Dragon Rise Group Holdings Limited
龍昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6829)

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

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period amounted to approximately HK$237.2 million (six months ended 30 September 2018: approximately HK$209.7 million).
- Loss attributable to the equity holders of the Company for the Reporting Period amounted to approximately HK$5.6 million (profit attributable to the equity holders for the six months ended 30 September 2018: approximately HK$8.8 million).
- Basic and diluted loss per share for the Reporting Period amounted to approximately HK cents 0.47 (basic and diluted earnings per share for the six months ended 30 September 2018: approximately HK cents 0.74).
- The Board has resolved not to declare any interim dividend for the Reporting Period (six months ended 30 September 2018: nil).

The board (the "**Board**") of directors (the "**Directors**") of Dragon Rise Group Holdings Limited (the "**Company**") is pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 September 2019 (the "**Reporting Period**"), together with the comparative unaudited figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	4	**237,189**	209,668
Direct costs		**(230,073)**	(188,660)
Gross profit		**7,116**	21,008
Other gains and losses, net	6	**(770)**	(459)
Administrative expenses		**(11,921)**	(9,465)
Finance costs	7	**(316)**	(134)
(Loss)/profit before income tax	8	**(5,891)**	10,950
Income tax credit/(expense)	9	**259**	(2,126)
(Loss)/profit and total comprehensive (expense)/income for the period attributable to equity holders of the Company		**(5,632)**	8,824
		HK cents	*HK cents*
(Loss)/earnings per share attributable to equity holders of the Company			
Basic and diluted	11	**(0.47)**	0.74

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).

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)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**68,403**	57,073
Investment properties		**4,980**	4,970
		73,383	62,043
Current assets			
Trade and other receivables	12	**69,583**	14,072
Contract assets	13	**142,580**	113,158
Tax recoverable		**4,197**	4,197
Cash, bank balances and pledged deposits		**68,049**	136,815
		284,409	268,242
Current liabilities			
Trade and other payables	14	**(47,616)**	(30,501)
Borrowings, secured		**(20,647)**	(3,523)
Lease liabilities/obligation under finance lease		**(1,782)**	(2,307)
Contract liabilities		**(583)**	(1,021)
		(70,628)	(37,352)
Net current assets		**213,781**	230,890
Total assets less current liabilities		**287,164**	292,933

	Notes	As at 30 September 2019 HK$'000 (unaudited)	As at 31 March 2019 HK$'000 (audited)
Non-current liabilities			
Lease liabilities/obligation under finance lease		**(123)**	–
Deferred tax liabilities		**(4,538)**	(4,798)
		(4,661)	(4,798)
Net assets		**282,503**	288,135
CAPITAL AND RESERVES			
Share capital	15	**12,000**	12,000
Reserves		**270,503**	276,135
Equity attributable to equity holders of the Company		**282,503**	288,135

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2019

1. GENERAL INFORMATION

Dragon Rise Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 22 February 2017. The Company's shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 February 2018. The address of the registered office and the principal place of business of the Company is Office K, 12/F., Kings Wing Plaza 2, No.1 On Kwan Street, Shatin, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively, the "Group") are principally engaged in undertaking foundation works in Hong Kong as a subcontractor.

As at 30 September 2019, the directors considered the Company's immediate and ultimate holding company to be Fame Circle Limited, a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Yip Yuk Kit ("Mr. Yip", Mr. Yip and Fame Circle Limited each being a "Controlling Shareholder").

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial statements do not include all of the information required in annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 March 2019.

The condensed consolidated interim financial statements are unaudited, but has been reviewed by the Company's independent auditor, Grant Thornton Hong Kong Limited.

The condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), except when otherwise indicated, which was approved for issue by the Board of Directors on 28 November 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual consolidated financial statements for the year ended 31 March 2019, except for the adoption of new accounting policies as a result of the adoption of the new and amended Hong Kong Financial Reporting Standards ("HKFRSs") as set out below:

(i) Adoption of new and amended HKFRSs

In the current period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's condensed consolidated interim financial statements for the period beginning on 1 April 2019.

Other than as noted below, the adoption of new and amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented. For those which are not yet effective and have not been early adopted by the Group, the Group is not expected to have material impact on its results and financial position.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaces HKAS 17 "Leases" along with three Interpretations (HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC) – Int 15 "Operating Leases-Incentives" and HK(SIC) – Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). HKFRS 16 has been applied using the modified retrospective approach with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC) – Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC) – Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 April 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application.

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 3.88%.

The following is a reconciliation of total operating lease commitments at 31 March 2019 to the lease liabilities recognised at 1 April 2019:

	HK$'000
Total operating lease commitments disclosed at 31 March 2019	1,248
Discounting using incremental borrowing rate as at 1 April 2019	(55)
Operating leases liabilities	1,193
Finance leases obligation	2,307
Total lease liabilities recognised under HKFRS 16 at 1 April 2019	3,500
Classified as:	
Current lease liabilities	3,014
Non-current lease liabilities	486
	3,500

The following table summarises the impact of transition to HKFRS 16 on the Group's consolidated statement of financial position at 1 April 2019:

	HK$'000
Increase in right-of-use assets presented in property, plant and equipment	1,193
Increase in lease liabilities	3,500
Decrease in obligations under finance lease	(2,307)

(ii) Changes in significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 March 2019, except for the effects of applying HKFRS 16.

Leases

(a) The Group as a lessee

Applicable from 1 April 2019

For any new contracts entered into on or after 1 April 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

In the condensed consolidated statement of financial position, right-of-use assets that do not meet the definition of investment property have been included in property, plant and equipment.

Applicable before 1 April 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in "property, plant and equipment" and the corresponding liabilities, net of finance charges, are recorded as "obligation under finance lease".

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Operating leases

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(b) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

4. REVENUE

The Group's principal activities are disclosed in Note 1 of the condensed consolidated interim financial statements.

Revenue recognised for the six months ended 30 September 2019 and 2018 are as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by types of good or services		
Contracting revenue	**232,292**	209,668
Sourcing and distribution of construction materials	**4,897**	–
	237,189	209,668
Timing of revenue recognition under HKFRS 15		
Good transferred at a point in time	**4,897**	–
Services transferred over time	**232,292**	209,668
	237,189	209,668

Contracting revenue

Revenue from construction contracts are recognised over time as the Group's performance creates and enhances an asset that the customer controls which referred as the designated areas where the construction work services performed. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract.

Sourcing and distribution of construction materials

Revenue from sourcing and distribution of construction materials was generally recognised at a point in time when the customers obtain possession of and control of the promised goods.

5. SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment focusing on undertaking foundation works in Hong Kong. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that is regularly reviewed by the executive Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance. The CODM monitors the revenue from the engagement in foundation works with no discrete information available to the CODM. The CODM reviews the profit or loss for the period of the Group as a whole for performance assessment.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Revenue from customers which individually contributed over 10% of the Group's revenue was derived from contracting revenue and was presented as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Customer A	**175,216**	191,066
Customer B	**24,764**	N/A*

* The corresponding revenue did not individually contribute over 10% of the Group's revenue during the period.

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net gain in fair value on investment properties	**10**	560
Rental income	**74**	72
Interest income	**46**	312
Exchange difference, net	**(930)**	(1,432)
Others	**30**	29
	(770)	(459)

7. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bank loan interest	**255**	33
Interest on lease liabilities	**61**	101
	316	134

8. (LOSS)/PROFIT BEFORE INCOME TAX

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/Profit before tax is stated after charging:		
(a) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**43,342**	37,093
Contributions to defined contribution retirement plans	**1,746**	1,843
Staff costs (including directors' remuneration) *(note (i))*	**45,088**	38,936
(b) Other items		
Depreciation, included in:		
Direct costs		
– Owned assets	**9,897**	5,791
– Leased assets	**–**	150
Administrative expenses		
– Owned assets	**47**	54
– Right-of-use assets	**358**	–
	10,302	5,995
Subcontracting charges (included in direct costs)	**80,271**	59,765
Service charges paid for machinery	**6,635**	–
Lease charges		
– Premises held under operating leases	**–**	369
– Machinery held under operating leases	**–**	3,204
Auditor's remuneration	**75**	75
Provision for expected credit losses ("ECL") allowance	**1,410**	–

Note: (i) Staff costs (including directors' remuneration)

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Direct costs	**38,664**	34,326
Administrative expenses	**6,424**	4,610
	45,088	38,936

9. INCOME TAX CREDIT/(EXPENSE)

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2019. No provision for Hong Kong Profit Tax has been made in the condensed consolidated interim financial statements as the Group had no assessable profit for the six months ended 30 September 2019.

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Provision for Hong Kong Profits Tax		
– Current tax	**–**	(172)
Deferred tax	**259**	(1,954)
Total Income tax credit/(expense)	**259**	(2,126)

10. DIVIDENDS

No dividend was paid or declared by the Company during the six months ended 30 September 2019 (six months ended 30 September 2018: nil).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company is based on the following:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/earnings for the period attributable to equity holders of the Company	**(5,632)**	8,824
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares	**1,200,000**	1,200,000

The calculation of the basic loss per share for the six months ended 30 September 2019 is based on the loss for the period attributable to equity holders of the Company of HK$5,632,000 (profit attributable to equity holders of the Company for the six months ended 30 September 2018: HK$8,824,000) and the weighted average number of ordinary shares of 1,200,000,000 in issue during the period (six months ended 30 September 2018: 1,200,000,000 in issue during the period).

There were no dilutive potential ordinary shares during the six months ended 30 September 2019 and 2018 and therefore, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2019 *HK$'000* **(unaudited)**	As at 31 March 2019 *HK$'000* (audited)
Trade receivables		
– from third parties	**67,795**	12,903
Less: ECL allowance	**(234)**	–
	67,561	12,903
Deposit, prepayment and other receivables		
Other receivables and prepayment	**1,872**	909
Utility and other deposits	**150**	150
Amount due from the ultimate holding company	**–**	110
	2,022	1,169
	69,583	14,072

The Directors consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

Trade receivables

The Group usually provides customers with a credit term of 28 to 60 days. For the settlement of trade receivables from provision of construction services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management.

To measure the ECL, trade receivables and contract assets have been grouped based on shared common credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The ECL allowance on trade receivables are estimated by reference to historical observed default experience of the debtors and an analysis of the debtor's current financial position, adjusted for forward-looking information that is available without undue cost or effort. As at 30 September 2019, ECL allowance of HK$234,000 (31 March 2019: HK$nil) was recognised on these debtors.

Based on the invoice dates, the ageing analysis of the trade receivables, net of ECL allowance, is as follows:

	As at 30 September 2019 *HK$'000* (unaudited)	As at 31 March 2019 *HK$'000* (audited)
0–30 days	**6,237**	12,634
31–60 days	**38,148**	269
61–90 days	**23,176**	–
	67,561	12,903

13. CONTRACT ASSETS

	As at 30 September 2019 *HK$'000* (unaudited)	As at 31 March 2019 *HK$'000* (audited)
Unbilled revenue	**117,630**	96,232
Retention receivables	**26,126**	16,926
Less: ECL allowance	**(1,176)**	–
	142,580	113,158

Notes:

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

Retention receivables included in contract assets represents the Group's right to consideration for work performed and not yet billed because the rights are 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 contract assets are transferred to trade receivables when the rights become unconditional. The amount of contract assets expected to be recovered/settled over one year is HK$17,269,000 (31 March 2019: HK$7,800,000), all of the remaining balances were expected to be recovered/settled within one year.

As at 30 September 2019, ECL allowance of HK$1,176,000 was recognised against the gross amount of contract assets (31 March 2019: HK$nil).

14. TRADE AND OTHER PAYABLES

	As at 30 September 2019 *HK$'000* (unaudited)	As at 31 March 2019 *HK$'000* (audited)
Trade payables	**44,330**	27,782
Accruals and other payables	**3,286**	2,719
	47,616	30,501

Ageing analysis of payables based on the invoices date is as follows:

	As at 30 September 2019 *HK$'000* (unaudited)	As at 31 March 2019 *HK$'000* (audited)
0–30 days	**39,741**	23,725
31–60 days	**4,535**	2,300
61–90 days	**–**	1,757
Over 90 days	**54**	–
	44,330	27,782

15. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
As at 30 September 2019 (unaudited) and 31 March 2019	10,000,000,000	100,000
Issued and fully paid:		
As at 30 September 2019 (unaudited) and 31 March 2019	1,200,000,000	12,000

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the "Board") of directors (the "Directors") of Dragon Rise Group Holdings Limited (the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2019 (the "Reporting Period").

Industry Overview

Hong Kong's economy declined by 3.2% in the third quarter of 2019, entering recession amid the intensifying trade war and social unrest. The construction industry was inevitably affected. During the second quarter of 2019, the gross value of construction works performed by main contractors in Hong Kong amounted to approximately HK$57.0 billion, according to the Census and Statistics Department, presenting an 8% decrease compared with the second quarter of 2018.

As a subcategory in the construction industry, foundation works commence at the early stage of projects. With many large-scale infrastructure projects approaching completion and a lack of new projects in the pipeline, subcontractors in this subcategory are faced with declining demand, at least in the short term. The gross value of piling and related foundation works performed by main contractors at construction sites was HK$2.6 billion in the second quarter of 2019, a 35.0% decrease when compared to the second quarter of 2018.

In the long run, Hong Kong is one of the major economical and trading hubs in the world with strong resilience to social turmoil. Mr. Paul Chan Mo-po ("Mr Chan"), Financial Secretary of the HKSAR government recently told local media that most indicators, including the stock market and bank liquidity, have held firm. The Hong Kong dollar exchange rate remained stable, while the capital outflow was insignificant. Mr. Chan further explained that the city's financial market and investors' confidence remained intact despite the recent social unrest.

Foundation works are essential for most infrastructure and building construction projects. Its demand is expected to rebound once the market returns to sound conditions. It is important for contractors in this subcategory to maintain their competitiveness and cautiously explore business diversification.

Business Review and Outlook

As a seasoned subcontractor of foundation works services in Hong Kong, the Group is mainly engaged in providing services in the construction of commercial and residential buildings. During the period under review, our foundation works primarily included (i) ELS and pile cap construction works; (ii) disposal of excavated materials from piling; and (iii) ancillary services including dismantling of shoring, site formation, steel fixing and site clearance.

Fierce competition posed great pressure to the Group when bidding for new projects during the Reporting Period, as more and more competitors became capable of undertaking large-scale projects. The labour costs and material prices showed no signs of dropping, while in their International Construction Market Survey 2019, Turner & Townsend ranked Hong Kong as one of the five markets with the highest construction costs in the world. Nonetheless, the Group continues to solidify its principal business of foundation works services in Hong Kong. It will further enhance its competitive strengths by improving its project management, quality control, and technological advancement, in order to deliver ultimate results to its clients and strive for sustainability.

During the Reporting Period, the Group had been awarded 13 projects with a total original contract sum of approximately HK$411 million.

Financial Review

Revenue

For the Reporting Period, the revenue of the Group has increased by approximately HK$27.5 million or approximately 13.1% compared to the corresponding period in 2018, from approximately HK$209.7 million to approximately HK$237.2 million. The increase was primarily attributable to an increase in projects on hand.

Gross profit and gross profit margin

For the Reporting Period, the direct costs of the Group has increased by approximately HK$41.4 million or approximately 21.9% compared to the corresponding period in 2018, from approximately HK$188.7 million to approximately HK$230.1 million. The gross profit of the Group has decreased by approximately HK$13.9 million or approximately 66.2% compared to the corresponding period in 2018, from approximately HK$21.0 million to approximately HK$7.1 million. The Group's gross profit margin for the Reporting Period was approximately 3.0%, as compared with approximately 10.0% in the corresponding period in 2018. The decrease in gross profit margin was mainly due to keen competition in the market for new projects and an increase in direct costs incurred from delays of certain projects, which in turn affected the gross profit margin in the Reporting Period.

Other gains and losses

Other gains and losses mainly included net gain from change in fair value on investment properties, interest income and exchange difference. For the Reporting Period, the other losses has increased by approximately HK$0.3 million or approximately 60.0% compared to the corresponding period in 2018, from approximately HK$0.5 million to approximately HK$0.8 million. The increase was mainly due to the decrease in net gain in fair value on investment properties for the Reporting Period.

Administrative expenses

For the Reporting Period, administrative expenses increased by approximately HK$2.4 million or approximately 25.3% compared to the corresponding period in 2018, from approximately HK$9.5 million to approximately HK$11.9 million. The increase was mainly due to an increase in staff costs and allowance of expected credit losses in financial assets during the Reporting Period.

Finance costs

For the Reporting Period, finance costs increased by approximately HK$0.2 million or approximately 200.0% compared to the corresponding period in 2018, from approximately HK$0.1 million to approximately HK$0.3 million. The increase in finance costs was mainly due to increase in bank borrowings.

Income tax credit or expense

For the Reporting Period, income tax expenses decreased by approximately HK$2.4 million or approximately 114.3% compared to the corresponding period in 2018, from income tax expense of approximately HK$2.1 million to income tax credit of approximately HK$0.3 million. Such decrease was driven by the decrease in gross profit for the Reporting Period as discussed above.

Net loss or profit

For the Reporting Period, profit and total comprehensive income attributable to owners of the Company decreased by approximately HK$14.4 million or approximately 163.6% compared to the corresponding period in 2018, from net profit of approximately HK$8.8 million to net loss of approximately HK$5.6 million. The decrease was primarily due to the decrease in gross profit as discussed above.

Liquidity, Financial Position and Capital Structure

The shares of the Company (the “Shares”) were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 February 2018 (the “Listing”) and there has been no change in the capital structure of the Group since then. As at 30 September 2019, the Company’s issued capital was HK$12.0 million and the number of its issued ordinary shares was 1,200,000,000 shares of HK$0.01 each.

As at 30 September 2019, the Group had total cash and cash equivalents and pledged bank deposits of approximately HK$68.0 million (31 March 2019: approximately HK$136.8 million). The decrease was mainly due to the purchase of property, plant and equipment and increase in upfront costs of construction projects during the Reporting Period.

As at 30 September 2019, the Group had short-term bank borrowings amounting to approximately HK$20.7 million (31 March 2019: HK$3.5 million), representing an increase of 491.4% from 31 March 2019. The gearing ratio of the Group, calculated by total bank borrowings (including lease liabilities) as a percentage of total equity was approximately 8.0% (31 March 2019: approximately 2.0%).

Treasury Policy

The Group has adopted a prudent financial management approach towards it treasury policy. 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 all the time.

Pledge of Assets

As at 30 September 2019, the Group's plant and equipment with zero book value (31 March 2019: zero book value) were pledged under finance lease, while the Group had pledged (i) an investment property situated in Hong Kong of approximately HK$5.0 million (31 March 2019: approximately HK$5.0 million); and (ii) approximately HK$10.2 million and RMB13.0 million bank deposits (31 March 2019: approximately HK$10.2 million and RMB13.0 million bank deposits) in order to secure bank facilities granted to Kit Kee Engineering Limited.

Exposure to Foreign Exchange Rate Risks

As the Group only operates in Hong Kong and all of the revenue and transactions arising from its operations were settled in Hong Kong dollars, the Directors are of the view that the Group's foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for the Reporting Period.

Capital Expenditure

During the Reporting Period, the Group invested approximately HK$20.4 million in the purchase of property, plant and equipment. All of these capital expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 30 September 2019, the Group had no material capital commitments.

As at 30 September 2019, the Group was involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances. The Directors are of the opinion that the claims, litigations and non-compliances are not expected to have a material impact on the consolidated financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the interim results.

Significant Investment, Material Acquisition and Disposals of Subsidiaries and Associated Companies

During the Reporting Period, the Group did not have any significant investment held or any material acquisitions or disposals of subsidiaries or associated companies.

Future Plans for Material Investment or Capital Assets

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 26 January 2018 (the "Prospectus"), the Group did not have any other plans for material investments or capital assets during the Reporting Period.

Interim Dividend

The Board has resolved not to declare any interim dividend for the Reporting Period (2018: nil).

Use of Proceeds

The net proceeds received by the Group, after deducting related expenses, were approximately HK$91.9 million. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. Such uses include: (i) enhancing the construction machinery fleet; (ii) strengthening the workforce and manpower; (iii) reinforcing sales and marketing efforts; and (iv) funding of general working capital. Details of the use of the proceeds are listed as below:

	Planned use of proceeds *HK$'000*	**Actual usage up to 30 September 2018** *HK$'000*
Enhancing the construction machinery fleet	60,311	60,311
Strengthening the workforce and manpower	19,272	15,136
Reinforcing sales and marketing efforts	4,761	2,097
Funding of general working capital	7,596	7,596
Total	91,940	85,140

As at 30 September 2019 and up to the date of this report, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong. The Directors regularly evaluate the Group's business objectives and may change or modify plans against the changing market conditions to ascertain the business growth of the Group. During the Reporting Period, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

Employees and Remuneration Policy

As at 30 September 2019, we employed a total of 269 full-time employees (including two executive Directors but excluding four independent non-executive Directors), as compared to a total of 210 full-time employees as at 31 March 2019. The remuneration packages that the Group offers to employees includes salary, discretionary bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotions. The total staff costs incurred by the Group for the Reporting Period was approximately HK$45.1 million compared to approximately HK$38.9 million for the corresponding period in 2018.

The remuneration of the Directors is decided by the Board upon the recommendation from the remuneration committee of the Company having regard to the Group's operating results, individual performance and comparable market statistics.

Events After the Reporting Period

There was no important event affecting the Group after the Reporting Period and up to the date of this report.

Interests of Directors and Chief Executive in Shares, Underlying Shares and Debentures of the Company and the Associated Corporations

As at 30 September 2019, the interests and short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), notified to the Company and the Stock Exchange, were as follows:

i. Long position in our Shares

Name of Director(s)	Capacity/Nature	Number of shares held /interested	Percentage of shareholding
Mr. Yip Yuk Kit	Interest in a controlled corporation *(Note)*	890,000,000	74.17%

Note: The Company is owned as to 74.17% by Fame Circle Limited. Fame Circle Limited is legally and beneficially owned as to 100% by Mr. Yip. Under the SFO, Mr. Yip is deemed to be interested in the same number of Shares held by Fame Circle Limited.

ii. Long position in the shares of associated corporation

Name of Director(s)	Name of associated corporation	Capacity/Nature	Number of shares held/ interested in	Percentage of interest
Mr. Yip Yuk Kit	Fame Circle Limited	Beneficial interest	50,000	100%

Save as disclosed above, as at 30 September 2019, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

Interests of Substantial and Other Shareholders in the Shares and Underlying Shares

As at 30 September 2019, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name	Capacity/Nature	Number of shares held/ interested in	Percentage of interest
Fame Circle Limited	Beneficial interest *(Note 1)*	890,000,000	74.17%
Ms. Yip Lai Ping	Interest of spouse *(Note 2)*	890,000,000	74.17%

Notes:

1. Fame Circle Limited is owned as to 100% by Mr. Yip Yuk Kit. Mr. Yip Yuk Kit is the sole director of Fame Circle Limited. Under the SFO, Mr. Yip is deemed to be interested in the same number of Shares held by Fame Circle Limited.

2. Ms. Yip Lai Ping is the spouse of Mr. Yip Yuk Kit. Under the SFO, Ms. Yip Lai Ping is deemed to be interested in the same number of Shares in which Mr. Yip Yuk Kit is interested.

Save as disclosed above, as at 30 September 2019, no other person had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 18 January 2018. The principal terms of the Share Option Scheme are summarised in Appendix V to the Prospectus. The purpose of the Share Option Scheme is to attract and retain the best available personnel of the Group, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group. No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 18 January 2018, and there is no outstanding share option as at 30 September 2019.

Purchase, Sale or Redemption of the Company's Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

Directors' Interests in Contracts of Significance

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules during the Reporting Period and up to the date of this report.

Competing Interests

The Directors confirm that neither the Directors nor the Controlling Shareholders of the Company nor their respective close associates are interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business during the Reporting Period, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Corporate Governance Practices

Compliance with the Corporate Governance Code

The Group recognises the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Group is committed to maintaining good corporate governance to safeguard the interest of shareholders and to achieve effective accountability because the Group believes that is the best way to maximise our shareholders' value.

The Company has adopted the corporate governance code (the "CG code") contained in Appendix 14 to the Listing Rules. Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman of the Board ("the Chairman") and the chief executive officer of the Company (the "Chief Executive Officer") should be separate and should not be performed by the same individual. Mr. Yip was the Chairman and Chief Executive Officer during the Reporting Period. As Mr. Yip has been assuming day-to-day responsibilities in operating and managing Kit Kee Engineering since August 1993, the Board is of the view that it is in the best interest of the Group to have Mr. Yip taking up both roles for effective management and business development.

Save for the above deviation, the Board considers that during the Reporting Period, the Company has complied with all of the code provisions set out in the CG Code.

Compliance With the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of the Directors, all Directors confirmed that they complied with the Model Code at all applicable times during the Reporting Period.

Audit Committee

The Company established an Audit Committee on 18 January 2018 with written terms of reference in compliance with the CG Code. The primary roles of the Audit Committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring the integrity of our financial statements and annual reports and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and (c) reviewing our financial controls, internal controls and risk management systems.

The Audit Committee consists of three members who are all independent non-executive Directors, namely, Mr. Lo Chi Wang, Mr. Chan Ka Yu and Mr. Lee Kwok Lun. Mr. Lee Kwok Lun is the Chairman of the Audit Committee.

Review of Interim Results

The Group's interim results for the Reporting Period have not been audited, but have been reviewed by the Audit Committee. The interim results for the Reporting Period have also been reviewed by our auditor, Grant Thornton Hong Kong Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. Based on their review and discussions with the management, the Audit Committee was satisfied that the interim results were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the Reporting Period.

Appreciation

The Board would like to take this opportunity to express its sincere gratitude to the management team and staff for their hard work and contributions, and to our shareholders, investors and business partners for their trust and support.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement of the Company is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.kitkee.com.hk). The interim report of the Company for the Reporting Period containing all the relevant information required by the Listing Rules will be dispatched to the shareholders of the Company on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Dragon Rise Group Holdings Limited
Yip Yuk Kit
Chairman and Executive Director

Hong Kong, 28 November 2019

As at the date of this announcement, the Board comprises Mr. Yip Yuk Kit and Mr. Cheung Chun Fai as executive Directors; and Mr. Lo Chi Wang, Mr. Chan Ka Yu, Mr. Lee Kwok Lun and Mr. Chan Wa Shing as independent non-executive Directors.