>5,069</u>	8,766
Operating lease charges		
– hire of machinery	5,428	6,839
– hire of properties	3,112	2,779
Gain on disposal of property, plant and equipment	(1,181)	(338)
Amortisation of deferred income	(563)	(563)
	<u>(563)</u>	<u>(563)</u>

## 7. INCOME TAX (CREDIT)/EXPENSE

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision for Hong Kong Profits Tax for the period	–	–
Deferred tax	(1,334)	494
	<u>(1,334)</u>	<u>494</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit arising in or derived from Hong Kong for the period. Hong Kong Profits Tax is not recognised as the Company has no assessable income for the Reporting Period.

## 8. DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2018 (six months ended 30 September 2017: nil).

## 9. LOSS PER SHARE

### Basic loss per share

Basic loss per share are calculated by dividing the loss 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 loss per share attributable to equity shareholders of the Company is based on the following:

	Six months ended	
	30 September	
	2018	2017
	(Unaudited)	(Unaudited)
Loss attributable to equity shareholders of the Company (HK\$'000)	(34,321)	(26,371)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share (in thousand)	960,000	960,000
Basic loss per share (HK cents)	<u>(3.58)</u>	<u>(2.75)</u>

## Diluted loss per share

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

### 10. TRADE AND OTHER RECEIVABLES

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Trade debtors	13,894	9,836
Deposits, prepayments and other receivables ( <i>note (i)</i> )	10,185	9,551
Retention receivables ( <i>note (ii)</i> )	—	44,195
	<u>24,079</u>	<u>63,582</u>

*Note:*

- (i) Except for the amounts of approximately HK\$1,007,000 and HK\$1,237,000 as at 30 September 2018 and 31 March 2018 respectively, which are expected to be recovered after one year, all of the remaining balances are expected to be recovered within one year.
  - (ii) Except for the amounts of approximately HK\$10,419,000 as at 31 March 2018 which are expected to be recovered after one year, all of the remaining balances are expected to be recovered within one year.
- (a) **Ageing analysis**

At 30 September 2018 and 31 March 2018, the ageing analysis of the trade debtors (which are included in trade and other receivables), based on the date of progress certificates issued by customers and net of allowance for doubtful debts, is as follows:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Within 1 month	5,529	4,895
1 to 2 months	2,243	900
2 to 3 months	2,012	415
Over 3 months	4,110	3,626
	<u>13,894</u>	<u>9,836</u>



## 11. TRADE AND OTHER PAYABLES

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Trade payables	29,036	16,202
Retention payables ( <i>note (i)</i> )	3,087	3,014
Other payables and accruals	<u>5,608</u>	<u>5,806</u>
	<u><b>37,731</b></u>	<u><b>25,022</b></u>

*Note:*

- (i) Except for the amounts of approximately HK\$1,672,000 and HK\$1,036,000 as at 30 September 2018 and 31 March 2018 respectively, all of the remaining balances are expected to be settled within one year.
- (ii) An ageing analysis of trade payables based on the invoice date is as follows:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Within 1 month	8,314	7,445
1 to 2 months	12,470	6,081
2 to 3 months	4,824	209
Over 3 months	<u>3,428</u>	<u>2,467</u>
	<u><b>29,036</b></u>	<u><b>16,202</b></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% per annum up to 30 June 2018. Such interest rate was further adjusted to 2.5% per annum from 1 July 2018 to 31 March 2019, after which it will be determined upon mutual negotiation. Mr. Fong who is the executive Director and Chief Executive Officer of the Group and is also the director of Bright Dynasty.

The amount due to a director of a subsidiary, Mr. Lau Woon Si, was unsecured, repayable on demand and interest bearing at 5% per annum up to 30 June 2018. Such interest rate was further adjusted to 2.5% per annum from 1 July 2018 to 31 March 2019, after which it will be determined upon mutual negotiation.

## 13. SHARE CAPITAL

	<b>Number of ordinary shares</b>	<b>Nominal amount HK\$'000</b>
<b>Ordinary shares of HK\$0.01 each authorised:</b>		
As at 30 September 2018 and 31 March 2018	<u>2,000,000,000</u>	<u>20,000</u>
<b>Ordinary shares, issued and fully paid:</b>		
As at 30 September 2018 and 31 March 2018	<u>960,000,000</u>	<u>9,600</u>

## 14. COMMITMENTS

- (a) Capital commitments outstanding at 30 September 2018 and 31 March 2018 not provided for in the consolidated financial statement were as follows:

	<b>At 30 September 2018 HK\$'000 (Unaudited)</b>	<b>At 31 March 2018 HK\$'000 (Audited)</b>
Contracted for	<u>—</u>	<u>—</u>

- (b) At 30 September 2018 and 31 March 2018, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Within 1 year	6,399	6,291
After 1 year but within 5 years	<u>2,990</u>	<u>5,244</u>
	<u><b>9,389</b></u>	<u><b>11,535</b></u>

The Group is the lessee in respect of a number of properties under operating leases. The leases typically run an initial period of two to five years, with an option to renew the lease when all terms are renegotiated. None of lease includes contingent rentals.

#### 15. MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2018, 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 a director of a subsidiary
Chung Wah Investment Company Limited	A related company owned by a director of a subsidiary

In addition to the transactions and balances disclosed in notes 6(a) and 12 in these consolidated financial statement, the Group entered into the following material related party transactions 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:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Lease of properties from		
– Chung Hang Enterprises Holdings Limited	360	312
– Chung Wah Investment Company Limited	<u>690</u>	<u>570</u>
	<b><u>1,050</u></b>	<b><u>882</u></b>

#### **Key management personnel remuneration**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Short-term employee benefits	5,401	4,596
Post-employment benefits	<u>42</u>	<u>36</u>
	<b><u>5,443</u></b>	<b><u>4,632</u></b>

# **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 in Hong Kong; and (iii) financial services.

### **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. Income from foundation construction works contributed approximately 78.1% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2017: approximately 87.2%).

### **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. Income from ground investigation services contributed approximately 21.8% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2017: approximately 12.8%).

### **Financial Services**

During the Reporting Period, the money lending business had commenced. Income from financial services contributed approximately 0.1% of the total revenue of the Group during the Reporting Period (six months ended 30 September 2017: nil). The Group is in the course of applying for the relevant licenses from the Securities and Futures Commission.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's total revenue for the Reporting Period decreased by approximately HK\$60,601,000, or approximately 43.4%, from approximately HK\$139,530,000 for the six months ended 30 September 2017 to approximately HK\$78,929,000 for the Reporting Period, primarily as a result of the following:

#### ***Foundation Construction***

The decrease in revenue from foundation construction works by approximately 49.3%, from approximately HK\$121,652,000 for the six months ended 30 September 2017 to approximately HK\$61,635,000 for the Reporting Period, was primarily due to the absence of sizable projects in relation to foundation construction tendered by the Group during the Reporting Period.

#### ***Ground Investigation Services***

The revenue from ground investigation services decreased by approximately 3.7%, from approximately HK\$17,878,000 for the six months ended 30 September 2017 to approximately HK\$17,214,000 for the Reporting Period.

#### ***Financial Services***

During the Reporting Period, the money lending business had commenced. The revenue for financial services amounted to HK\$80,000 for the Reporting Period (six months ended 30 September 2017: nil).

### **Gross (Loss)/Profit and Gross (Loss)/Profit Margin**

The Group's gross loss amounted to approximately HK\$14,332,000 for the Reporting Period (six months ended 30 September 2017: approximately HK\$7,862,000). The Group's overall gross loss margin during the Reporting Period was approximately 18.2% (six months ended 30 September 2017: approximately 5.6%).

Gross loss of the Group's foundation construction segment was approximately HK\$18,660,000 for the Reporting Period (six months ended 30 September 2017: approximately HK\$11,632,000). Gross loss margin of the foundation construction segment was approximately 30.3% for the Reporting Period (six months ended 30 September 2017: approximately 9.6%).

Gross profit of the Group's ground investigation services segment was approximately HK\$4,248,000 for the Reporting Period, representing an increase of approximately 12.7% from approximately HK\$3,770,000 compared to the six months ended 30 September 2017. Gross profit margin of the ground investigation services segment increased from approximately 21.1% for the six months ended 30 September 2017 to approximately 24.7% for the Reporting Period.

The increase in overall gross loss margin was mainly due to: (i) increase in gross loss margin of the newly tendered foundation construction works projects of the Group during the Reporting Period as a result from the increasing competition in the market and the lower bidding prices on the new tenders; and (ii) increase in direct costs during the Reporting Period.

### **Other Revenue**

The other revenue decreased by approximately HK\$1,619,000, or approximately 40.9%, from approximately HK\$3,959,000 for the six months ended 30 September 2017 to approximately HK\$2,340,000 for the Reporting Period. The decrease was mainly due to the absence of rental income from lease of machinery (six months ended 30 September 2017: approximately HK\$1,940,000).

### **Other Net Income**

The other net income increased by approximately HK\$893,000, from approximately HK\$879,000 for the six months ended 30 September 2017 to approximately HK\$1,772,000 for the Reporting Period. The increase was mainly due to the increase of gain on disposal of machinery (Reporting Period: approximately HK\$1,181,000; six months ended 30 September 2017: approximately HK\$338,000).

### **General and administrative expenses**

The Group's general and administrative expenses for the Reporting Period were approximately HK\$22,546,000 (six months ended 30 September 2017: approximately HK\$19,509,000), representing an increase of approximately 15.6% over the corresponding period in 2017. This was mainly attributable to (i) the increase of the general operating expenses (mainly included salaries, rental expense and other administrative expenses) for financial services segment; and (ii) professional fees for the potential acquisition during the Reporting Period.

### **Finance Costs**

For the Reporting Period, the finance costs were approximately HK\$2,889,000 (six months ended 30 September 2017: approximately HK\$3,344,000). The decrease was mainly due to the decrease of interest rate for borrowing from a related company, Bright Dynasty Trading Limited and borrowing from a director of a subsidiary since 1 July 2018. The interest rate decreased from 5% to 2.5%.

## **Income Tax**

The tax credit for the Reporting Period was approximately HK\$1,334,000 (six months ended 30 September 2017: tax expense of approximately HK\$494,000). The change was mainly due to the change of deferred tax for the Reporting Period.

## **Loss Attributable to Equity Shareholders of the Company**

For the Reporting Period, the Group recorded a net loss of approximately HK\$34,321,000, as compared to the net loss of approximately HK\$26,371,000 for the corresponding period in 2017. The increase was mainly attributable to the increase in overall gross loss margin and the increase in general and administrative expenses as previously discussed.

## **Prospects**

The Directors estimate that the growth of the overall foundation industry in Hong Kong will continue to slow down in the coming years. The intense competition has continued to impact the foundation industry in Hong Kong, which will in turn affect the development and profitability of the Group. The Directors are of the view that the market for public sector construction sites will start to improve, as volumes of government and quasi-government projects will be coming on stream. The Directors are confident that with the Group's reputation in the foundation industry and experienced management team, the Group is in a well position to compete with its competitors.

The global economy is in turmoil following the outbreak of the trade war between the People's Republic of China ("PRC") and the United States of America ("U.S."). The tariff increases announced by the U.S. and retaliatory measures from trading partners have increased the likelihood of escalating and sustained trade actions. The outlook for the global and Hong Kong economy is bleak in the short term. Due to the uncertainty of macro economy, the directors are of view that the conservative strategy is suitable for financial service segment in the short term.

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 emerging industries in the PRC.

On 2 October 2018, the Company, the vendors and the warrantors entered into the sale and purchase agreement. The Company conditionally agreed to acquire approximately 51.315% of issued share capital of the target group which is principally engaged in the business of operation of e-sports events, production of videos of e-sports events broadcast online, and filming and production of dramas broadcast online in the PRC.



In recent years, the e-sports industry has experienced rapid growth in audience and revenue globally. With extensive experience from the target group plus favorable government policies launched in PRC, the Group would like to take this opportunity to step into this new emerging market.

### **Debts and Charge on Assets**

The total interest bearing borrowings of the Group, which consist of obligations under finance leases, loan from a director of a subsidiary and loan from a related company, increased from approximately HK\$160,740,000 as at 31 March 2018 to approximately HK\$173,772,000 as at 30 September 2018. All borrowings were denominated in Hong Kong Dollar. Except for finance leases, 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.

The finance leases of the Group were secured by the Group's machinery with an aggregate net book value of approximately HK\$9,867,000 (31 March 2018: approximately HK\$11,467,000).

### **Net Current Assets**

As at 30 September 2018, the Group's net current assets amounted to approximately HK\$270,627,000, which was approximately HK\$30,534,000 less than its net current assets of approximately HK\$301,161,000 as at 31 March 2018. The decrease was primarily due to (i) the net cash outflow from operating activities; and (ii) the increase in trade payables of approximately HK\$12,834,000 as compared to that as at 31 March 2018. As at 30 September 2018, the Group's current liabilities amounted to approximately HK\$213,932,000, representing an increase of approximately HK\$3,340,000 over approximately HK\$210,592,000 as at 31 March 2018.

### **Liquidity and Financial Resources**

As at 30 September 2018, the Group had cash and bank balances of approximately HK\$387,652,000 (31 March 2018: approximately HK\$415,137,000), which were mainly denominated in Hong Kong Dollar.

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

## **Cash Flow**

The Group's net cash used in operating activities was approximately HK\$44,351,000 during the Reporting Period, which was mainly used in the foundation construction and ground investigation services. Net cash generated from investing activities was approximately HK\$6,723,000. It was mainly related to (i) the proceeds from disposal of machinery which amounted to approximately HK\$6,282,000, and (ii) the receipt of interest income which amounted to approximately HK\$1,111,000. The net cash generated from financing activities was approximately HK\$10,143,000 in which HK\$13,000,000 was arising from borrowing from a director of a subsidiary during the Reporting Period.

The gearing ratio of the Group as at 30 September 2018 (defined as total interest-bearing liabilities divided by the Group's total equity) was approximately 60.0% (As at 31 March 2018: approximately 49.5%).

## **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 were settled in Hong Kong Dollar, and the Group's assets and liabilities are primarily denominated in Hong Kong Dollar, the Directors believe that the Group's risk in foreign exchange is insignificant and 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 2018, 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 was no acquisition or disposal of subsidiaries and associated companies by the Company.

### **Commitments**

The contractual commitments of the Group were primarily related to the leases of its office premises and warehouses. The Group's operating lease commitments amounted to approximately HK\$9,389,000 as at 30 September 2018 (31 March 2018: approximately HK\$11,535,000). As at 30 September 2018, the Group had no other capital commitments (31 March 2018: nil).

### **Contingent liabilities**

The Group had no contingent liabilities as at 30 September 2018 and 31 March 2018.

### **Event after the Reporting Period**

On 2 October 2018, the Company, the vendors and the warrantors entered into the sale and purchase agreement, pursuant to which, the Company conditionally agreed to acquire and the vendors conditionally agreed to sell the approximately 51.315% equity interest in Blue Marble Limited at the consideration of HK\$320,000,000.

For further details, please refer to the announcement of the Company dated 2 October 2018.

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

### **Employees and Remuneration Policy**

As at 30 September 2018, the Group had 131 full-time employees (31 March 2018: 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, salaries 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\$29,819,000 compared to approximately HK\$30,269,000 for the six months ended 30 September 2017.

## Issue of Shares from the Placing under General Mandate

On 29 November 2016, the Company entered into a placing agreement with Kingston Securities Limited (the “**Placing Agent**”), whereby the Company conditionally agreed to place, through the Placing Agent, on a best effort basis, a maximum of 160,000,000 new ordinary shares of the Company of HK\$0.01 each (the “**Placing Shares**”) to not less than six placees which are independent third parties at a price of HK\$0.86 per Placing Share (net placing price of approximately HK\$0.84 per placing share) (the “**Placing**”).

The Placing was completed on 16 December 2016. The gross proceeds of HK\$137,600,000 were received by the Company in accordance with the terms of the placing agreement. The net proceeds from the Placing, after deducting the Placing Agent’s commission and other related expenses payable by the Company, amounted to approximately HK\$134,000,000.

The net proceeds from the Placing are intended to be used for development a business regarding investment and financing services and for setting up a subsidiary with money lenders license according to the placing agreement. Reference is made to the announcement of the Company dated 2 October 2018 (the “**Announcement**”) in relation to, among others, the change in use of proceeds of Placing. As stated on page 9 of the Announcement, the Company has 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 license. The Board would like to clarify that such amount was a mere estimation over the Company’s use of proceeds which was arrived at based upon the review of the latest management account of the Company as at the date of the Announcement. It in fact amounted to approximately HK\$30,499,000 as at 30 September 2018, which was used in the operation of the money lending business of the Company, payment of related staff costs, engaging a consultant for the application for securities licenses, administration costs and office set up cost (As at 31 March 2018: approximately HK\$14,757,000). In this regard, the Group intends to utilise up to approximately HK\$26.8 million instead of approximately HK\$36.5 million of the proceeds of the Placing in developing the Group’s money lending business in the next 12 months.

The table as shown on page 9 of the Announcement shall therefore be revised as follows:

	<b>Original allocation of the proceeds of the Placing (as disclosed in the Placing Announcement) <i>HK\$ million</i> (approximately)</b>	<b>Utilised amount as at the date of the Announcement <i>HK\$ million</i> (approximately)</b>	<b>Unutilised amount as at the date of the Announcement <i>HK\$ million</i> (approximately)</b>	<b>Revised allocation as at the date of the Announcement <i>HK\$ million</i> (approximately)</b>
Investment, financing and money lending services	134.0	30.5	103.5	26.8
Acquisition of the target company	–	–	–	76.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>134.0</u>	<u>30.5</u>	<u>103.5</u>	<u>103.5</u>

Save as disclosed above, all other information in the Announcement shall remain unchanged.

Due to the increasing level of instability pertaining to the financial markets and competition in the financial services sector and the benefits of the proposed entry to the e-sports markets, the Board considers that the reallocation of the use of proceeds from the Placing, may bring better prospects to the Company and its Shareholders in the current situation. The Company therefore intends to change the use of up to approximately HK\$76.7 million of such proceeds, and utilise the amount to fund the Acquisition (as defined in the Announcement) instead.

## **INTERIM DIVIDEND**

The Board did not recommend the declaration of any interim dividend for the Reporting Period (six months ended 30 September 2017: nil).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **CORPORATE GOVERNANCE**

The Company had complied with all applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Reporting Period and up to the date of this announcement, except for the deviation from the code provision A.2.1 of the Corporate Governance Code:

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Since 7 September 2018 and up to the date of this announcement, Mr. Fong Hon Hung serves as both the Chairman and chief executive officer (“CEO”) of the Company. However, after evaluation of the current situation of the Group and taking into account of the experience and past performance of Mr. Fong, the Board believes that it is appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitate the execution of the Group's business strategies and maximizes the effectiveness of its operation. In addition, there are various experienced individuals in charge of the daily business and the Board comprises four executive Directors and three independent non-executive Directors with balance of skill and experience appropriate for the Group's further development. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

### **Code of Conduct Regarding Directors' Securities Transactions**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code 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 had 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.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lo Wa Kei Roy, Mr. Leung Ka Fai Nelson and Ms. Wang Qing. Mr. Lo Wa Kei Roy has been appointed as the chairman of the Audit Committee.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is available for viewing on the Company’s website at [www.hkex1718.hk](http://www.hkex1718.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.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**  
**Fong Hon Hung**  
*Chairman*

Hong Kong, 28 November 2018

*As at the date of this announcement, the executive Directors are Mr. Fong Hon Hung, Mr. Zhang Zhenyi, Mr. Chan Kwan and Mr. Yan Shuai; and the independent non-executive Directors are Mr. Lo Wa Kei Roy, Ms. Wang Qing and Mr. Leung Ka Fai Nelson.*