

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 REPORT

2018

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.

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This report, 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 report 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 report misleading.



INTERIM RESULTS

The board of Directors (the “Board”) of the Company are pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 September 2018 (the “Reporting Period”) as follows. The unaudited condensed consolidated results of the Group for the six months ended 30 September 2018 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 2018

| | NOTES | Three months ended 30 September | | Six months ended 30 September | |
|---|-------|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Revenue | 3 | 32,135 | 29,132 | 63,684 | 57,306 |
| Cost of services | | (25,285) | (22,960) | (49,861) | (45,779) |
| Gross Profit | | 6,850 | 6,172 | 13,823 | 11,527 |
| Other income | | 45 | 2 | 83 | 5 |
| Administrative expenses | | (5,067) | (4,059) | (9,866) | (7,493) |
| Other expenses | | - | - | - | (4,373) |
| Finance costs | | (697) | (293) | (1,235) | (549) |
| Profit (loss) before tax | | 1,131 | 1,822 | 2,805 | (883) |
| Income tax expense | 5 | (120) | (160) | (350) | (200) |
| Profit (loss) and total comprehensive income (expense) for the period | 4 | 1,011 | 1,662 | 2,455 | (1,083) |
| Earnings (loss) per share | | | | | |
| Basic (HK cents) | 7 | 0.08 | 0.13 | 0.19 | (0.09) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

| | | As at 30 September 2018 HK\$'000 (Unaudited) | As at 31 March 2018 HK\$'000 (Audited) |
|---|----|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,105 | 910 |
| Payment for a life insurance policy | | 2,648 | 2,650 |
| | | 3,753 | 3,560 |
| CURRENT ASSETS | | | |
| Contract assets | 8 | 90,635 | – |
| Amounts due from customers for contract works | 8 | – | 79,655 |
| Trade and other debtors, deposits and prepayments | 9 | 38,211 | 32,272 |
| Pledged and restricted bank deposits | | 13,280 | 2,733 |
| Bank balances and cash | | 33,636 | 28,094 |
| | | 175,762 | 142,754 |
| CURRENT LIABILITIES | | | |
| Contract liabilities | 8 | 557 | – |
| Trade and other creditors and accrued expenses | 10 | 30,372 | 14,311 |
| Bank borrowings – due within one year | 11 | 28,007 | 24,950 |
| Obligations under finance leases | | 40 | 277 |
| Taxation payable | | 1,653 | 1,720 |
| Bank overdraft – secured | | 5,240 | 7,705 |
| | | 65,869 | 48,963 |

| | | As at 30 September 2018 HK\$'000 (Unaudited) | As at 31 March 2018 HK\$'000 (Audited) |
|--|----|---|---|
| NET CURRENT ASSETS | | 109,893 | 93,791 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 113,646 | 97,351 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings – due after one year | 11 | 15,833 | 1,993 |
| | | 97,813 | 95,358 |
| CAPITAL AND RESERVES | | | |
| Share capital | 12 | 13,000 | 13,000 |
| Reserves | | 84,813 | 82,358 |
| | | 97,813 | 95,358 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

| | 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> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|--|--------------------------|
| For the six months ended 30 September 2018 | | | | | |
| As at 1 April 2018 (audited) | 13,000 | 81,096 | (16,790) | 18,052 | 95,358 |
| Profit and total comprehensive income for the period | - | - | - | 2,455 | 2,455 |
| As at 30 September 2018 (unaudited) | 13,000 | 81,096 | (16,790) | 20,507 | 97,813 |
| For the six months ended 30 September 2017 | | | | | |
| As at 1 April 2017 (audited) | - | 37,344 | (16,790) | 15,069 | 35,623 |
| Loss and total comprehensive expense for the period | - | - | - | (1,083) | (1,083) |
| Capitalisation issue of shares | 9,750 | (9,750) | - | - | - |
| Issue of shares by public offering | 3,250 | 61,750 | - | - | 65,000 |
| Share issuance expenses | - | (8,248) | - | - | (8,248) |
| As at 30 September 2017 (unaudited) | 13,000 | 81,096 | (16,790) | 13,986 | 91,292 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

| | Six months ended 30 September | |
|---|----------------------------------|-----------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| OPERATING ACTIVITIES | | |
| Profit (loss) before tax | 2,805 | (883) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 320 | 346 |
| Loss on disposal of property, plant and equipment | 23 | – |
| Interest expenses | 1,235 | 549 |
| Amortisation of payment for a life insurance policy | 5 | 6 |
| Interest income | (83) | (5) |
| Operating cash flows before movements in working capital | 4,305 | 13 |
| Changes in contract assets/liabilities | (10,423) | – |
| Changes in amounts due from/to customers for contract works | – | (24,840) |
| Increase in trade and other debtors, deposits and prepayments | (5,939) | (7,026) |
| Increase (decrease) in trade and other creditors and accrued expenses | 16,061 | (6,859) |
| Cash from (used in) operations | 4,004 | (38,712) |
| Profits tax paid | (417) | (931) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 3,587 | (39,643) |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (541) | (24) |
| Sales proceeds of property, plant and equipment | 3 | – |
| Placement of pledged and restricted bank deposits | (10,547) | (2,254) |
| Interest received | 80 | 1 |
| NET CASH USED IN INVESTING ACTIVITIES | (11,005) | (2,277) |

| | Six months ended | |
|---|-------------------------|-------------|
| | 30 September | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 42,000 | 25,000 |
| Proceeds from issue of shares | – | 65,000 |
| Share issuance expenses | – | (8,248) |
| Repayment of bank borrowings | (25,103) | (11,837) |
| Repayment of finance leases | (237) | (286) |
| Interest paid | (1,235) | (549) |
| | <hr/> | <hr/> |
| NET CASH FROM FINANCING ACTIVITIES | 15,425 | 69,080 |
| | <hr/> | <hr/> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,007 | 27,160 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 20,389 | (1,899) |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 28,396 | 25,261 |
| | <hr/> | <hr/> |
| Represented by: | | |
| Bank balances and cash | 33,636 | 26,217 |
| Bank overdraft | (5,240) | (956) |
| | <hr/> | <hr/> |
| | 28,396 | 25,261 |
| | <hr/> | <hr/> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

For the six months ended 30 September 2018

1. General

Hao Bai International (Cayman) Limited (the “Company”) is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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 is 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 principal activities of its major subsidiaries are provision of design, procurement and installation services of water circulation systems.

2. Application of Hong Kong Financial Reporting Standards (“HKFRSs”)

The unaudited condensed consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM and by the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and Services.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Reporting Period are consistent with those used in the audited financial statements of the Group for the year ended 31 March 2018 except as described below.

HKFRS 15 Revenue From Contracts With Customers

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

HKFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

2. Application of Hong Kong Financial Reporting Standards (“HKFRSs”) (continued) *HKFRS 15 Revenue From Contracts With Customers (continued)*

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

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

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

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

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

The effects of the adoption of HKFRS 15 are as follows:

Presentation of contract assets and liabilities

Reclassifications were made as at 1 April 2018 to be consistent with the terminology used under HKFRS 15:

- Contract assets recognised were previously presented as amounts due from customers for contract works.
- Contract liabilities recognised were previously presented as amounts due to customers for contract works.

2. **Application of Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)** ***HKFRS 15 Revenue From Contracts With Customers (continued)***

Accounting for revenue recognition of management contracting services

The adoption of HKFRS 15 has no significant impact on the revenue recognition policies of rendering of management contracting services.

HKFRS 9 Financial Instruments

Impairment

In general, the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions.

Based on the assessment by the directors of the Company, the accumulated amount of impairment loss to be recognised by Group as at 1 April 2018 would have no significant difference as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other debtors.

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Reporting Period. There have been no significant changes to the accounting policies applied in these financial statements for the Reporting Period presented as a result of these developments.

The unaudited condensed consolidated financial statements for the Reporting Period have not been audited by the Company’s independent auditor, but have been reviewed by the Company’s audit committee.

3. **Revenue and Segment Information**

Revenue of the Group represents the fair value of amounts received and receivable from management contracting services and the gross proceeds received and receivable from consultancy services and maintenance services.

Information reported to the executive-directors of the Company, being the chief operating decision maker, is organized into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group’s reportable and operating segments under HKFRS 8 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 design of water circulation systems |
| Maintenance services | – | provision of maintenance and repair services for water circulation systems and replacement of parts |

3. Revenue and Segment Information (continued)

| | Three months ended 30 September 2018 | | Six months ended 30 September 2018 | |
|--|--|---------------------------------|--|---------------------------------|
| | HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Revenue from management contracting services | 30,917 | 29,114 | 60,948 | 57,270 |
| Revenue from consultancy services | 1,200 | – | 2,700 | – |
| Revenue from maintenance services | 18 | 18 | 36 | 36 |
| | 32,135 | 29,132 | 63,684 | 57,306 |

Segment profit represents the profit earned by each reportable and operating segment without allocation of corporate income, administrative and listing expenses and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's revenue and results by reportable and operating segments.

For the six months ended 30 September 2018

| | Management contracting services HK\$'000 (Unaudited) | Consultancy services HK\$'000 (Unaudited) | Maintenance services HK\$'000 (Unaudited) | Consolidated HK\$'000 (Unaudited) |
|---|--|--|--|---|
| SEGMENT REVENUE | | | | |
| External sales | 60,948 | 2,700 | 36 | 63,684 |
| Segment profit | 12,473 | 1,331 | 19 | 13,823 |
| Corporate income | | | | 83 |
| Central administrative and other expenses | | | | (9,866) |
| Finance costs | | | | (1,235) |
| Profit before tax | | | | 2,805 |

3. Revenue and Segment Information (continued)

For the six months ended 30 September 2017

| | Management contracting services | Consultancy services | Maintenance services | Consolidated |
|---|--|---------------------------------|---------------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| SEGMENT REVENUE | | | | |
| External sales | 57,270 | - | 36 | 57,306 |
| Segment profit | 11,508 | - | 19 | 11,527 |
| Corporate income | | | | 5 |
| Central administrative and other expenses | | | | (11,866) |
| Finance costs | | | | (549) |
| Loss before tax | | | | (883) |

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

| | Three months ended 30 September | | Six months ended 30 September | |
|-----------|--|-----------------|--|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Hong Kong | 26,689 | 26,119 | 54,368 | 51,245 |
| Macau | 5,446 | 3,013 | 9,316 | 6,061 |
| | 32,135 | 29,132 | 63,684 | 57,306 |

3. Revenue and Segment Information (continued)

Information about major customers

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

| | Three months ended 30 September | | Six months ended 30 September | |
|------------|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Customer A | 28,022 | 25,378 | 57,291 | 48,768 |

4. Profit (Loss) for the Period

| | Three months ended 30 September | | Six months ended 30 September | |
|--|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Profit (loss) for the period has been arrived at after charging: | | | | |
| Auditor's remuneration | 175 | 175 | 350 | 350 |
| Depreciation of property, plant and equipment | 171 | 173 | 320 | 346 |
| Amortisation of payment for a life insurance policy | 2 | 3 | 5 | 6 |
| Operating lease rentals | 483 | 450 | 1,031 | 898 |
| Staff costs | | | | |
| Directors' emoluments | 1,488 | 990 | 2,998 | 2,010 |
| Other staff costs: | | | | |
| Salaries, discretionary bonus and other benefits | 2,561 | 1,843 | 5,217 | 3,980 |
| Retirement benefit scheme contributions | 148 | 73 | 265 | 143 |
| Total staff costs | 4,197 | 2,906 | 8,480 | 6,133 |
| Less: Amount capitalised in respect of contracts in progress | (2,284) | (1,552) | (4,712) | (3,022) |
| | 1,913 | 1,354 | 3,768 | 3,111 |
| Contract costs recognised as expenses | 24,660 | 22,955 | 48,475 | 45,762 |

5. Income Tax Expenses

| | Three months ended 30 September 2018 | | Six months ended 30 September 2018 | |
|--------------------------|--|---------------------------------|--|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Hong Kong Profits Tax | – | 160 | 203 | 200 |
| Macau tax Current tax | 120 | – | 147 | – |
| | 120 | 160 | 350 | 200 |

For the six months ended 30 September 2018, one of the Hong Kong subsidiaries of the Group is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of the assessable profits and 16.5% for the assessable profits over HK\$2 million, the other Hong Kong subsidiaries of the Group are subject to Hong Kong Profits Tax at the rate of 16.5%.

Pursuant to tax incentive approved under Section 20 of Decree Law No. 9/2014, Macau Complementary Tax is levied at a fixed rate of 12% on the taxable income above Macau Pataca (“MOP”) 600,000.

6. Dividend

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

7. Earnings (Loss) Per Share

The calculation of the basic earnings per share during the period is based on the number of shares that would have been outstanding for the Reporting Period assuming that the capitalisation issue of shares and issue of shares by public offering as explained in the sections headed "History, Reorganisation and Corporate Structure" and "Share Capital" respectively in the prospectus of the Company dated 16 May 2017 (the "Prospectus") had been effective on 1 April 2017.

| | Three months ended 30 September | | Six months ended 30 September | |
|---|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Earnings (loss): | | | | |
| Profit (loss) for the purpose of calculating earnings (loss) per share | 1,011 | 1,662 | 2,455 | (1,083) |
| | | | | |
| | Number of shares '000 | | Number of shares '000 | |
| Number of shares | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 1,300,000 | 1,300,000 | 1,300,000 | 1,202,322 |

No diluted earnings (loss) per share was presented as there was no dilutive potential ordinary share in issue during the period.

8. Contract Assets/Contract Liabilities/Amounts Due from Customers for Contract Works

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|---|---|---|
| Contracts in progress at the end of the Reporting Period: | | |
| Contract costs incurred | 353,831 | 308,291 |
| Recognised profits less recognised losses | 135,847 | 120,439 |
| | 489,678 | 428,730 |
| Less: Progress billings | (399,600) | (349,075) |
| | 90,078 | 79,655 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract works | – | 79,655 |
| Contract assets | 90,635 | – |
| Contract liabilities | (557) | – |
| | 90,078 | 79,655 |

At the end of the Reporting Period, retention held by customers for contract works amounted to HK\$12,547,000 (31 March 2018: HK\$9,968,000), which are set out in note 9.

9. Trade and Other Debtors, Deposits and Prepayments

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--|---|---|
| Trade debtors | 17,869 | 14,048 |
| Retention receivables (<i>Note a</i>) | 12,547 | 9,968 |
| Advance to staff (<i>Note b</i>) | 2,250 | 2,250 |
| Pledged deposits to an insurance company (<i>Note c</i>) | 648 | 757 |
| Other debtors, deposits and prepayments | 4,897 | 5,249 |
| | 38,211 | 32,272 |

9. Trade and Other Debtors, Deposits and Prepayments (continued)

Notes:

- a. Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from one to two years from the date of the completion of the respective projects.
- 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 for HK\$750,000 (maximum amount outstanding during the period: HK\$750,000) and HK\$500,000 (maximum amount outstanding during the period: HK\$500,000), respectively. The advances made available to the executive directors were 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 HK\$648,000 (31 March 2018: HK\$757,000) to an insurance company is the security for issuance of performance bonds in respect of construction contracts with prevailing market rates ranging from 0.05% to 0.1% (31 March 2018: 0.05% to 0.1%) per annum.

The aged analysis of trade debtors presented based on the invoice date at the end of the Reporting Period is as follows:

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--------------------------------------|---|---|
| Within 30 days | 12,503 | 12,449 |
| More than 30 days and within 60 days | 444 | 212 |
| More than 60 days | 4,922 | 1,387 |
| | 17,869 | 14,048 |

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.

10. Trade and Other Creditors and Accrued Expenses

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--------------------------------------|---|---|
| Trade creditors | 27,803 | 11,836 |
| Other creditors and accrued expenses | 2,569 | 2,475 |
| | 30,372 | 14,311 |

The average credit period on trade creditors is 30–90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The aged analysis of trade creditors presented based on the invoice date at the end of the Reporting Period is as follows:

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--------------------------------------|---|---|
| Within 30 days | 8,745 | 1,486 |
| More than 30 days and within 60 days | 6,141 | 1,089 |
| More than 60 days | 12,917 | 9,261 |
| | 27,803 | 11,836 |

11. Bank Borrowings

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|-----------------|---|---|
| Bank borrowings | | |
| Secured | 43,840 | 25,853 |
| Unsecured | – | 1,090 |
| | 43,840 | 26,943 |

11. Bank Borrowings (continued)

The bank borrowings are repayable as follows:

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--|---|---|
| On demand or within one year | 28,007 | 24,950 |
| More than one year, but not exceeding two years | 4,940 | – |
| More than two years, but not exceeding five years | 8,900 | – |
| More than five years | 1,993 | 1,993 |
| | 43,840 | 26,943 |
| Less: Amount due within one year shown under current liabilities | (28,007) | (24,950) |
| Amount due after one year shown under non-current liabilities | 15,833 | 1,993 |

Except for bank borrowings of HK\$1,993,000 (31 March 2018: HK\$1,993,000) which are denominated in US\$, all the bank borrowings are denominated in HK\$. The bank borrowings carry floating interest rates ranging from 4.23% to 5.75% (31 March 2018: 3.35% to 5.75%) per annum based on prime rate or London Interbank Offered Rate ("LIBOR") or Hong Kong Interbank Offered Rate ("HIBOR") plus a spread.

As at 30 September 2018, bank borrowing amounting to HK\$41,847,000 (31 March 2018: HK\$23,860,000) is secured by pledged bank deposit of HK\$13,053,000 (31 March 2018: HK\$2,506,000) and guaranteed by the Company for HK\$55,000,000 (31 March 2018: HK\$37,000,000).

As at 30 September 2018 and 31 March 2018, bank borrowing amounting to HK\$1,993,000 is secured by a life insurance policy.

As at 31 March 2018, bank borrowing amounting to HK\$1,090,000 is guaranteed by the Company for HK\$5,000,000.

12. Share Capital

For the purpose of this unaudited condensed consolidated financial statements, the issued capital of the Group as at 1 April 2017 represents the share capital of the Company of 10,000 shares of HK\$0.01 each.

The movement in the Company's authorised and issued ordinary share capital are as follows:

| | Nominal value per share | Number of shares |
|---|----------------------------|-------------------------------------|
| Ordinary shares | | |
| Authorised: | | |
| At 1 April 2017, 31 March 2018 and 30 September 2018 | HK\$0.01 | 2,000,000,000 |
| | Nominal value per share | Number of shares |
| | | Share capital <i>HK\$'000</i> |
| Issued and fully paid: | | |
| At 1 April 2017 (audited) | HK\$0.01 | 10,000 |
| Capitalisation issue of shares (<i>Note 1</i>) | HK\$0.01 | 974,990,000 |
| Issue of shares by public offering (<i>Note 2</i>) | HK\$0.01 | 325,000,000 |
| At 31 March 2018 (audited) and 30 September 2018 (unaudited) | HK\$0.01 | 1,300,000,000 |

Notes:

- Pursuant to the written resolution passed by the shareholders of the Company dated 12 May 2017, conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the Listing, the directors of the Company were authorised to allot and issue 974,990,000 ordinary shares of HK\$0.01 each of the Company, by way of capitalisation of the sum of approximately HK\$9,750,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the existing shareholders. The Capitalisation Issue was completed on 26 May 2017.
- On 26 May 2017, 325,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.20 by way of public offering. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK\$3,250,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$61,750,000, before issuing expenses, were credited to share premium account.

13. Contingent Liabilities

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|---|---|---|
| Indemnities issued to banks and an insurance company for performance bonds in respect of construction contracts | 1,873 | 1,928 |

14. Operating Lease Commitments

At the end of the Reporting Period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|---------------------------------------|---|---|
| Within one year | 1,900 | 1,357 |
| In the second to fifth year inclusive | 1,335 | 1,276 |
| | 3,235 | 2,633 |

Leases in respect of premises are negotiated, and monthly rentals are fixed, for terms ranging from one to two years at the end of each Reporting Period.

15. Pledge 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:

| | 30 September 2018 HK\$'000 (Unaudited) | 31 March 2018 HK\$'000 (Audited) |
|--|---|---|
| Pledged and restricted bank deposits | 13,280 | 2,733 |
| Pledged deposits to an insurance company | 648 | 757 |
| Payment for a life insurance policy | 2,648 | 2,650 |
| | 16,576 | 6,140 |

16. Related Party Transactions

(a) The remuneration of key management during the Reporting Period was as follows:

| | Three months ended 30 September 2018 | | Six months ended 30 September 2018 | |
|------------------------------|---|---------------------------------|---|---------------------------------|
| | HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Short-term employee benefits | 1,294 | 976 | 2,589 | 1,983 |
| Post-employment benefits | 14 | 14 | 27 | 27 |
| | 1,308 | 990 | 2,616 | 2,010 |

(b) The details of the advances to executive directors, Mr. Ng Wan Lok and Ms. Wong Wing Hung are disclosed in note 9.

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 design of water circulation systems and (iii) maintenance services – provision of maintenance and repair services for water circulation systems.

Looking forward, the Directors consider that the future opportunities and challenges facing by the Group will continue to be affected by the development of the property market in Hong Kong and the recovery of gaming market in Macau as well as the increasing labour costs and material costs. The Directors also noted the sign of shrinking property market in Hong Kong and the increasingly challenging external business environment. The Company believes that with its proven track record, experienced management team and reputation in the market, it is well positioned to compete against its competitors and sustain its development amid the economic slowdown. 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.

Financial Review

Revenue

Our total revenue increased by approximately HK\$6.4 million or 11.1% from approximately HK\$57.3 million for the six months ended 30 September 2017 to approximately HK\$63.7 million for the six months ended 30 September 2018. 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\$3.6 million or 6.4%, from approximately HK\$57.3 million for the six months ended 30 September 2017 to approximately HK\$60.9 million for the six months ended 30 September 2018, such increase was primarily derived from increase in revenue from project located at Tai Po of approximately HK\$28.9 million, and such increase was partially offset by the decrease in revenue from projects located at Tseung Kwan O and Western District of approximately HK\$26.0 million for the six months ended 30 September 2018 when compared with the corresponding period in 2017; and
- (ii) the increase in the revenue derived from consultancy services by approximately HK\$2.7 million resulting from the absence of revenue from such segment for the corresponding period in 2017.

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\$4.1 million or 8.9% from approximately HK\$45.8 million for the six months ended 30 September 2017 to approximately HK\$49.9 million for the six months ended 30 September 2018, such increase was primarily driven by the increase in cost of sub-contracting fees of approximately HK\$6.5 million, which was partially offset by the decrease in consumables of approximately HK\$2.8 million for the six months ended 30 September 2018.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$2.3 million or 19.9% from approximately HK\$11.5 million for the six months ended 30 September 2017 to approximately HK\$13.8 million for the six months ended 30 September 2018. Such increase was primarily attributable to the increase in gross profit for management contracting services of approximately HK\$1.0 million and the increase in gross profit for consultancy services of approximately HK\$1.3 million.

Our gross profit margin increased from approximately 20.1% for the six months ended 30 September 2017 to approximately 21.7% for the six months ended 30 September 2018. Such increase was mainly due to the high gross profit margin contributed by the consultancy services segment during the six months ended 30 September 2018 while there was no revenue from such segment for the corresponding period in 2017.

Other income

Our other income increased from approximately HK\$5,000 for the six months ended 30 September 2017 to approximately HK\$83,000 for the six months ended 30 September 2018, primarily due to the increase in bank interest income from time deposits.

Administrative expenses

Our administrative expenses increased by approximately HK\$2.4 million or 31.7% from approximately HK\$7.5 million for the six months ended 30 September 2017 to approximately HK\$9.9 million for the six months ended 30 September 2018. Such increase was primarily due to the increase in (i) post listing expenses such as Directors' fee and the legal and professional fees for compliance purpose following the listing of shares of the Company (the "Shares") on GEM (the "Listing") in May 2017; (ii) the bank handling charge for the renewal of banking facility; and (iii) staff cost.

Listing expenses

During the six months ended 30 September 2017, our Group recognised non-recurring listing expenses of approximately HK\$4.4 million as expenses in connection with the Listing.

Finance costs

Our finance costs increased by approximately HK\$686,000 or 125.0% from approximately HK\$549,000 for the six months ended 30 September 2017 to approximately HK\$1,235,000 for the six months ended 30 September 2018, primarily due to the increase in the level of bank borrowings.

Income tax expense

Our income tax expenses increased by approximately HK\$150,000 or 75.0% from approximately HK\$200,000 for the six months ended 30 September 2017 to approximately HK\$350,000 for the six months ended 30 September 2018. Such increase was primarily driven by the increase in Macau profit tax as a result of the increase in profit before tax recorded for our Macau operation.

Net profit (loss)

As a result of the foregoing, our Group recognised a profit of approximately of HK\$2.5 million for the six months ended 30 September 2018 as compared with a loss of approximately HK\$1.1 million for the corresponding period in 2017.

Dividend

No dividend was declared or proposed by the Board for both six months ended 30 September 2018 and 2017.

Event after the Reporting Period

There is no significant event subsequent to 30 September 2018 which would materially affect the Group's operating and financial performance.

Liquidity, financial resources and funding

As at 30 September 2018, the Group had total assets of approximately HK\$179.5 million (31 March 2018: approximately HK\$146.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$81.7 million (31 March 2018: approximately HK\$51.0 million) and approximately HK\$97.8 million (31 March 2018: approximately HK\$95.4 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 30 September 2018 were approximately HK\$49.1 million (31 March 2018: approximately HK\$34.6 million), and current ratio as at 30 September 2018 was approximately 2.7 times (31 March 2018: approximately 2.9 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.

The Group's gearing ratio, which is calculated by total borrowings, bank overdrafts and obligation under finance leases divided by total equity, increased from approximately 36.6% as at 31 March 2018 to approximately 50.2% as at 30 September 2018, primarily due to the increase in the level of bank borrowings outweighed the increase in the total equity. The increase in the level of bank borrowings was primarily due to the additional term loan raised during the Reporting Period.

Capital structure

The Shares were successfully listed on GEM of the Stock Exchange on 26 May 2017. 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 2018, the Company's issued share capital was HK\$13,000,000 (31 March 2018: HK\$13,000,000) divided into 1,300,000,000 ordinary Shares of par value of HK\$0.01 each (31 March 2018: 1,300,000,000 of HK\$0.01 each).

Commitments

The operating lease commitments of the Group were primarily related to the leases of its office premises and the staff quarters. The Group's operating lease commitments amounted to approximately HK\$3.2 million as at 30 September 2018 (31 March 2018: approximately HK\$2.6 million).

Segmental information

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

Future plans for material investments and capital assets

As at 30 September 2018, the Group did not have any plans for material investments and capital assets.

Material Acquisitions and disposals of subsidiaries and affiliated companies

During the six months ended 30 September 2018, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Contingent liabilities

Save as disclosed in note 13 of the notes to the unaudited condensed consolidated financial statements, as at 30 September 2018 and 31 March 2018, 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 15 of notes to the unaudited condensed consolidated financial statements, as at 30 September 2018 and 31 March 2018, the Group did not have other pledge of assets.

Employees and remuneration policies

As at 30 September 2018, the Group employed a total of 38 employees (31 March 2018: 36 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$8.5 million for the six months ended 30 September 2018 (for the six months ended 30 September 2017: approximately HK\$6.1 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 2018, the interests and short positions of the Directors and chief executive of the Company in shares of the Company (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 Rule 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 Interest | Number of the Shares held/ interested in | Long/short position | Percentage of Shareholding |
|---------------------------|---------------------------------------|--|------------------------|-------------------------------|
| Mr. Nam Ho Kwan (Note) | 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 2018, 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 Division 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 Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2018, 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 Division 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 (Note 1) | 731,250,000 | Long position | 56.25% |
| Mr. Nam Ho Kwan | Interest in controlled corporation (Note 1) | 731,250,000 | Long position | 56.25% |
| Mr. Zhang Wei | Beneficial owner/ Interest in controlled corporation | 243,750,000 (Note 2) | Long position | 18.75% |
| Morgan Star Investment Limited | Beneficial owner | 109,590,000 (Note 2) | 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 2018, no person 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 2018, 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 2018 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 Listing Date to 30 September 2018 is set out below:

| Business strategies as stated in the Prospectus | Business objectives up to 30 September 2018 as stated in the Prospectus | Actual business progress up to 30 September 2018 |
|--|---|---|
| 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 2018, the Group has paid approximately HK\$0.5 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. |

| Business strategies as stated in the Prospectus | Business objectives up to 30 September 2018 as stated in the Prospectus | Actual business progress up to 30 September 2018 |
|---|---|--|
| 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. Provide technical seminars and safety courses for our staff. | 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. As at 30 September 2018, 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 selecting 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. | The Group is in the process of purchasing tools and equipment. |

USE OF PROCEEDS

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 2018, the net proceeds had been utilised as follows:

| | Actual net proceeds | Amount utilised as at 30 September 2018 | Balance |
|---|--------------------------------|--|---------------------|
| | <i>HK\$ million</i> | <i>HK\$ million</i> | <i>HK\$ million</i> |
| Strengthening of the Group’s industry position and expansion of business | 19.4 | 0.5 | 18.9 |
| 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>15.0</u> | <u>23.0</u> |

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 non-recurrent 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 2018.

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 2018, except for (i) the participation of CLC International Limited ("CLC") as the sponsor in relation to the listing of the Company on GEM; (ii) the compliance adviser agreement entered into between the Company and CLC dated 26 January 2017; and (iii) the supplemental agreement to the compliance adviser agreement entered into between the Company and CLC dated 23 May 2017, neither CLC nor any of its directors, employees or its close associates had any interests in relation to the Group which requires to be notified to the Company pursuant to Rule 6A.32 of 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 six months ended 30 September 2018, 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

With effect from 1 April 2018, Mr. Ng Wan Lok and Ms. Wong Wing Hung are entitled to an annual salary of HK\$720,000 and HK\$660,000, respectively, other terms and conditions remains unchanged.

Save as disclosed above, there is no changes in information of the Directors which are required to be disclosed under Rule 17.50A 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 2018.

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 2018 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 2018

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