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Affluent Foundation Holdings Limited

俊裕地基集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1757)

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

The board (“**Board**”) of directors (the “**Directors**”) of Affluent Foundation Holdings Limited (the “**Company**”) is pleased to announce the condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2019 as follows:

FINANCIAL HIGHLIGHTS

1. Revenue was approximately HK\$100.9 million for the six months ended 30 September 2019, representing a decrease of approximately 61.2% as compared with the same for the six months ended 30 September 2018.
2. Gross profit was approximately HK\$8.7 million for the six months ended 30 September 2019, representing a decrease of approximately 69.3% as compared with the same for the six months ended 30 September 2018.
3. Gross profit margin decreased to approximately 8.6% for the six months ended 30 September 2019 as compared with 10.9% for the six months ended 30 September 2018.
4. Loss attributable to equity holders of the Company was approximately HK\$10.1 million for the six months ended 30 September 2019. Profit attributable to equity holders of the Company was approximately HK\$7.5 million for the six months ended 30 September 2018.
5. Basic loss per share amounted to approximately HK0.84 cents for the six months ended 30 September 2019 (2018: basic earnings per share amounted to approximately HK0.68 cents).
6. The Board does not recommend the payment of interim dividend for the six months ended 30 September 2019.

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 (unaudited)	HK\$'000 (unaudited)
Revenue	4	100,880	259,775
Direct costs		<u>(92,229)</u>	<u>(231,569)</u>
Gross profit		8,651	28,206
Other income	5	551	1,903
Administrative expenses		(19,821)	(18,772)
Finance costs	6	<u>(877)</u>	<u>(621)</u>
(Loss)/Profit before income tax	7	(11,496)	10,716
Income tax credit/(expense)	8	<u>1,432</u>	<u>(3,259)</u>
(Loss)/Profit and total comprehensive (expenses)/income for the period attributable to equity holders of the Company		<u><u>(10,064)</u></u>	<u><u>7,457</u></u>
		HK cents	HK cents
(Loss)/Earnings per share attributable to equity holders of the Company			
Basic and diluted	10	<u><u>(0.84)</u></u>	<u><u>0.68</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		28,615	23,332
Deferred tax assets		1,788	–
		<u>30,403</u>	<u>23,332</u>
Current assets			
Trade and other receivables	11	47,749	39,320
Contract assets		103,172	107,453
Tax recoverable		2,100	1,544
Cash and bank balances		32,546	23,789
		<u>185,567</u>	<u>172,106</u>
Current liabilities			
Trade and other payables	12	64,930	52,497
Bank borrowings		41,093	26,483
Lease liabilities/Obligations under finance leases		4,970	3,668
Contract liabilities		4,292	3,865
		<u>115,285</u>	<u>86,513</u>
Net current assets		<u>70,282</u>	<u>85,593</u>
Total assets less current liabilities		<u>100,685</u>	<u>108,925</u>
Non-current liabilities			
Bank borrowings		2,191	–
Lease liabilities/Obligations under finance leases		2,753	3,476
Deferred tax liabilities		2,879	2,523
		<u>7,823</u>	<u>5,999</u>
Net assets		<u>92,862</u>	<u>102,926</u>
Equity			
Share capital		12,000	12,000
Reserves		80,862	90,926
Equity attributable to equity holders of the Company		<u>92,862</u>	<u>102,926</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. GENERAL INFORMATION

Affluent Foundation 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 2 June 2017. The address of the Company’s registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company’s principal place of business is Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, the New Territories, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged as subcontractor in the provision of services related to foundation works in Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 7 June 2018.

As at 30 September 2019, the Company’s immediate and ultimate holding company is Oriental Castle Group Limited (“**Oriental Castle**”), a company incorporated in the British Virgin Islands (the “**BVI**”) and owned by Mr. Chan Siu Cheong (“**Mr. Chan**”) and Ms. Chu Wai Ling (“**Ms. Chu**”). Mr. Chan, Ms. Chu and Oriental Castle are collectively referred to as the controlling shareholders (the “**Controlling Shareholders**”) of the Company.

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.

Pursuant to a group reorganisation (the “**Reorganisation**”) of the Company in connection with the listing of its shares on the Stock Exchange (the “**Listing**”), which was completed on 23 April 2018, the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section headed “History, reorganisation and corporate structure – Reorganisation” in the Company’s prospectus dated 23 May 2018 (the “**Prospectus**”).

The condensed consolidated interim financial statements have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the six months ended 30 September 2018, or since their respective dates of incorporation where this is a shorter period.

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

The condensed consolidated interim financial statements are presented in Hong Kong dollars (“**HK\$**” or “**HKD**”), and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

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:

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 annual period beginning on 1 April 2019:

HKFRS 16	Leases
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
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

Other than the impact of the adoption of HKFRS 16 as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, 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.

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

	<i>HK\$'000</i>
Total operating lease commitments disclosed as at 31 March 2019	195
Recognition exemption – leases with remaining lease term of less than 12 months	(195)
Operating leases liabilities	–
Obligation under finance leases	7,144
Total lease liabilities recognised under HKFRS 16 as at 1 April 2019	7,144
Of which are:	
Current lease liabilities	3,668
Non-current lease liabilities	3,476
Lease liabilities recognised under HKFRS 16 at 1 April 2019	7,144

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

	As at 31 March 2019 <i>HK\$'000</i>	Effect on initial application of HKFRS 16 <i>HK\$'000</i>	As at 1 April 2019 <i>HK\$'000</i>
Current liabilities			
Lease liabilities	–	3,668	3,668
Obligation under finance leases	3,668	(3,668)	–
Non-current liabilities			
Lease liabilities	–	3,476	3,476
Obligation under finance leases	3,476	(3,476)	–

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

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 contract 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 assesses whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

For contracts that contain 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.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On 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 equipments.

The Group as a lessor

Applicable from 1 April 2019

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.

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.

Classification of assets leased to the Group

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.

Assets acquired under 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 obligations under finance leases.

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.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the consolidated statement of profit or loss and other comprehensive income 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.

Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 September	
	2019	2018
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Contracting revenue	100,880	259,775

All revenue represents the contracting revenue arising from provision of services related to foundation works and is recognised over time.

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of foundation works as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets (excluding deferred tax 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 is as follows:

	Six months ended 30 September	
	2019	2018
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Customer A	67,427	N/A*
Customer B	20,586	29,552
Customer C	N/A*	44,694
Customer D	N/A*	155,848

* The corresponding revenue does not contribute over 10% of total revenue of the Group.

5. OTHER INCOME

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Bank interest income	6	–
Gain on disposal of property, plant and equipment	349	331
Machinery rental income	12	–
Income from disposal of construction wastes	184	1,572
	<u>551</u>	<u>1,903</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Bank loans interest wholly repayable within five years	706	555
Finance charge on lease liabilities (2018: Obligations under finance leases)	171	66
	<u>877</u>	<u>621</u>

7. (LOSS)/PROFIT BEFORE INCOME TAX

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Profit before income tax is stated after charging:		
(a) Staff costs (including directors' emoluments) (<i>note (i)</i>)		
– Salaries, wages and other benefits	30,130	48,737
– Contributions to defined contribution retirement plans	317	1,478
	<u>30,447</u>	<u>50,215</u>
(b) Other items		
Depreciation, included in:		
Direct costs		
– Owned assets	3,097	2,214
– Leased assets	899	1,220
– Right-of-use assets	366	–
Administrative expenses		
– Owned assets	723	657
– Right-of-use assets	182	–
	<u>5,267</u>	<u>4,091</u>
Subcontracting charges (included in direct costs)	21,153	75,644
Auditor's remuneration	208	–
Operating lease charges in respect of		
– premises held under operating leases	–	728
– short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16	269	–
Listing expenses	–	5,103
Donations	–	1,000
Provision of expected credit loss ("ECL") allowance on		
– Trade and other receivables	88	–
– Contract assets	8,792	–
Reversal of ECL allowance on contract assets	(3)	–

Note:

- (i) Staff costs (including directors' emoluments)

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Direct costs	24,683	44,673
Administrative expenses	5,764	5,542
	<u>30,447</u>	<u>50,215</u>

8. INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profit Tax has not been provided as the Group incurred tax losses for the six months ended 30 September 2019. Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 September 2018.

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Provision for Hong Kong Profits Tax		
– Current tax	–	3,561
Deferred tax	(1,432)	(302)
Total income tax (credit)/expense	<u>(1,432)</u>	<u>3,259</u>

9. DIVIDENDS

The directors do not recommend the payment of a dividend for the six months ended 30 September 2019 (2018: nil).

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (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 (unaudited)	2018 (unaudited)
(Loss)/Earnings		
(Loss)/Profit for the year attributable to equity holders of the Company (in HK\$'000)	<u>(10,064)</u>	<u>7,457</u>
Number of shares		
Weighted average number of ordinary shares	<u>1,200,000,000</u>	<u>1,090,163,934</u>
Basic (loss)/earnings per share (in HK cents)	<u>(0.84)</u>	<u>0.68</u>

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 September 2018 includes (i) 900,000,000 ordinary shares immediately after the capitalisation issue, as if all these shares had been in issue since 1 April 2018; and (ii) 190,163,934 ordinary shares, representing the weighted average of 300,000,000 new ordinary shares issued pursuant to the share offer upon Listing.

(b) Diluted (loss)/earnings per share

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

11. TRADE AND OTHER RECEIVABLES

	As at 30 September 2019 HK\$'000 (unaudited)	As at 31 March 2019 HK\$'000 (audited)
Trade receivables	19,401	14,290
Other receivables and prepayments	27,244	23,895
Utility and other deposits	1,192	1,135
ECL allowance	(88)	—
	<u>47,749</u>	<u>39,320</u>

The directors of the Group 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 provide customers with a credit term of 30 to 45 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.

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the ECL allowance for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

ECL for trade and other receivables

The loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

Based on the invoice dates, the ageing analysis of the trade receivables was as follows:

	As at 30 September 2019 HK\$'000 (unaudited)	As at 31 March 2019 HK\$'000 (audited)
0–30 days	9,774	2,952
31–60 days	—	1,658
61–90 days	—	500
Over 90 days	9,627	9,180
	<u>19,401</u>	<u>14,290</u>

The movements in the ECL allowance of trade and other receivables are as follows:

	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
At the beginning of the period	–	–
ECL allowance recognised during the period	88	–
At the end of the period	88	–

12. TRADE AND OTHER PAYABLES

	As at 30 September 2019 HK\$'000 (unaudited)	As at 31 March 2019 HK\$'000 (audited)
Trade payables (<i>note (a)</i>)	23,455	20,545
Retention payables	14,414	13,743
Accruals and other payables	27,061	18,209
	64,930	52,497

Notes:

- (a) (i) The Group is usually granted by suppliers with a credit term of 30 days.
- (ii) As at 30 September 2019, included in trade payables of HK\$1,660,000 (31 March 2019: HK\$1,650,000) was related party balance: Kam Lung Transport Co., which is a sole proprietorship established by Mr. Tsang Leung Lung, who is also the brother-in-law of Mr. Chan.

The ageing analysis of trade payables based on the invoice date is as follows:

	As at 30 September 2019 HK\$'000 (unaudited)	As at 31 March 2019 HK\$'000 (audited)
0–30 days	3,169	4,587
31–60 days	1,464	2,793
61–90 days	3,598	1,753
Over 90 days	15,224	11,412
	23,455	20,545

- (b) All amounts are short-term and hence, the carrying values of the Group's trade payables and accruals and other payables are considered to be a reasonable approximation of fair value. As at 30 September 2019, included in trade and other payables of HK\$9,243,000 (31 March 2019: HK\$8,622,000) were expected to be repayable over one year. The Group classifies as current because the Group expects to realise them in its normal operating cycle.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a subcontractor engaged in the provision of services related to foundation works in Hong Kong including excavation and lateral support (“**ELS**”) works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks. To a lesser extent, the Group also engages in the leasing of machinery to third-party construction companies.

Despite keen competition in the foundation industry and the increase in cost of production, the Group is still optimistic about the prospects of the construction industry in Hong Kong. The Group will continue to strengthen its market position and look forward to achieving continuous growth of business.

FUTURE PROSPECTS

The Government continues to stress for more efforts to increase land supply for both residential and commercial developments. Therefore, the Group remains positive with the prospects of the construction industry in Hong Kong even though we are facing keen competition in the foundation industry and increase in the cost of production. The Group will continue to focus on its competitive edge and maintain its competitive position in the market.

The Group entered into a notice of acceptance for a project with contract value of approximately HK\$220.8 million with a main contractor. In view of this and other on-going projects, it is expected that the business and revenue of the Group will be stable.

BUSINESS REVIEW

During the six months ended 30 September 2019, the Group had been awarded 7 new contracts, with an aggregate original contract sum of approximately HK\$334.6 million. As at 30 September 2019, the Group had 34 projects on hand (including projects in progress as well as projects that have been awarded to us but not yet commenced) with a total original contract sum of approximately HK\$1,358.8 million.

FINANCIAL REVIEW

Revenue

The revenue from foundation works of the Group for the six months ended 30 September 2019 amounted to approximately HK\$100.9 million, representing a decrease of approximately HK\$158.9 million, or 61.2% compared to approximately HK\$259.8 million for the six months ended 30 September 2018. The decrease in revenue was primarily due to certain sizable projects have been completed by the year ended 31 March 2019 and no longer generate revenue during the six months ended 30 September 2019 and the progress of a sizable new project has been delayed due to delay in handover of worksite by the main contractor during the six months ended 30 September 2019.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 September 2019 amounted to approximately HK\$8.7 million, representing a decrease of approximately HK\$19.5 million, or 69.3%, compared to approximately HK\$28.2 million for the six months ended 30 September 2018. The decrease in gross profit was in line with the decrease in revenue during the six months ended 30 September 2019. The gross profit margin was stable at approximately 8.6% for the six months ended 30 September 2019 and approximately 10.9% for the six months ended 30 September 2018.

The Group prices its services based on various factors, including but not limited to the scope of works and the complexity of the projects. In this regard, the Group's profitability depends on the nature of projects engaged by the Group.

Other Income

The other income of the Group for the six months ended 30 September 2019 amounted to approximately HK\$0.6 million, representing a decrease of approximately HK\$1.3 million or 71.0% compared to approximately HK\$1.9 million for the six months ended 30 September 2018. The decrease was primarily due to decrease of income from disposal of construction waste for the six months ended 30 September 2019.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 September 2019 amounted to approximately HK\$19.8 million, representing an increase of approximately HK\$1.0 million or 5.6% compared to approximately HK\$18.8 million for the six months ended 30 September 2018. The increase was primarily due to the ECL allowance was recognised for the six months ended 30 September 2019.

Finance Costs

The finance costs of the Group for the six months ended 30 September 2019 amounted to approximately HK\$0.9 million, representing an increase of approximately HK\$0.3 million or 41.2% compared to approximately HK\$0.6 million for the six months ended 30 September 2018. The increase was primarily due to the increase in short term bank borrowings and lease liabilities during the six months ended 30 September 2019.

(Loss)/Profit attributable to equity holders of the Company

As a result of foregoing, the Group reported loss attributable to equity holders of the Company of approximately HK\$10.1 million for the six months ended 30 September 2019 as compared to the profit of approximately HK\$7.5 million for the six months ended 30 September 2018, representing a decrease of profit of approximately HK\$17.6 million.

RISKS AND UNCERTAINTIES

The Group's results of operation may vary significantly from period to period depending on, among other factors, the political and economic environment, level of competitiveness, the quality of service and timeliness of subcontractors, and the adequacy and efficiency of internal processes implemented by staff and systems. The Group believes that there are certain risks and uncertainties involved both in the markets and in the operations which can be summarised as below.

Operational Risks

Due to unexpected circumstances such as bad weather and geological issues, the actual time and costs incurred in construction projects may exceed our estimation at the time of tendering submission and the work in progress may be interrupted. As the result, such variation could adversely affect the Group's operations and financial results. In such situations, the Group will implement measures such as re-allocating human resources and recruiting additional manpower including subcontracting the works in order to expedite the work progress.

On the other hand, it is inevitable that there could be chance of industrial accidents happened. In order to minimise the rate of accidents, the Group has already recruited two qualified safety officers to regularly monitor the work environment, implementation of safety rules and regulations and establishing safety policies. In addition, the Group also appointed a registered safety auditor to conduct corporate safety audit semi-annually to maximise the effectiveness of safety management.

It is quite common in the construction industry that collection of receivables takes longer time and it may lead to late settlement by customers especially at the times of unexpected crises due to political and economic factors. To mitigate the pressure on financial liquidity, the Group produces aging analysis on regular basis and contacts the management level of the customers so as to get better understanding of their solvency status.

Market Risks

Due to the construction industry in Hong Kong being dominantly subject to Government's large-scale infrastructure projects which require prolonged process of legislative approval, it is more passive toward the future's prospect of the industry. Nevertheless, the Group will not just rely on participating in projects from public sector but the Group will also be more involved in projects from the private sectors.

In the meantime, demand of residential and commercial buildings is growing continuously. The Group perceived that such demand will sustain the booming in the construction industry and attract more competitive entrants to the industry. In order to grip holding of the market shares, the Group planned to acquire new fleets of machinery to cope with the demand. With its in-depth experience and knowledge in the field, the Group is capable to continue providing one-stop construction machinery service to meet the needs of various customers.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL STRUCTURE

The Group has funded its liquidity and capital requirements primarily through capital contributions from shareholders, bank borrowings, cash inflows from operating activities and proceeds received from the Listing.

The shares of the Company (the “**Shares**”) were successfully listed on the Main Board of the Stock Exchange on 7 June 2018 (“**Listing Date**”) and there has been no change in the capital structure of the Group since then.

As at 30 September 2019, the Group had in total value of cash and cash equivalents of approximately HK\$32.5 million (31 March 2019: approximately HK\$23.8 million). The total borrowings of the Group as at 30 September 2019 was approximately HK\$51.0 million (31 March 2019: approximately HK\$33.6 million).

TREASURY POLICY

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Board closely monitors the Group’s liquidity position to ensure that the Group can meet its funding requirements for business development.

PLEDGE OF ASSETS

As at 30 September 2019, the Group’s property, plant and equipment with an aggregate net book value of approximately HK\$13.3 million (31 March 2019: approximately HK\$10.2 million) were pledged under lease liabilities.

EXPOSURE TO FOREIGN EXCHANGE RATE RISKS

As the Group only operates in Hong Kong and almost all of the revenue and transactions arising from its operations were settled in Hong Kong dollar, the Board is 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 during the six months ended 30 September 2019.

CAPITAL EXPENDITURE

During the six months ended 30 September 2019, the Group invested approximately HK\$7.7 million on acquisition of property, plant and equipment. Capital expenditure was principally funded by lease arrangements and internal resources.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 September 2019, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

SIGNIFICANT INVESTMENT HELD

During the six months ended 30 September 2019, the Group had no significant investment held.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed on the section headed “Future plans and use of proceeds” in the Company’s Prospectus, the Group does not have other plans for material investments and capital assets.

USE OF PROCEEDS FROM LISTING

The receipts of the proceeds and net of listing expenses (including underwriting fee), including both recognised in the consolidated statement of profit or loss and other comprehensive income and deducted from the share premium (“**Net Proceeds**”) from the Listing were approximately HK\$70.6 million. The Group intends to apply the Net Proceeds in accordance with the proposed applications set out in the section headed “Future plans and use of proceeds” in the Company’s Prospectus.

An analysis of the utilisation of the Net Proceeds up to the date of this announcement is set out below:

		Actual use of Net Proceeds up to the date of this announcement	Unutilised amount up to the date of this announcement
	Planned	announcement	announcement
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1	Acquire additional machineries and equipment	39,996	17,089
2	Strengthen the Group’s manpower	14,000	7,799
3	Secure more contracts the Group intends to tender	10,000	10,000
4	General working capital	6,554	–
	<u>70,550</u>	<u>35,662</u>	<u>34,888</u>

As at the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong. The Group will gradually apply the remaining Net Proceeds in the manner set out in the Company's Prospectus depending on actual business needs.

The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the six months ended 30 September 2019, the Directors considered that no modification of the use of proceeds described in the Company's Prospectus was required.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2019, the Group employed a total of 117 employees (including executive Directors and independent non-executive Directors), as compared to a total of 127 employees as at 31 March 2019. Total staff costs which include Directors' emoluments for the six months ended 30 September 2019 was approximately HK\$30.4 million (six months ended 30 September 2018: approximately HK\$50.2 million). The salary and benefit level of the employees of the Group are competitive and individual performance is rewarded through the Group's salary and bonus system. The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee.

The emoluments of the Directors are decided by the Board after recommendation from the remuneration committee of the Company, having considered the factors such as the Group's financial performance and the individual performance of the Directors, etc.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees.

During the six months ended 30 September 2019, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

INTERIM DIVIDEND

The Board has resolved not to recommend the declaration of interim dividend to shareholders of the Company for the six months ended 30 September 2019 (2018: Nil).

COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited ("**Dakin**"), as at 30 September 2019, neither Dakin nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Listing Rules. During the six months ended 30 September 2019, the Company has complied with the CG Code, save as the non-compliance of A.2.1 of the CG Code as explained below. The Company will continuously enhance its corporate governance for the purpose of driving the growth of the business of the Group.

According to code provision A.2.1 of the CG Code, the role of the chairman and the chief executive officer of the Company should be separate and should not be performed by the same individual. Since the Listing Date and up to the date of this announcement Mr. Chan took the office of the chairman and the chief executive officer of the Company. In view of Mr. Chan’s role in the day-to-day management and operations of the Group, being the founder of the Group and as one of the Directors if not the sole director of other members of the Group, the Board believes that it is the best interests of the Group for Mr. Chan to take up the dual roles of chairman and chief executive officer of the Company. The Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate and that there are sufficient checks and balances in place by the operations of the Board, which comprises experienced and high calibre individuals and adequate independent element in the composition of the Board.

The Board will continuously review and consider in splitting the roles of chairman and chief executive officer of the Company at an appropriate time, having taken into account the circumstances of the Group as a whole. The Directors are aware of the non-compliance with the CG Code. Any deviation from the CG Code should be carefully considered and disclosed in the interim and annual report. Save as disclosed above, we will continue to comply with the CG Code to protect the best interests of the shareholders of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules (the “**Model Code**”) as its own code of conduct regarding securities transactions by the Directors.

Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiries by the Company, all the Directors have confirmed to the Company that they have fully complied with the required standard set out in the Model Code for the six months ended 30 September 2019.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “**Share Option Scheme**”) on 14 May 2018. The principal terms of the Share Option Scheme is summarised in Appendix V to the Company’s Prospectus. The main purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide incentive to employees (full-time and part-time), directors, consultants, advisers, 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 14 May 2018, and there is no outstanding share option as at 30 September 2019.

COMPETING INTERESTS

The Directors confirm that neither the Controlling Shareholders nor their respective close associates is 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 period under review, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S SECURITIES

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

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 for the six months ended 30 September 2019.

EVENTS AFTER THE REPORTING PERIOD

There have been no material subsequent events after the reporting period and up to the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee on 14 May 2018 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and the provisions of the CG Code. The primary duties of our audit committee include, among others, (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor; (b) reviewing our financial statements, our annual report and accounts and our half-year report and significant financial reporting judgments contained therein; and (c) reviewing our financial controls, internal control and risk management systems. Our audit committee comprises three independent non-executive Directors, namely Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho. Mr. Ho Chi Wai is the chairman of our audit committee.

REVIEW OF INTERIM FINANCIAL RESULTS

The interim financial results of the Group for the six months ended 30 September 2019 are unaudited but have been reviewed and approved by the audit committee of the Company, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made. The condensed consolidated interim financial statements for the six months ended 30 September 2019 have 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.

By order of the Board
Affluent Foundation Holdings Limited
Chan Siu Cheong
Chairman

Hong Kong, 28 November 2019

As at the date of this announcement, the executive Directors are Mr. Chan Siu Cheong and Mr. Sin Ka Pong, and the independent non-executive Directors are Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho.