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ROYAL DELUXE HOLDINGS LIMITED

御佳控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3789)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 September		Change %
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	
Results			
Revenue	328,776	248,814	32.1%
Gross profit	45,956	39,211	17.2%
Gross profit margin	14.0%	15.8%	(11.4%)
Profit attributable to owners of the Company	17,167	14,399	19.2%
Earnings per share (HK cents)			
Basic and diluted	1.43	1.20	19.2%
	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)	Change %
Financial Position			
Bank balances and cash	62,724	92,733	(32.4%)
Bank and other borrowings	41,663	54,676	(23.8%)
Financial ratio			
Current ratio	2.2	2.1	4.8%
Quick ratio	2.2	2.1	4.8%
Gearing ratio	19.5%	24.8%	(21.4%)
Return on equity	14.5%	19.7%	(26.4%)
Return on total assets	9.0%	11.8%	(23.7%)

INTERIM CONSOLIDATED RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Royal Deluxe Holdings Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2019, together with the comparative figures for the corresponding period in 2018 as follow:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
	Notes	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	328,776	248,814
Direct costs		<u>(282,820)</u>	<u>(209,603)</u>
Gross profit		45,956	39,211
Other income, other gains and losses, net	4	7,367	2,797
Administration and other operating expenses		(31,792)	(23,137)
Reversal of loss allowance on trade and other receivables and contract assets, net		351	–
Finance costs	5	<u>(1,439)</u>	<u>(1,907)</u>
Profit before tax	6	20,443	16,964
Income tax expense	7	<u>(3,280)</u>	<u>(2,565)</u>
Profit and total comprehensive income for the period		<u>17,163</u>	<u>14,399</u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		17,167	14,399
Non-controlling interests		<u>(4)</u>	<u>–</u>
		<u>17,163</u>	<u>14,399</u>
		HK cents	HK cents
Earnings per share attributable to owners of the Company			
– Basic and diluted	9	<u>1.43</u>	<u>1.20</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Notes	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		65,489	59,976
Right-of-use assets		4,544	—
Deposits and prepayments for life insurance policy		3,961	3,888
Club membership		1,188	1,188
Deferred tax assets		290	337
		<u>75,472</u>	<u>65,389</u>
Current assets			
Inventories		514	—
Trade and other receivables	10	82,946	86,285
Contract assets	11	148,839	110,217
Contract costs	12	1,419	1,739
Bank balances and cash		62,724	92,733
Current tax recoverable		8,277	10,636
		<u>304,719</u>	<u>301,610</u>
Total assets		<u>380,191</u>	<u>366,999</u>
Current liabilities			
Trade and other payables	13	94,481	90,853
Borrowings		41,663	54,676
Lease liabilities		1,535	—
Current tax liabilities		2,159	1,314
		<u>139,838</u>	<u>146,843</u>
Net current assets		<u>164,881</u>	<u>154,767</u>
Total assets less current liabilities		<u>240,353</u>	<u>220,156</u>
Non-current liabilities			
Deferred tax liabilities		153	126
Lease liabilities		3,007	—
		<u>3,160</u>	<u>126</u>
Net assets		<u>237,193</u>	<u>220,030</u>
Capital and reserves			
Share capital		12,000	12,000
Reserves		225,197	208,030
Equity attributable to:			
Owners of the Company		237,197	220,030
Non-controlling interests		(4)	—
Total equity		<u>237,193</u>	<u>220,030</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. GENERAL INFORMATION AND BASIS PREPARATION

The Company is an investment holding company. The Group is principally engaged in the provision of formwork erection and related ancillary services in Hong Kong. The Company was incorporated in the Cayman Islands on 12 April 2016 as an exempted company with limited liability under the companies law of the Cayman Islands. The addresses of the registered office and the principal place of business of the Company are P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and Unit A, 22nd Floor, T G Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong, respectively.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 February 2017 (the “**Listing**”). Its parent company and ultimate holding company is Wang K M Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Mr Wang Kei Ming, an executive director of the Company.

These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2019 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Group for the year ended 31 March 2019 (the “**2019 Annual Financial Statements**”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”).

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

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the 2019 Annual Financial Statements. Details of change in accounting policies are set out in note 2.

These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 26 November 2019.

2 CHANGE IN ACCOUNTING POLICIES

(a) Overview

The Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group's unaudited condensed consolidated interim financial statements:

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

Except as described below, the application of the new and amendments to HKFRSs in the current accounting 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 interim financial statements.

(b) Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current accounting period. HKFRS 16 superseded HKAS 17 *Leases* and the related interpretations.

i Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of premises and plant and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 April 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

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

ii Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- a) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- b) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- c) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- d) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019.

	As at 1 April 2019 HK\$'000
Operating lease commitments at 31 March 2019	511
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(511)
	<u>–</u>
Total lease liabilities recognised at 1 April 2019	<u><u>–</u></u>

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September 2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Type of goods and services		
– Provision of formwork erection and related ancillary services	305,054	248,814
– Provision of fit-out services	23,722	–
	<u>328,776</u>	<u>248,814</u>
Timing of revenue recognition		
– Over time	<u>328,776</u>	<u>248,814</u>

(b) Segment information

(i) Operating Segment information

For the purpose of the Group's resources allocation and performance assessment, the chief operating decision maker (i.e. the directors of the Company) reviews the overall results and financial position of the Group as a whole as the Group is primarily engaged in the provision of formwork erection and related ancillary services in Hong Kong. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

(ii) Geographical information

The Company is domiciled in the Cayman Islands with the Group's major operation located in Hong Kong. All of the Group's revenue from external customers are derived from Hong Kong, the place of domicile of the Group's operating subsidiaries. All the non-current assets of the Group are located in Hong Kong. Accordingly, no geographical information is presented.

(iii) Information about major customers

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

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	117,255	39,861
Customer B	71,419	—
Customer C	70,889	63,253
Customer D	46,913	33,220
Customer E	—	96,519
	—	96,519

4. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	34	—
Interest income on deposits and prepayments for life insurance policy	109	—
Income from sale of scrap materials	4,293	1,964
Sundry income	2,912	871
	7,348	2,835
Other gains and losses, net		
Net foreign exchange gains	19	—
Loss on written off or disposal of property, plant and equipment	—	(4)
Loss on financial asset at fair value through profit or loss	—	(34)
	19	(38)
	7,367	2,797

5. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings and overdrafts	1,419	1,907
Interest expense on lease liabilities	20	—
	1,439	1,907

6. PROFIT BEFORE TAX

		Six months ended 30 September	
	Notes	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging:			
Employee benefits expense:	(i)		
Salaries and other benefits in kind		38,636	140,956
Discretionary bonuses		—	700
Contributions to retirement benefit scheme		1,001	4,487
		<u>39,637</u>	<u>146,143</u>
Total employee benefits expense, including directors' emoluments			
Amortisation of premium and other expenses charged on life insurance policy		31	—
Auditors' remuneration		600	530
Depreciation of right-of-use assets		267	—
Depreciation of property, plant and equipment	(ii)	2,022	1,873
Short-term lease rentals in respect of:			
– Land and buildings		520	552
– Plant and equipment		5,276	7,080
		<u>5,276</u>	<u>7,080</u>

Notes:

- (i) During the six months ended 30 September 2019 and 2018, total employee benefits expense amounting to approximately HK\$22,056,000 and HK\$129,963,000, respectively, was included in direct costs and amounting to approximately HK\$17,581,000 and HK\$16,180,000, respectively, was included in administration and other operating expenses.
- (ii) During the six months ended 30 September 2019 and 2018, depreciation of approximately HK\$169,000 and Nil, respectively, was charged to direct costs and approximately HK\$1,853,000 and HK\$1,873,000, respectively, was charged to administration and other operating expenses.

7. INCOME TAX EXPENSE

		Six months ended 30 September	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Current income tax:			
– Hong Kong Profits Tax		3,206	3,018
Deferred tax		<u>74</u>	<u>(453)</u>
Total income tax expenses recognised in profit or loss		<u>3,280</u>	<u>2,565</u>

For the six months ended 30 September 2019 and 2018, the Hong Kong Profits Tax for one of the subsidiaries of the Company is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000. Hong Kong Profits Tax for other subsidiaries is calculated at 16.5% of the estimated assessable profits arising in or derived from Hong Kong.

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

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

The diluted earnings per share is equal to the basic earnings per share as there is no potential ordinary share in issue during the respective periods.

10 TRADE AND OTHER RECEIVABLES

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
Trade receivables	73,184	81,976
Less: loss allowance for trade receivables	<u>(316)</u>	<u>(407)</u>
	72,868	81,569
Deposits and other receivables	1,170	841
Prepayments	8,917	3,884
Less: loss allowance for deposits and other receivables	<u>(9)</u>	<u>(9)</u>
	<u><u>82,946</u></u>	<u><u>86,285</u></u>

The ageing analysis of trade receivables presented based on dates of progress certificates issued by customers, at the end of reporting period, are as follows:

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
0-30 days	16,643	44,769
31-60 days	40,961	30,024
61-90 days	14,915	7,011
91-180 days	645	—
Over 180 days	<u>20</u>	<u>172</u>
	<u><u>73,184</u></u>	<u><u>81,976</u></u>

The Group allows a credit period ranging from 7 to 56 days (31 March 2019: 7 to 56 days) to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

11. CONTRACT ASSETS

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
Analysed as current:		
Retention receivables of construction contracts	52,494	44,337
Unbilled revenue of construction contracts	96,932	66,727
Less: loss allowance for contract assets	<u>(587)</u>	<u>(847)</u>
	<u>148,839</u>	<u>110,217</u>

Retention receivables included in contract assets represent the Group's right to receive consideration for work performed and conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Group on the service quality of the construction work performed by the Group. The due dates for retention receivables are usually one to two years after the completion of construction work.

Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction of the customers on the construction work completed by the Group and the work is pending for the certification by the customers. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time when the Group obtains the certification of the completed construction work from the customers.

12. CONTRACT COSTS

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
Cost to fulfil contracts:		
– Materials	<u>1,419</u>	<u>1,739</u>

Contract costs capitalised as at 30 September 2019 and 31 March 2019 relate to materials acquired to be used in satisfying or continuing to satisfy performance obligations of respective construction contracts in the future. Contract costs are recognised as part of direct costs in the unaudited condensed consolidated statement of profit or loss and other comprehensive income in the period in which revenue from the related construction contracts is recognised.

13. TRADE AND OTHER PAYABLES

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
Trade payables	27,679	33,470
Bills payables	16,562	18,748
Retention payables	11,227	7,413
Other payables and accruals	39,013	31,222
	<u>94,481</u>	<u>90,853</u>

The credit period on trade payables is generally 30 to 60 days (31 March 2019: 30 to 60 days).

The ageing analysis of trade payables, presented based on the invoice date, at the end of reporting period, are as follows:

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
0 – 30 days	17,630	17,460
31 – 60 days	6,641	3,626
61 – 90 days	2,740	7,572
91 – 180 days	430	4,172
Over 180 days	238	640
	<u>27,679</u>	<u>33,470</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group is a major subcontractor, given the market share and the large number of players in the construction industry, specialising in providing formwork erection as well as related ancillary services in Hong Kong.

BUSINESS REVIEW

During the six months ended 30 September 2019, the Group secured three new contracts with total contract value of approximately HK\$126.8 million, representing a decrease of approximately 43.8% compared to the six months ended 30 September 2018 of approximately HK\$225.8 million. Two of these projects started contributing revenue to the Group during the six months ended 30 September 2019, out of which one of the projects was completed. As at 30 September 2019, the Group has a total of ten projects on hand with the estimated total outstanding value of approximately HK\$516.8 million, representing a decrease of approximately 16.0% as compared with the estimated total outstanding value of approximately HK\$615.5 million as at 31 March 2019. Subsequent to the period ended 30 September 2019, the Group further secured two new contracts with total contract value of approximately HK\$211.2 million. With the projects on hand, it is expected that the performance of the subcontract works will remain steady for the coming years.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately HK\$80.0 million, or 32.1%, from approximately HK\$248.8 million for the six months ended 30 September 2018 to approximately HK\$328.8 million for the six months ended 30 September 2019. The increase was mainly attributable to a higher amount of recognized revenue from two building projects which running to completion with final accounts close to conclusion during the six months ended 30 September 2019 as well as the increase in revenue of the major civil projects by catching up with the work progress.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK\$6.8 million, or 17.2%, from approximately HK\$39.2 million for the six months ended 30 September 2018 to approximately HK\$46.0 million for the six months ended 30 September 2019. The increase in gross profit was mainly due to the increase in revenue for the six months ended 30 September 2019 as compared to the six months ended 30 September 2018.

The Group's gross profit margin decreased from approximately 15.8% for the six months ended 30 September 2018 to approximately 14.0% for the six months ended 30 September 2019, mainly due to the relatively lower margin of formwork subcontracting works for Tai Wai Station property development projects which was listed in the section headed "Business Review" of the annual report of the Group for the year ended 31 March 2019 (the "**Annual Report 2019**").

Administration and other operating expenses

The Group's administration and other operating expenses primarily comprise of staff costs (including Directors' remuneration), depreciation, office expenses and professional charges. The Group's administration and other operating expenses increased by approximately HK\$8.7 million or 37.4%, from approximately HK\$23.1 million for the six months ended 30 September 2018 to approximately HK\$31.8 million for the six months ended 30 September 2019, primarily due to the increase in the staff salaries and benefits, including Directors' emoluments of approximately HK\$4.1 million and legal and compliance fee of approximately HK\$1.9 million.

Finance costs

The Group's finance costs decreased by approximately HK\$0.5million or 24.5% from approximately HK\$1.9 million for the six months ended 30 September 2018 to approximately HK\$1.4 million for the six months ended 30 September 2019, primarily due to the decrease in average amount of bank and other borrowings and the decrease in average interest rate of bank borrowings.

Income tax expenses

The Group's income tax expenses increased by approximately HK\$0.7 million or 27.9% from approximately HK\$2.6 million for the six months ended 30 September 2018 to approximately HK\$3.3 million for the six months ended 30 September 2019 primarily due to the increase in profit before tax for the six months ended 30 September 2019. The effective tax rate for the six months ended 30 September 2019 was 16.0%, compared to that of 15.1% for the six months ended 30 September 2018.

Profit and total comprehensive income for the period attributable to owners of the Company

As a result of the foregoing, profit attributable to owners of the Company increased by approximately HK\$2.8 million or 19.2% from approximately HK\$14.4 million for the six months ended 30 September 2018 compared to approximately HK\$17.2 million for the six months ended 30 September 2019. The net profit margin slightly decreased by approximately 0.6 percentage points from approximately 5.8% for the six months ended 30 September 2018 to approximately 5.2% for the six months ended 30 September 2019.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing have been and will be utilised in accordance with the proposed applications set out in the section “Future Plans and Use of Proceeds” of the prospectus dated 25 January 2017 (the “**Prospectus**”) and the announcement of the Company dated 7 February 2017.

The below table sets out the utilisation of the net proceeds from the Listing up to 30 September 2019:

	Planned use of net proceeds as stated in the Prospectus HK\$'000	Actual use of net proceeds up to 30 September 2019 HK\$'000	Unutilised balance as at 30 September 2019 HK\$'000
Funding the initial costs for an existing formworks project located in Yau Tsim Mong District	27,433	27,433	—
Used for acquisition of office premises	41,101	41,101	—
Used for the investment in the new information system	10,102	5,965	4,137
Used for repayment part of our outstanding bank borrowings and finance leases	10,399	10,399	—
Used as general working capital	9,607	9,607	—
	<u>98,642</u>	<u>94,505</u>	<u>4,137</u>

The unutilised amounts of the net proceeds of approximately HK\$4.1 million was deposited into licensed banks in Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its operations and capital expenditure with internal resources and bank and other borrowings.

As at 30 September 2019, the Group’s total bank balances and cash were approximately HK\$62.7 million (31 March 2019: approximately HK\$92.7 million), all of which were denominated in Hong Kong dollars. The current ratio (defined as current assets divided by current liabilities) of the Group was approximately 2.2 (31 March 2019: approximately 2.1).

The Group had total bank and other borrowings of approximately HK\$41.7 million as at 30 September 2019 (31 March 2019: approximately HK\$54.7 million).

CONTINGENT LIABILITIES

Save as disclosed in the paragraph headed “Arbitration” in this announcement, the Group had no material contingent liabilities as at 30 September 2019 (31 March 2019: Nil).

ARBITRATION

As reported in the note 34 – Arbitration in the “Notes to the consolidated financial statements” of the 2019 Annual Report, Ming Tai Construction Engineering Company Limited, an indirect wholly-owned subsidiary of the Company (the “**Applicant**”) has issued the Notification of Arbitration to the Laing O’Rourke-Hsin Chong-Paul Y. Joint Venture (the “**Respondent**”) on 5 March 2019 initiating an arbitration against the Respondent in respect of disputes arising from two subcontracts. Arbitrator (the “**Arbitrator**”) has subsequently been appointed.

The Applicant claims, among others, that the Respondent failed to properly assess extensions of time and value sums due to the Applicant under the two subcontracts entered between the Applicant and the Respondent in June 2012 and September 2015, respectively, and caused delay and disruption to the progress and completion of the subcontract works and such delay and disruption caused the Applicant to incur loss and/or expense. The Applicant seeks, among other things, relief for the extension of time for the two subcontracts and loss suffered by it in the aggregate amount of approximately HK\$273 million, being the outstanding payment by the Respondent under the two subcontracts. The Respondent indicated to counterclaim against the Applicant.

Since the Applicant required more time to prepare the Statement of Claim to the Hong Kong International Arbitration Centre (“**HKIAC**”), the Arbitrator and the Respondent consented further extension of the time for the Applicant to send its Statement of Claim until late December 2019. Up to the date of this announcement, as the trial has not been commenced and the Statement of Claim has not been completed, the effects of the case on the Group cannot be assessed at this moment. Further announcement will be made by the Company in the event of any material development regarding the arbitration if appropriate in due course.

PLEDGE OF ASSETS

As at 30 September 2019, the Group’s bank borrowings and general banking facilities were secured by the office premises with an aggregate carrying amount of approximately HK\$44.7 million (31 March 2019: approximately HK\$45.4 million).

As at 30 September 2019, the Group had pledged to the bank an assignment of project proceeds from one construction contract of the Group as security of the Group’s banking facilities.

As at 30 September 2019, the Group had a restricted time-deposit of approximately HK\$3.0 million (31 March 2019: approximately HK\$3.0 million) charging to a bank to secure general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 September 2019, the Group had capital commitments of approximately HK\$7,054,000 (31 March 2019: approximately HK\$130,000) contracted but not provided for the acquisition of property, plant and equipment.

TREASURY POLICIES

The Group continues to follow a prudent policy in managing the Group's cash balances and maintain a healthy liquidity position. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. Internally generated cash flow and interest-bearing bank borrowings are the general source of funds to finance the operation of the Group. To manage liquidity risk, the Directors closely monitor 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 CURRENCY RISK

The Group has no significant exposure to foreign currency risk because almost all of the Group's transactions and balances are denominated in Hong Kong dollars. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should and when appropriate.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 September 2019. Save as disclosed herein, there was no other plan for material investments or capital assets as at 30 September 2019.

GEARING RATIO

As at 30 September 2019, the Group's gearing ratio was approximately 19.5% (31 March 2019: approximately 24.8%), representing total bank and other borrowings and lease liabilities as a percentage of total equity. The decrease in gearing ratio was attributed to the effect of decrease in bank and other borrowings mainly used in financing the substantial completed and ongoing projects during the six months ended 30 September 2019.

EVENT AFTER THE REPORTING PERIOD

The Board is pleased to announce that, subsequent to 30 September 2019, the Group has been awarded two new formwork subcontracts for non-industrial building development in Cheung Shun Street and Site A3 of the Commercial Development in SkyCity respectively. The total contract sum of the abovementioned contracts is approximately HK\$211.2 million.

Save for the above, the Board is not aware of any other significant events requiring disclosure that have taken place subsequent to 30 September 2019 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 92 full-time employees as at 30 September 2019 (30 September 2018: 77 full-time employees). The Group offers competitive remuneration package that is based on overall market rates and employee performance, as well as the performance of the Group. Remuneration package comprised of salary, a performance-based bonus, and other benefits including training and mandatory provident funds. Employee bonus is distributable based on the performance of the respective employees concerned. Moreover, the Group also provides internal and external training programmes which are complementary to certain job functions. The total staff costs included in administration and other operating expenses (including remuneration of Directors and mandatory provident funds contributions) for the six months ended 30 September 2019 amounted to approximately HK\$17.6 million (six months ended 30 September 2018: approximately HK\$16.1 million). All employees of the Group were direct employment.

SEGMENT INFORMATION

Save as disclosed in note 3 in this announcement, the Group's business was regarded as a single operating segment and the Group had no geographical segment information presented as at 30 September 2019.

FUTURE PROSPECTS

The recent protests in Hong Kong may lead to more uncertainties on the pace of proposed infrastructure development and deferred the Legislative Council (“**Legco**”) approving funds for public works which then lead to decrease in the number of available tenders and severe price competition.

Despite the ongoing political and social disputes may deter investments in infrastructure projects in Hong Kong, upon taking into account the new initiatives and measures as proposed in the Policy Address 2019, particularly in areas of housing and land supply in Hong Kong, the long-term prospects for the construction industry will remain positive.

Looking ahead, as an established formwork subcontractor in Hong Kong, the Group will keen on maintaining its continuous approach in refining its workmanship and enhance its management process and develop construction technology applications and innovative formwork construction patents. The Group is confident that its business will continue to operate in a stable way.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2019.

COMPETING BUSINESS

During the six months ended 30 September 2019, none of the Directors or the controlling shareholders of the Company (the “**Controlling Shareholders**”) and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between the Group and the Controlling Shareholders, Mr. Wang Kei Ming and Wang K M Limited (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the deed of non-competition (the “**Deed of Non-competition**”) with the Company (for itself and for the benefit of each other member of the Group) on 17 January 2017. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Convenantors also gave certain non-competition undertakings under the Deed of Non-competition as set out in the paragraph headed “Relationship with our controlling shareholders – Non-competition undertaking” in the Prospectus.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the six months ended 30 September 2019.

SHARE OPTION SCHEME

The Company’s share option scheme (the “**Share Option Scheme**”) was conditionally adopted on 17 January 2017. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to it. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. Further details of the Share Option Scheme are set forth in the section headed “Statutory and General Information – D. Share Option Scheme” in Appendix IV to the Prospectus.

For the six months ended 30 September 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

CORPORATE GOVERNANCE PRACTICE

The Company and the Board are devoted to achieve and maintain high standards of corporate governance, as the Board believes that good and effective corporate governance practices are fundamental to obtain and maintain the trust and safeguarding interest of the shareholders and other stakeholders of the Company. The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules.

To the best knowledge of the Board, the Company has complied with the code provisions in the CG Code during the six months ended 30 September 2019 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) was established on 17 January 2017. The chairman of the Audit Committee is Mr. Kwong Ping Man, the independent non-executive Director, and other members include Mr. Lai Ah Ming Leon and Mr. Sio Kam Seng, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange’s website and on the Company’s website.

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

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

The Group’s condensed consolidated interim financial statements for the six months ended 30 September 2019 are unaudited, but have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2019 comply with applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.royal-deluxe.com. The interim report for the six months ended 30 September 2019 will be dispatched to the shareholders of the Company and will be published on the above websites.

By order of the Board
Royal Deluxe Holdings Limited
Wang Kei Ming
Chairman and Executive Director

Hong Kong, 26 November 2019

As at the date of this announcement, the Board comprises Mr. Wang Kei Ming and Mr. Wang Yu Hin as executive Directors; and Mr. Lai Ah Ming Leon, Mr. Kwong Ping Man and Mr. Sio Kam Seng as independent non-executive Directors.