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## **HAO BAI INTERNATIONAL (CAYMAN) LIMITED**

**浩柏國際（開曼）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8431)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019**

#### **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This announcement, for which the directors (the “Directors”) of Hao Bai International (Cayman) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively, the “Group”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

## INTERIM RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 September 2019 (the “Reporting Period”) as follows. The unaudited condensed consolidated results of the Group for the six months ended 30 September 2019 have been reviewed by the audit committee of the Company (the “Audit Committee”).

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 September 2019

	NOTES	Three months ended 30 September		Six months ended 30 September	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	<b>23,063</b>	32,135	<b>73,054</b>	63,684
Cost of services		<b>(22,575)</b>	(25,285)	<b>(66,163)</b>	(49,861)
Gross Profit		<b>488</b>	6,850	<b>6,891</b>	13,823
Other income		<b>80</b>	45	<b>156</b>	83
Administrative expenses		<b>(4,718)</b>	(5,067)	<b>(9,112)</b>	(9,866)
Finance costs		<b>(741)</b>	(697)	<b>(1,537)</b>	(1,235)
(Loss) Profit before income tax	4	<b>(4,891)</b>	1,131	<b>(3,602)</b>	2,805
Income tax credits (expenses)	5	<b>80</b>	(120)	<b>–</b>	(350)
(Loss) Profit and total comprehensive (expenses) income for the period		<b>(4,811)</b>	1,011	<b>(3,602)</b>	2,455
(Loss) Earnings per share, basic and diluted ( <i>HK cents</i> )	7	<b>(0.37)</b>	0.08	<b>(0.28)</b>	0.19

## CONDENSED 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)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		635	761
Payment for a life insurance policy		2,645	2,647
		<u>3,280</u>	<u>3,408</u>
<b>CURRENT ASSETS</b>			
Contract assets	8	96,160	103,560
Trade and other debtors, deposits and prepayments	9	27,093	40,230
Right-of-use assets		1,554	–
Pledged and restricted bank deposits		17,451	17,366
Bank balances and cash		24,134	23,446
		<u>166,392</u>	<u>184,602</u>
<b>CURRENT LIABILITIES</b>			
Contract liabilities	8	2,237	1,975
Trade and other creditors and accrued expenses	10	21,230	33,544
Lease liabilities		1,577	–
Bank borrowings – within one year	11	42,778	47,173
Income tax payable		103	316
Bank overdraft – secured		5,016	4,669
		<u>72,941</u>	<u>87,677</u>

		<b>As at 30 September 2019 HK\$'000 (Unaudited)</b>	<b>As at 31 March 2019 HK\$'000 (Audited)</b>
<b>NET CURRENT ASSETS</b>		<u><b>93,451</b></u>	<u>96,925</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>96,731</b></u>	<u>100,333</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – over one year	11	<u><b>1,993</b></u>	<u>1,993</u>
		<u><b>94,738</b></u>	<u>98,340</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	<b>13,000</b>	13,000
Reserves		<u><b>81,738</b></u>	<u>85,340</u>
		<u><b>94,738</b></u>	<u>98,340</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>For the six months ended 30 September 2019</b>					
As at 1 April 2019 (audited)	13,000	81,096	(16,790)	21,034	98,340
Loss and total comprehensive expenses for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3,602)</u>	<u>(3,602)</u>
As at 30 September 2019 (unaudited)	<u>13,000</u>	<u>81,096</u>	<u>(16,790)</u>	<u>17,432</u>	<u>94,738</u>
<b>For the six months ended 30 September 2018</b>					
As at 1 April 2018 (audited)	13,000	81,096	(16,790)	18,052	95,358
Profit and total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,455</u>	<u>2,455</u>
As at 30 September 2018 (unaudited)	<u>13,000</u>	<u>81,096</u>	<u>(16,790)</u>	<u>20,507</u>	<u>97,813</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>6,143</b>	<b>3,587</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	–	(541)
Sales proceeds of property, plant and equipment	–	3
Placement of pledged and restricted bank deposits	(85)	(10,547)
Interest received	152	80
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>67</b>	<b>(11,005)</b>
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	22,000	42,000
Repayment of bank borrowings and finance leases	(26,395)	(25,340)
Interest paid	(1,474)	(1,235)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(5,869)</b>	<b>15,425</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>341</b>	<b>8,007</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>18,777</b>	<b>20,389</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>19,118</b>	<b>28,396</b>
Represented by:		
Bank balances and cash	24,134	33,636
Bank overdraft	(5,016)	(5,240)
	<b>19,118</b>	<b>28,396</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2019*

## 1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on GEM of the Stock Exchange. The directors of the Company consider the Company's immediate and ultimate holding company is Harmony Asia International Limited, a company incorporated in Samoa. The Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business was located at Workshop Unit A, 7/F, Wah Shing Industrial Building, No.18 Cheung Shun Street, Kowloon, Hong Kong.

The principal activity of the Company is investment holding and the Group are principally engaged in provision of design, procurement and installation services of water circulation systems.

## 2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited condensed consolidated financial statements also comply with the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated financial statements are presented in Hong Kong Dollar ("HK\$"), which is also the functional currency of the Company and all amounts have been rounded to the nearest thousand (HK\$'000), unless otherwise indicated.

These unaudited condensed consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 annual consolidated financial statements except for the adoption of the below new and revised HKFRSs that have become effective from 1 April 2019.

The unaudited condensed consolidated financial statements have not been audited or reviewed by the Company's external auditor, but has been reviewed by the audit committee of the Company.

### **HKFRS 16: Leases**

HKFRS 16 significantly changes the lessee accounting by replacing the dual model under HKAS 17 with a single model which requires a lessee to recognise assets and liabilities for the rights and obligations created by leases unless the exemptions apply. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest are recognised on the right-of-use assets and the lease liabilities respectively. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors.

The Group has elected to apply the cumulative effect transition method and recognised the cumulative effect of initial adoption as an adjustment to the opening balance of components of equity at 1 April 2019 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of HKFRS 16. No reclassification and adjustment arising from the new leasing standard was recognised in the opening balance on 1 April 2019 as the effect on the financial results and financial position of the Group was insignificant.

On the first adoption of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exclusion of initial direct costs for measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term when the contract contains option to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made by applying HKAS 17 and HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease.

On adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as operating leases under HKAS 17. The lease liabilities were measured at the present value of the remaining minimum lease payments, discounted using the Group's incremental borrowing rates as of 1 April 2019, with the relevant interest charged to profit or loss over the lease period. The Group applied single discount rate to a portfolio of leases with reasonably similar characteristics in Hong Kong. The weighted average incremental borrowing rates applied to the lease liabilities in Hong Kong on 1 April 2019 was 5.875%. The right-of-use assets of approximately HK\$1,554,000 were recognised at cost, representing the amount of initial measurement of the lease liabilities. The right-of-use assets were depreciated over the lease period on a straight-line basis. The interest expense in respect of lease liabilities and depreciation of right-of-use assets charged to profit or loss during the six months ended 30 September 2019 were approximately HK\$63,000 and HK\$983,000 respectively. The operating lease expenses on leases with remaining lease term of less than 12 months as at 1 April 2019 recognised in profit or loss during the six months ended 30 September 2019 amounted to approximately HK\$293,000.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective.



### 3. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, who have been identified as the chief operating decision makers review the Group's internal reports in order to assess performance and allocate resources.

Based on the products and services offered by the Group to the customers, the executive directors of the Company consider that the operating segments are as follows:

- Management contracting services – provision of design, procurement and installation services of the water circulation systems
- Consultancy services – provision of consultancy services on water circulation systems
- Maintenance services – provision of maintenance and repair services for water circulation systems and replacement of parts

	Three months ended 30 September		Six months ended 30 September	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Revenue from management contracting services	<b>23,063</b>	30,917	<b>73,054</b>	60,948
Revenue from consultancy services	–	1,200	–	2,700
Revenue from maintenance services	–	18	–	36
	<b>23,063</b>	32,135	<b>73,054</b>	63,684

All revenue generated by the Group during the Reporting Period was from contracts with customers within HKFRS 15, recognised over time and with fixed type of transaction price.

The segment information for the reportable and operating segments for the six months ended 30 September 2019 and 2018 is as follows:

*For the six months ended 30 September 2019*

	<b>Management contracting services HK\$'000 (Unaudited)</b>	<b>Consultancy services HK\$'000 (Unaudited)</b>	<b>Maintenance services HK\$'000 (Unaudited)</b>	<b>Consolidated HK\$'000 (Unaudited)</b>
Revenue from external customers and segment revenue	<u>73,054</u>	<u>–</u>	<u>–</u>	<u>73,054</u>
Segment profits	<u>6,891</u>	<u>–</u>	<u>–</u>	<u>6,891</u>
Other income				156
Administrative expenses				(9,112)
Finance costs				<u>(1,537)</u>
Loss before income tax				<u>(3,602)</u>

*For the six months ended 30 September 2018*

	<b>Management contracting services HK\$'000 (Unaudited)</b>	<b>Consultancy services HK\$'000 (Unaudited)</b>	<b>Maintenance services HK\$'000 (Unaudited)</b>	<b>Consolidated HK\$'000 (Unaudited)</b>
Revenue from external customers and segment revenue	<u>60,948</u>	<u>2,700</u>	<u>36</u>	<u>63,684</u>
Segment profits	<u>12,473</u>	<u>1,331</u>	<u>19</u>	13,823
Other income				83
Administrative expenses				(9,866)
Finance costs				<u>(1,235)</u>
Profit before income tax				<u>2,805</u>

The following table provides an analysis of the Group's revenue based on geographical location where installation works or other services are provided:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Hong Kong	<b>21,132</b>	26,689	<b>68,291</b>	54,368
Macau	<b>1,931</b>	5,446	<b>4,763</b>	9,316
	<b>23,063</b>	32,135	<b>73,054</b>	63,684

#### **Information about major customers**

Revenue from customers of the corresponding period in respect of construction contracts from management contracting services segment individually contributed 10% or more of total revenue of the Group are as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Customer A and its affiliated companies	<b>19,379</b>	28,022	<b>66,272</b>	57,291

#### 4. (LOSS) PROFIT BEFORE INCOME TAX

This is stated after charging:

	Three months ended		Six months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Staff costs and related expenses</b>				
<b>(including directors' remuneration)</b>				
Directors' emoluments	1,023	1,488	2,016	2,998
Salaries, allowances and other benefits	3,401	2,561	6,813	5,217
Discretionary bonus	18	–	30	–
Retirement benefit scheme contributions	123	148	249	265
	<u>4,565</u>	<u>4,197</u>	<u>9,108</u>	<u>8,480</u>
Total staff costs	4,565	4,197	9,108	8,480
Less: Amount included in cost of services	(2,300)	(2,284)	(4,575)	(4,712)
	<u>2,265</u>	<u>1,913</u>	<u>4,533</u>	<u>3,768</u>
<b>Other items</b>				
Auditor's remuneration	150	175	300	350
Contract costs recognised as expenses*	22,575	24,660	66,163	48,475
Depreciation of				
– Property, plant and equipment	64	171	127	320
– Right-of-use assets	492	–	983	–
Operating lease payment on premises	150	483	293	1,031
	<u>150</u>	<u>483</u>	<u>293</u>	<u>1,031</u>

\* Contract costs included approximately HK\$16,320,000 (for the six months ended 30 September 2018: approximately HK\$20,912,000) and approximately HK\$4,575,000 (2018: approximately HK\$3,343,000) relating to the consumables and staff cost respectively for the six months ended 30 September 2019 which are also included in the amounts disclosed separately above.

#### 5. INCOME TAX CREDITS (EXPENSES)

	Three months ended		Six months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Hong Kong Profits Tax</b>				
Current period	(80)	–	–	203
<b>Macau Complementary Tax</b>				
Current period	–	120	–	147
Deferred taxation credit	–	–	–	–
	<u>(80)</u>	<u>120</u>	<u>–</u>	<u>350</u>

## 6. DIVIDEND

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

## 7. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following information:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
(Loss) profit for the period attributable to the owners of the Company, used in basic and diluted (loss) earnings per share calculation	<u><b>(4,811)</b></u>	<u><b>1,011</b></u>	<u><b>(3,602)</b></u>	<u><b>2,455</b></u>
	<b>Number of shares</b>	<b>Number of shares</b>	<b>Number of shares</b>	<b>Number of shares</b>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for basic and diluted (loss) earnings per share calculation	<u><b>1,300,000</b></u>	<u><b>1,300,000</b></u>	<u><b>1,300,000</b></u>	<u><b>1,300,000</b></u>

Diluted (loss) earnings per share are same as the basic (loss) earnings per share as there are no dilutive potential ordinary shares in existence during the six months ended 30 September 2019 and 2018.

## 8. CONTRACT ASSETS (LIABILITIES)

	<b>30 September 2019</b>	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Contracts in progress at the end of the reporting period:		
Contract costs incurred	466,812	405,224
Recognised profits less recognised losses	165,302	152,164
Less: Progress billings	<u>(557,028)</u>	<u>(476,246)</u>
	75,086	81,142
Retention receivables	<u>18,837</u>	<u>20,443</u>
	<u>93,923</u>	<u>101,585</u>
Represented by:		
Contract assets	96,160	103,560
Contract liabilities	<u>(2,237)</u>	<u>(1,975)</u>
	<u>93,923</u>	<u>101,585</u>

At 30 September 2019, the contract assets that are expected to be recovered after more than 12 months are approximately HK\$15,260,000 (31 March 2019: approximately HK\$13,156,000), which represented the retention receivables. The remaining contract assets and liabilities are expected to be recovered within 12 months.

## 9. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>30 September 2019</b>	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Trade debtors ( <i>Note a</i> )	16,650	32,476
Advances to staff ( <i>Note b</i> )	2,113	2,250
Pledged deposits to an insurance company ( <i>Note c</i> )	647	647
Other debtors, deposits and prepayments	<u>7,683</u>	<u>4,857</u>
	<u>27,093</u>	<u>40,230</u>

Notes:

- a. Trade debtors mainly arise from management contracting business. The Group's credit terms for its management contracting business are negotiated at terms determined and agreed with its trade customers. The credit periods are ranging from 30 to 60 days. The ageing analysis of trade debtors based on invoice date at the end of the reporting period is as follows:

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Within 30 days	<b>12,055</b>	21,161
31 to 60 days	<b>3,000</b>	7,303
Over 60 days	<b>1,595</b>	4,012
	<b>16,650</b>	32,476

The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors.

- b. Advances to staff are unsecured, interest-free and repayable on demand, which consist of advances to executive directors, Mr. Ng Wan Lok and Ms. Wong Wing Hung of HK\$736,000 (31 March 2019: HK\$750,000) (maximum amount outstanding during the period: HK\$750,000) and HK\$500,000 (31 March 2019: HK\$500,000) (maximum amount outstanding during the period: HK\$500,000), respectively. The advances to executive directors are intended to be applied for payment of relevant enhancement courses or programs taken by the directors relating to the business and development of the Group.
- c. Pledged deposits of approximately HK\$647,000 (31 March 2019: approximately HK\$647,000) to an insurance company is the security for issuance of performance bonds in respect of construction contracts with prevailing market rates at 0.2% (31 March 2019: 0.2%) per annum.

## 10. TRADE AND OTHER CREDITORS AND ACCRUED EXPENSES

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Trade creditors	<b>16,625</b>	29,702
Other creditors and accrued expenses	<b>4,605</b>	3,842
	<b>21,230</b>	33,544

The credit period on trade creditors is 30–90 days. The ageing analysis of trade creditors presented based on the invoice date at the end of the reporting period is as follows:

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Within 30 days	6,725	8,710
31 to 60 days	2,586	7,551
61 to 90 days	2,354	1,780
Over 90 days	4,960	11,661
	<u>16,625</u>	<u>29,702</u>

#### 11. BANK BORROWINGS

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Bank borrowings, secured	<u>44,771</u>	<u>49,166</u>

The bank borrowings are repayable as follows:

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
On demand or within one year	42,778	47,173
More than five years	1,993	1,993
	<u>44,771</u>	<u>49,166</u>
Less: Amount due within one year shown under current liabilities	<u>(42,778)</u>	<u>(47,173)</u>
Amount due after one year shown under non-current liabilities	<u>1,993</u>	<u>1,993</u>



Analysis of the amounts due based on scheduled payment dates set out in the loan agreements (ignoring the effect of any repayment on demand clause) is as follows:

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Within one year	<b>33,870</b>	35,760
Within a period of more than one year but not exceeding two years	<b>5,239</b>	5,087
Within a period of more than two years but not exceeding five years	<b>3,669</b>	6,326
Over five years	<b>1,993</b>	1,993
	<b>44,771</b>	49,166

Except for bank borrowings of approximately HK\$1,993,000 (31 March 2019: approximately HK\$1,993,000) which are denominated in US\$, all the remaining bank borrowings are denominated in HK\$. The bank borrowings carry floating interest rates ranging from 3.35% to 5.88% (31 March 2019: 3.35% to 5.88%) per annum based on prime rate or London Interbank Offered Rate (“LIBOR”) or Hong Kong Interbank Offered Rate (“HIBOR”) plus a spread.

At 30 September 2019, bank borrowing amounting to approximately HK\$36,778,000 (31 March 2019: approximately HK\$39,506,000) is secured by pledged bank deposit of approximately HK\$13,224,000 (31 March 2019: approximately HK\$13,139,000) and guaranteed by the Company for HK\$55,000,000 (31 March 2019: HK\$55,000,000).

At 30 September 2019, bank borrowing amounting to approximately HK\$6,000,000 (31 March 2019: HK\$7,667,000) is secured by pledged bank deposit of approximately HK\$4,000,000 (31 March 2019: HK\$4,000,000) and guaranteed by the Company for HK\$4,000,000 (31 March 2019: HK\$4,000,000).

At 30 September 2019, bank borrowing amounting to HK\$1,993,000 (31 March 2019: HK\$1,993,000) is secured by payment for a life insurance policy.

## 12. SHARE CAPITAL

	<i>Number of shares</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2018, 31 March 2019 and 30 September 2019	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1 April 2018, 31 March 2019 and 30 September 2019	<u>1,300,000,000</u>	<u>13,000</u>

### 13. PERFORMANCE BONDS

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Indemnities issued to banks and an insurance company for performance bonds in respect of contracts for management contracting services	<b>2,148</b>	2,148

Certain customers require the Group to procure performance bonds to be provided by a bank or an insurance company in favour of them as security for due performance and observance of the obligations under the contracts. In procuring such performance bonds, the Group is usually required to place a required amount of deposit to such bank or insurance company. If the Group fails to provide satisfactory services to the customers, the customers are entitled to seek compensation from the bank or insurance company for the amount of financial losses incurred not exceeding the amount of the performance bond. The Group will then become liable to compensate the bank or insurance company accordingly. During the six months ended 30 September 2019, no customers called any performance bond. Typically, the estimated consideration is not constrained for revenue recognition.

### 14. PLEDGED OF ASSETS

The following assets were pledged to secure certain banking facilities and performance bonds issued by an insurance company granted to the Group at the end of the reporting period:

	<b>30 September 2019 HK\$'000 (Unaudited)</b>	31 March 2019 HK\$'000 (Audited)
Pledged and restricted bank deposits	<b>17,451</b>	17,366
Pledged deposits to an insurance company	<b>647</b>	647
Payment for a life insurance policy	<b>2,645</b>	2,647
	<b>20,743</b>	20,660

### 15. RELATED PARTIES TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following transactions with related parties:

#### Key management personnel remuneration

	<b>Three months ended 30 September</b>		<b>Six months ended 30 September</b>	
	<b>2019 HK\$'000 (Unaudited)</b>	2018 HK\$'000 (unaudited)	<b>2019 HK\$'000 (Unaudited)</b>	2018 HK\$'000 (unaudited)
Salaries, allowances and other benefits	<b>874</b>	1,114	<b>1,674</b>	2,207
Directors' fees	<b>135</b>	180	<b>315</b>	382
Discretionary bonus	–	–	–	–
Contributions to defined contribution plans	<b>14</b>	14	<b>27</b>	27
	<b>1,023</b>	1,308	<b>2,016</b>	2,616

The details of the advances to executive directors are disclosed in note 9(b) to the unaudited condensed consolidated financial statements.

## 16. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in the consolidated financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13 “Fair Value Measurement” with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

### (a) Assets and liabilities measured at fair value

	<b>Level 3</b>	
	<b>30 September</b>	31 March
	<b>2019</b>	2019
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Assets measured at fair value</i>		
Financial assets at FVPL		
– Payment for a life insurance policy	<u>2,645</u>	<u>2,647</u>

During the six month ended 30 September 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. No unrealised gain or loss recognised in profit or loss.

The fair value of the payment for life insurance policy is determined by reference to the surrender cash value, reported by the financial institution on a regular basis.

### (b) Assets and liabilities with fair value disclosure, but not measured at fair value

All other financial assets and liabilities are carried at amounts not materially different from their fair values as 30 September 2019 and 31 March 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Outlook

The Group is a Hong Kong-based contractor specialised in design, procurement and installation services of water circulation systems, including swimming pools, water fountains and water curtains, etc. We provide services mainly to developers, main contractors and subcontractors in various private residential projects and hotel, casino, shopping and recreation complex projects in Hong Kong and Macau. Our services are mainly categorised as (i) management contracting services – design, procurement and installation of water circulation systems, (ii) consultancy services – provision of consultancy services on water circulation systems and (iii) maintenance services – provision of maintenance and repair services for water circulation systems.

During the Reporting Period, the Directors continued to observe the challenges that the Group has been facing under the external macroeconomic slowdown. The highly competitive market coupled with high labour cost of the experienced labour are the key factors causing pressure on the profit margins among the industry peers. It is expected the Group will continue to face intense competition to secure projects while we use our best efforts to manage the progress and costs of projects to enhance our competitiveness in sourcing projects.

Riding on our solid experience in design, procurement and installation services of water circulation system and our established business connection with various main contractors and property developers in the industry, the Group will explore the opportunities to expand our businesses into other building related contracting services in Hong Kong, Macau and China to maintain the continuous growth of the Group. With the Group's proven track record, experienced management team and reputation in the market, the Directors consider that the Group is well-positioned, well-equipped and confident to compete against its competitors and sustain its development amid the increasingly challenging external business environment. The Directors will keep close track of the economic environment and evaluate its business strategies from time to time to adapt the challenging market for the sustainable development of the Group and grasp the opportunities to enhance the long-term potential growth in the future.

## **Financial Review**

### ***Revenue***

Our total revenue increased by approximately HK\$9.4 million or 14.7% from approximately HK\$63.7 million for the six months ended 30 September 2018 to approximately HK\$73.1 million for the six months ended 30 September 2019. The increase in our revenue was attributable to the combined effect of:

- (i) the increase in the revenue derived from management contracting services by approximately HK\$12.2 million or 19.9%, from approximately HK\$60.9 million for the six months ended 30 September 2018 to approximately HK\$73.1 million for the six months ended 30 September 2019. Such increase was primarily derived from increase in revenue from project located at Tai Po of approximately HK\$18.2 million, while such increase was partially offset by the decrease in revenue from project located at Tseung Kwan O of approximately HK\$10.4 million for the six months ended 30 September 2019 when compared with the six months ended 30 September 2018; and
- (ii) the decrease in the revenue derived from consultancy services by approximately HK\$2.7 million due to the absence of revenue from such segment for the six months ended 30 September 2019.

### ***Cost of services***

The Group's cost of services mainly consists of (i) consumables; (ii) sub-contracting fees; (iii) staff costs; (iv) consulting fees; (v) labour cost; and (vi) other expenses.

Our cost of services increased by approximately HK\$16.3 million or 32.7% from approximately HK\$49.9 million for the six months ended 30 September 2018 to approximately HK\$66.2 million for the six months ended 30 September 2019. Such increase was primarily driven by the increase in cost of sub-contracting fees of approximately HK\$20.7 million, while such increase was partially offset by the decrease in consumables costs of approximately HK\$4.6 million for the six months ended 30 September 2019.

### ***Gross profit and gross profit margin***

Our gross profit decreased by approximately HK\$6.9 million or 50.1% from approximately HK\$13.8 million for the six months ended 30 September 2018 to approximately HK\$6.9 million for the six months ended 30 September 2019. Such decrease was primarily attributable to the decrease in gross profit margin.

Our gross profit margin decreased from approximately 21.7% for the six months ended 30 September 2018 to approximately 9.4% for the six months ended 30 September 2019. The decrease was mainly due to i) certain works performed under variation orders during the Reporting Period which carried a relatively lower gross profit margin; ii) the decrease in revenue derived from projects in Macau. Generally, our projects in Macau enjoy a relatively higher gross profit margin as compared to projects in Hong Kong; iii) the absence of revenue derived from consultancy services which generally have a relatively higher gross profit margin as compared to management contracting services segment; and iv) the decrease in revenue for the three months ended 30 September 2019 as certain mega-sized projects have been approaching their completion date with lesser amounts of work done, and substantial amounts of revenue had already been recognised in prior periods.

#### ***Other income***

Our other income increased from approximately HK\$83,000 for the six months ended 30 September 2018 to approximately HK\$156,000 for the six months ended 30 September 2019, primarily due to the increase in interest income on the time deposit.

#### ***Administrative expenses***

Our administrative expenses decreased by approximately HK\$0.8 million or 7.6% from approximately HK\$9.9 million for the six months ended 30 September 2018 to approximately HK\$9.1 million for the six months ended 30 September 2019, primarily due to the decrease in legal and professional fees, rental expenses and bank handling charge. Such decrease was partially off-set by the increase in staff cost and depreciation of leased assets.

#### ***Finance costs***

Our finance costs increased by approximately HK\$0.3 million or 24.5% from approximately HK\$1.2 million for the six months ended 30 September 2018 to approximately HK\$1.5 million for the six months ended 30 September 2019, primarily due to the increase in the level of bank borrowings to finance the projects which have been at early stage during the period.

#### ***Income tax credits (expenses)***

For the six months ended 30 September 2019, there was no assessable profits in Hong Kong and Macau and as a result, no income tax expense was provided.

#### ***Net (loss) profit***

As a result of the foregoing, the Company recorded a net loss of approximately HK\$3.6 million for the six months ended 30 September 2019 as compared to a net profit of approximately HK\$2.5 million for the six months ended 30 September 2018.

## **Dividend**

No dividend was declared or proposed by the Board for the six months ended 30 September 2019 and 2018.

## **Event after the Reporting Period**

The Board is not aware of any significant event subsequent to 30 September 2019 which would materially affect the Group's operating and financial performance.

## **Liquidity, financial resources and funding**

As at 30 September 2019, the Group had total assets of approximately HK\$169.7 million (31 March 2019: approximately HK\$188.0 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$74.9 million (31 March 2019: approximately HK\$89.7 million) and approximately HK\$94.7 million (31 March 2019: approximately HK\$98.3 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 30 September 2019 were approximately HK\$49.8 million (31 March 2019: approximately HK\$53.8 million), and current ratio as at 30 September 2019 was approximately 2.3 times (31 March 2019: approximately 2.1 times).

The Group's borrowings and bank balances are mainly denominated in Hong Kong dollars and there was no significant exposure to foreign exchange rate fluctuations during the Reporting Period. Further details are set out in note 11 to the unaudited condensed consolidated financial statements.

The Group's gearing ratio, which is calculated by total borrowings, and bank overdrafts divided by total equity, decreased from approximately 54.7% as at 31 March 2019 to approximately 52.6% as at 30 September 2019, primarily due to the decrease in the level of bank borrowings outweighed the decrease in the total equity. The decrease in the level of bank borrowings was primarily due to the repayment of term loan during the Reporting Period. The decrease in the total equity was due to the net loss during the Reporting Period.

## **Capital structure**

The Shares of the Company (the "Shares") were successfully listed on GEM of the Stock Exchange on 26 May 2017 (the "Listing"). Immediately upon Listing, the total issued share capital of the Company was HK\$13,000,000 divided into 1,300,000,000 Shares of par value of HK\$0.01 each. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 30 September 2019, the Company's issued share capital was HK\$13,000,000 (31 March 2019: HK\$13,000,000) divided into 1,300,000,000 ordinary Shares of par value of HK\$0.01 each (31 March 2019: 1,300,000,000 Shares of HK\$0.01 each).

## **Segmental information**

Segmental information is presented for the Group as disclosed on note 3 to the unaudited condensed consolidated financial statements.

## **Future plans for material investments and capital assets**

As at 30 September 2019, the Group did not have any significant investments or plans for material investments and capital assets.

## **Material Acquisitions and disposals of subsidiaries and affiliated companies**

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

## **Contingent liabilities**

Save as disclosed in note 13 to the unaudited condensed consolidated financial statements, as at 30 September 2019 and 31 March 2019, the Group did not have other material contingent liabilities.

## **Foreign currency exposure**

The Group's revenue generating operations are mainly transacted in HK\$ and MOP. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

## **Pledge of assets**

Save as disclosed in note 14 of notes to the unaudited condensed consolidated financial statements, as at 30 September 2019 and 31 March 2019, the Group did not have other pledge of assets.

## **Employees and remuneration policies**

As at 30 September 2019, the Group employed a total of 34 employees (31 March 2019: 37 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$9.1 million for the six months ended 30 September 2019 (for the six months ended 30 September 2018: approximately HK\$8.5 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.



## DISCLOSURE OF INTERESTS

### (i) Directors' and Chief Executives' Interest and Short Position in the Shares, Underlying Shares or Debentures

As at 30 September 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities of Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by Directors referred in Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity/ Nature of Interests	Number of the Shares held/ interested in	Long/short position	Percentage of Shareholding
Mr. Nam Ho Kwan ( <i>Note</i> )	Interest in controlled corporation	731,250,000	Long position	56.25%

*Note:* Mr. Nam owns the entire issued share capital of Harmony Asia International Limited ("Harmony Asia International") and is deemed, or taken to be, interested in the same number of the Shares held by Harmony Asia International for the purpose of the SFO. Mr. Nam is the Chairman of the Board and Chief Executive Officer and one of the controlling shareholders of the Company.

Save as disclosed above, as at 30 September 2019, none of the Directors nor chief executive of the Company has registered an interest and short position 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) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

**(ii) Substantial Shareholders' and Other Persons' Interest and Short Position in Shares or Underlying Shares**

As at 30 September 2019, the following persons/entities had or deemed to taken to have an interest or short position in the Shares, underlying Shares or debentures which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of Shareholder	Capacity/ Nature of Interests	Number of the Shares held/ interested in	Long/short position	Percentage of Shareholding
Harmony Asia International	Beneficial owner ( <i>Note 1</i> )	731,250,000	Long position	56.25%
Mr. Nam Ho Kwan	Interest in controlled corporation ( <i>Note 1</i> )	731, 250,000	Long position	56.25%
Mr. Zhang Wei	Beneficial owner/Interest in controlled corporation ( <i>Note 2</i> )	243,750,000	Long position	18.75%
Morgan Star Investment Limited	Beneficial owner ( <i>Note 2</i> )	109,590,000	Long position	8.43%

*Notes:*

- (1) Harmony Asia International is a company incorporated in Samoa which is wholly-owned by Mr. Nam. Therefore, Mr. Nam is deemed to be interested in all Shares held by Harmony Asia International.
- (2) Morgan Star Investment Limited is a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Zhang. Therefore, Mr. Zhang is deemed to be interested in all Shares held by Morgan Star Investment Limited.

Save as disclosed above, as at 30 September 2019, no person/entities had notified the Company of an interest or short position in the Shares, underlying Shares or debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**SHARE OPTION SCHEME**

During the six months ended 30 September 2019, no share option was granted, exercised, expired or lapsed under the share option scheme adopted by the Company on 12 May 2017 (the "Share Option Scheme").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Share Option Scheme, at no time during the six months ended 30 September 2019 was the Company or any of its associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of the Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares in, or debentures of, the Company, or had exercised any such rights.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated 16 May 2017 (the "Prospectus") with the Group's actual business progress for the period from the date of the Listing to 30 September 2019 is set out below:

<b>Business strategies as stated in the Prospectus</b>	<b>Business objectives up to 30 September 2019 as stated in the Prospectus</b>	<b>Actual business progress up to 30 September 2019</b>
Strengthening of our industry position and expansion of our business	Undertake more projects and satisfy potential requirements of performance bond.	The Group has been identifying suitable business opportunities with potential customers and the Group has also committed to undertaking new projects. As at 30 September 2019, the Group has paid approximately HK\$0.8 million to satisfy requirement of performance bond of new projects.
Repayment of bank borrowings	Repay outstanding amount under the bank borrowings advanced to our Group.	The Group has used approximately HK\$7.6 million to repay the outstanding bank borrowings.
Strengthening our technical and project management capabilities	Recruit additional professional staff with relevant experience, including one chartered senior engineer, one quantity surveyor, two assistant project managers and two engineers.	The Group has added 10 headcounts of junior to senior level engineering staff to cope with its business development with additional staff costs of approximately HK\$3.5 million. The Group regularly reviews the need for further recruitments to cope with the business development.

	Provide technical seminars and safety courses for our staff.	As at 30 September 2019, the Group has paid approximately HK\$0.1 million to sponsor its engineering staff to attend technical seminars and safety courses organised by the third parties.
Establishing a Macau office/warehouse	Rent an office/a warehouse in Macau and renovate and purchase fixed assets for the newly leased office/warehouse	The Group is in the process of identifying appropriate office/warehouse in Macau.
Purchase of tools and equipment	Purchase tools and equipment to enhance our high level working environment and improve our efficiency for the provision of installation services of Water Circulation Systems	As at 30 September 2019, the Group has purchased tools and equipment of approximately HK24,000. The Group is in the process of purchasing tools and equipment.

## USE OF PROCEEDS FROM LISTING

The Shares were listed on GEM on 26 May 2017 pursuant to the initial public offering of the Company. The net proceeds from the Listing (after deducting the underwriting fees and expenses related to the Listing) of a total of approximately HK\$38.0 million would be used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

As at 30 September 2019, the net proceeds had been utilised as follows:

	<b>Actual net proceeds</b> <i>HK\$ million</i> (approximately)	<b>Amount utilised as at 30 September 2019</b> <i>HK\$ million</i> (approximately)	<b>Balance</b> <i>HK\$ million</i> (approximately)
Strengthening of the Group’s industry position and expansion of business	19.4	0.8	18.6
Repayment of bank loans	7.6	7.6	–
Strengthening of the Group’s technical and project management capabilities	3.6	3.6	–
Establishment of a Macau office/warehouse	2.5	–	2.5
Purchase of tools and equipment	1.6	–	1.6
General working capital	3.3	3.3	–
	<u>38.0</u>	<u>15.3</u>	<u>22.7</u>

Due to the increasingly challenging external business environment and the actual development of the Group, the Group did not fully utilise the net proceeds as per the planned time frame with reference to the disclosure in the Prospectus. Please refer to the Company's announcement dated 19 August 2019 for the expected timeline on the utilisation of the net proceeds. The amount of unutilized net proceeds as disclosed in the aforesaid announcement remained the same as at 30 September 2019 and as at the date of this announcement. The Company will continue to observe the challenges that the Group may face under the developing market condition. It will endeavor to solidify the business by undertaking suitable projects amid the uncertain economy. The Directors will from time to time assess the business objectives and the use of the net proceeds for the Group's benefit to cope with the changing market conditions. If there is any material progress on the utilisation under the time frame set out above, or in case any adjustment on the use of the net proceeds is needed, the Company will make further announcement as and when appropriate.

## **PRINCIPAL RISK AND UNCERTAINTIES**

The Group's financial position, results of operations and business prospects may be affected by a number of risks and uncertainties directly and indirectly pertaining to the Group's business. The following are the key risks and uncertainties identified by the Group:

- (a) The Group's business is project-based. The Group mainly derive revenue from projects which are nonrecurrent in nature. Fee collection and profit margin significantly depend on various factors of each project such as the terms of contracts, duration of project, variation orders, efficiency of implementation of contract work and the general market condition. In general, variation orders usually carry higher profit margin as compared with the works under original contracts. Therefore, revenue generated from the Group's business is irregular and is subject to the availability of projects, variation orders and other factors beyond the Group's control;
- (b) The number and size of the projects the Group can undertake depends on the Group's human and other resources. Due to the size of the Group, a mega-sized project will occupy a substantial part of the Group's resources and inevitably resulted in the Group not being able to deploy resources to other projects and as a result the Group have to rely on a single project or otherwise a small number of projects during the project period. Any decrease in the number of sizable projects in terms of revenue recognised may affect the Group's operations and financial results;
- (c) For the Group's management contracting business, the Group normally receive progress payments from the customers with reference to the percentage of completion of the contract works done by the Group during the relevant month in accordance with the rates and prices based on the agreed tender price. Any failure by the customers to make any payment on time or in full may have a material adverse effect on the Group's liquidity position. Any failure by the customers to eventually pay the amount to the Group's may have a material adverse effect on the Group's financial position and operating results; and

- (d) Most of the Group's contracts are awarded to the Group through tendering process. The Group have to determine the tender price and service fee of each project based on the information available to the Group at the time of submitting the tender. The tender price is determined by factors including the scope of works, the estimated duration of the project period, the total time cost and estimated cost involved. The Group determine the price of all the projects at fixed costs based on an agreed scope of works and the estimation of time cost and estimated cost involved. Error or inaccurate estimation of project duration and costs when determining the tender price or increase in construction costs may adversely affect the Group's profitability or result in substantial loss.

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

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

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Reporting Period.

## **INTERESTS OF THE COMPLIANCE ADVISER**

As at 30 September 2019, except for (i) the participation of CLC International Limited ("CLC") as the sponsor in relation to the Listing; (ii) the compliance adviser agreement entered into between the Company and CLC dated 26 January 2017; (iii) the supplemental agreement to the compliance adviser agreement entered into between the Company and CLC dated 23 May 2017; and (iv) the second supplemental agreement to the compliance adviser agreement entered into between the Company and CLC dated 26 July 2019, neither CLC nor any of its directors, employees or its close associates had any interests in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## **CORPORATE GOVERNANCE PRACTICE**

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

During the Reporting Period, the Company has adopted and complied with, where applicable, the Corporate Governance Code ("CG Code") set out in Appendix 15 of the GEM Listing Rules to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner, except for code provision A.2.1 of the CG Code.

Pursuant the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Nam Ho Kwan is currently the Chairman of the Board and the Chief Executive Officer, responsible for formulating the overall business development strategy and planning of the Group. In view of that, Mr. Nam has been responsible for the overall management of the Group since its inception, the Board believes that it is in the best interest of the Group to have Mr. Nam taking up both roles for effective management and business development.

Save as disclosed above, the Board is pleased to report compliance with all applicable code provisions of the CG Code during the Reporting Period.

## **CHANGES IN INFORMATION**

Ms. Wang Rui has been re-designated as an executive Director of the Company and entitled to a salary of HK\$300,000 per annum and a discretionary management bonus of a sum to be approved by the Board based on the recommendations of the remuneration committee of the Company determined with reference to the operating results of the Group, her performance and prevailing market conditions with effect from 2 July 2019. And with effect from 12 August 2019, Ms. Wang has been appointed as a director of Hong Kong Yepsince Group Limited and Zhenxingyuan Trade Co., Limited, wholly-owned subsidiaries of the Company.

Save as disclosed above, there is no change in information of the Directors which are required to be disclosed under Rule 17.50A(1) of the GEM Listing Rules.

## **COMPETING INTERESTS**

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associate (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group for the six months ended 30 September 2019.

## **AUDIT COMMITTEE**

The Group has established an Audit Committee pursuant to a resolution of the Board passed on 19 January 2017 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to make recommendations to the Board on appointment or re-appointment and removal of external auditor; review financial statements of the Company and judgments in respect of financial reporting; and oversee the effectiveness of the procedures of the risk management and internal control procedures of the Group.

The Audit Committee currently consists of three members, namely Mr. Wu Kam On Keith, Mr. Lau Wai Hung and Mr. Chen Lei. Mr. Wu Kam On Keith is the chairman of the Audit Committee, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The unaudited condensed consolidated results of the Group for the six months ended 30 September 2019 had been reviewed by the Audit Committee, which was of the opinion that the unaudited condensed consolidated results have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules, and that adequate disclosures have been made.

By order of the Board  
**Hao Bai International (Cayman) Limited**  
**Nam Ho Kwan**  
*Chairman and Chief Executive Officer*

Hong Kong, 8 November 2019

*As at the date of this announcement, the executive Directors are Mr. Nam Ho Kwan, Mr. Ng Wan Lok, Ms. Wong Wing Hung and Ms. Wang Rui and the independent non-executive Directors are Mr. Wu Kam On Keith, Mr. Lau Wai Hung and Mr. Chen Lei.*

*This announcement will remain on the “Latest Listed Company Information” page of GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven days from the date of its posting. This announcements will also be published and remained on the Company’s website at [www.harmonyasia.com](http://www.harmonyasia.com).*