

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 2020



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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 2020 (the “Reporting Period”) as follows. The unaudited condensed consolidated results of the Group for the six months ended 30 September 2020 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 2020

	NOTES	Three months ended 30 September		Six months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	8,849	23,063	17,211	73,054
Cost of services		(7,814)	(22,575)	(15,245)	(66,163)
Gross Profit		1,035	488	1,966	6,891
Other income		757	80	1,467	156
Administrative expenses		(3,431)	(4,718)	(12,016)	(9,112)
Finance costs		(746)	(741)	(1,429)	(1,537)
Loss before income tax	4	(2,385)	(4,891)	(10,012)	(3,602)
Income tax credits	5	-	80	-	-
Loss and total comprehensive expenses for the period		(2,385)	(4,811)	(10,012)	(3,602)
Loss per share, basic and diluted (HK cents)	7	(0.18)	(0.37)	(0.77)	(0.28)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
	<i>NOTES</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		353	452
Right-to-use asset		19	571
Payment for a life insurance policy		2,642	2,644
		<u>3,014</u>	<u>3,667</u>
CURRENT ASSETS			
Contract assets	8	100,512	95,701
Trade and other debtors, deposits and prepayments	9	11,771	21,148
Pledged and restricted bank deposits		17,630	13,538
Bank balances and cash		21,202	21,051
		<u>151,115</u>	<u>151,438</u>
CURRENT LIABILITIES			
Contract liabilities	8	294	3,173
Trade and other creditors and accrued expenses	10	31,301	32,333
Bank borrowings – due within one year	11	43,000	33,974
Lease liabilities		20	588
Income tax payable		–	94
Bank overdrafts – secured		11,100	6,517
		<u>85,715</u>	<u>76,679</u>

		As at 30 September 2020 <i>HK\$'000</i> (Unaudited)	As at 31 March 2020 <i>HK\$'000</i> (Audited)
	<i>NOTES</i>		
NET CURRENT ASSETS		65,400	74,759
TOTAL ASSETS LESS CURRENT LIABILITIES		68,414	78,426
NON-CURRENT LIABILITIES			
Bank borrowings – due over one year	11	1,993	1,993
NET ASSETS		66,421	76,433
CAPITAL AND RESERVES			
Share capital	12	13,000	13,000
Reserves		53,421	63,433
		66,421	76,433

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Reserves				Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Accumulated (losses) profit HK\$'000	
For the six months ended 30 September 2020					
As at 1 April 2020 (audited)	13,000	81,096	(16,790)	(873)	76,433
Loss and total comprehensive expenses for the period	-	-	-	(10,012)	(10,012)
As at 30 September 2020 (unaudited)	13,000	81,096	(16,790)	(10,885)	66,421
For the six months ended 30 September 2019					
As at 1 April 2019 (audited)	13,000	81,096	(16,790)	21,034	98,340
Loss and total comprehensive expenses for the period	-	-	-	(3,602)	(3,602)
As at 30 September 2019 (unaudited)	13,000	81,096	(16,790)	17,432	94,738

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(10,005)	6,143
Net cash (used in) from investing activities	(3,921)	67
Net cash from (used in) financing activities	9,494	(5,869)
Net (decrease) increase in cash and cash equivalents	(4,432)	341
Cash and cash equivalents at the beginning of the period	14,534	18,777
Cash and cash equivalents at the end of the period	10,102	19,118
Represented by:		
Bank balances and cash	21,202	24,134
Bank overdraft	(11,100)	(5,016)
	10,102	19,118

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 September 2020

1. General

Hao Bai International (Cayman) Limited (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 of Hong Kong Limited (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 Company together with its subsidiaries (the “Group”) are principally engaged in provision of design, procurement and installation services of water circulation systems.

2. Principal Accounting Policies

The unaudited condensed consolidated financial information have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. The unaudited condensed consolidated financial information also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements under the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”).

The unaudited condensed consolidated financial information 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.

The unaudited condensed consolidated financial information have been prepared on a basis consistent with the accounting policies adopted in the Group’s annual consolidated financial statements for the year ended 31 March 2020. The application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in the unaudited condensed consolidated financial information.

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

The unaudited condensed financial information have not been audited by the Company’s external auditor, but have been reviewed by the audited committee of the Company.

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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue from management contracting services	8,849	23,063	17,211	73,054

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.

3. Revenue and Segment Information (Continued)

The segment information for the reportable and operating segments for the six months ended 30 September 2020 and 2019 is as follows:

For the six months ended 30 September 2020

	Management contracting services HK\$'000 (Unaudited)	Consultancy services HK\$'000 (Unaudited)	Maintenance services HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Revenue from external customers and segment revenue	17,211	-	-	17,211
Segment profit	1,966	-	-	1,966
Other income				1,467
Administrative expenses				(12,016)
Finance costs				(1,429)
Loss before income tax				(10,012)

For the six months ended 30 September 2019

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

3. Revenue and Segment Information (Continued)

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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Hong Kong	6,492	21,132	12,482	68,291
Macau	2,357	1,931	4,729	4,763
	8,849	23,063	17,211	73,054

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:

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Customer A and it's affiliated companies	N/A*	19,379	N/A*	66,272
Customer B and it's affiliated companies	1,753	N/A*	4,321	N/A*
Customer C	2,300	N/A*	4,290	N/A*
Customer D	2,832	N/A*	3,769	N/A*

* Revenue from customer is less than 10% of the total revenue of the Group for the relevant periods

4. Loss before Income Tax

This is stated after charging:

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Staff costs and related expenses (including directors' remuneration)				
Directors' emoluments (<i>Note (a)</i>)	864	1,023	1,728	2,016
Salaries, allowances and other benefits	2,319	3,401	4,888	6,813
Discretionary Bonus	15	18	26	30
Contributions to defined contribution plans	96	123	211	249
Total staff costs	3,294	4,565	6,853	9,108
<i>Less:</i> Amount included in cost of services	(1,651)	(2,300)	(3,502)	(4,575)
	1,643	2,265	3,351	4,533
Other items				
Auditor's remuneration	120	150	240	300
Contract costs relating to management contracting services recognised as expenses (<i>Note (b)</i>)	7,814	22,575	15,245	66,163
Depreciation of				
– Property, plant and equipment	44	64	98	127
– Right-of-use asset	61	492	552	983
Operating lease payment on premises	421	150	461	293

Notes:

- (a) With effect from 1 April 2020, the executive directors of the Company, Mr. Nam Ho Kwan, Mr. Ng Wan Lok and Ms. Wong Wing Hung, waived 20% of their remuneration for a period of one year.
- (b) Contract costs included approximately HK\$8,166,000 (for the six months ended 30 September 2019: approximately HK\$16,320,000) and approximately HK\$3,502,000 (for the six months ended 30 September 2019: approximately HK\$4,575,000) relating to the consumables and staff cost respectively for the six months ended 30 September 2020 which are also included in the amounts disclosed separately above.

5. Income Tax Credits

	Three months ended 30 September 2020		Six months ended 30 September 2020	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Hong Kong Profits Tax				
Current period	-	(80)	-	-

The group entities established in the Cayman Islands, Samoa and the BVI are exempted from income tax.

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes during the six months ended 30 September 2020.

Pursuant to a tax incentive approved under Section 20 of Decree Law No. 11/2016, Macau Complementary Tax is levied at a fixed rate of 12% (for the six months ended 30 September 2019: 12%) on the taxable income above Macau Pataca ("MOP") 600,000.

6. Dividends

The Board does not recommend the payment of any dividend for the six months ended 30 September 2020 (for the six months ended 30 September 2019: nil).

7. Loss per share

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

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss for the period attributable to the owners of the Company, used in basic and diluted loss per share calculation	(2,385)	(4,811)	(10,012)	(3,602)
	Number of shares '000		Number of shares '000	
Weighted average number of ordinary shares for basic and diluted loss per share calculation	1,300,000	1,300,000	1,300,000	1,300,000

Diluted loss per share are same as the basic loss per share as there are no dilutive potential ordinary shares in existence during the six months ended 30 September 2020 and 2019.

8. Contract Assets (Liabilities)

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Contracts in progress at the end of the Reporting Period:		
Contract costs incurred	485,075	478,856
Recognised profits less recognised losses	173,884	169,448
Less: Progress billings	(577,869)	(568,532)
	81,090	79,772
Retention receivables	19,128	19,627
	100,218	99,399
Less: Written-off of contract assets (Note)	–	(6,871)
	100,218	92,528
Represented by:		
Contract assets	100,512	95,701
Contract liabilities	(294)	(3,173)
	100,218	92,528

Note: As at 31 March 2020, the amount of approximately HK\$6,871,000 represented the contract assets being written off mainly as a result of the arbitration awards involving projects located at Kennedy Town and Sham Shui Po. Such amount was a net sum written off in the financial statements after setting off the payments of certified works and compensation granted in favour of the Group under the said arbitration awards.

As at 30 September 2020, the contract assets that are expected to be recovered after more than 12 months are approximately HK\$13,784,000 (31 March 2020: approximately HK\$13,611,000), 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

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade debtors (<i>Note a</i>)	11,079	15,662
Pledged deposits to an insurance company (<i>Note b</i>)	327	371
Other debtors, deposits and prepayments	365	5,115
	11,771	21,148

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:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 30 days	1,235	6,324
31 to 60 days	278	2,741
Over 60 days	9,566	6,597
	11,079	15,662

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. Pledged deposits of HK\$327,000 (31 March 2020: HK\$371,000) 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 2020: 0.2%) per annum.

10. Trade and Other Creditors and Accrued Expenses

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade creditors (<i>Note a</i>)	14,238	14,911
Other creditors and accrued expenses	2,765	3,722
Amount due to a director (<i>Note b</i>)	14,298	13,700
	31,301	32,333

Notes:

- a. 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:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 30 days	350	274
31 to 60 days	494	856
61 to 90 days	696	265
Over 90 days	12,698	13,516
	14,238	14,911

- b. The amount due is unsecured, interest-free and repayable on demand.

11. Bank Borrowings

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Bank borrowings, secured	44,993	35,967

The bank borrowings are repayable as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
On demand or within one year	43,000	33,974
More than five years	1,993	1,993
	44,993	35,967
<i>Less:</i> Amount due within one year shown under current liabilities	(43,000)	(33,974)
Amount due after one year shown under non-current liabilities	1,993	1,993

11. Bank Borrowings (Continued)

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:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within one year	28,478	27,654
Within a period of more than one year but not exceeding two years	9,832	5,390
Within a period of more than two years but not exceeding five years	4,690	930
Over five years	1,993	1,993
	44,993	35,967

Except for bank borrowings of approximately HK\$1,993,000 (31 March 2020: 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 2.75% to 5.75% (2018: 3.35% to 5.88%) per annum based on prime rate or London Interbank Offered Rate ("LIBOR") plus a spread.

At 30 September 2020, bank borrowing amounting to approximately HK\$35,200,000 (31 March 2020: approximately HK\$33,974,000) is secured by pledged bank deposit of approximately HK\$13,384,000 (31 March 2020: approximately HK\$13,311,000) and guaranteed by the Company for HK\$55,000,000 (31 March 2020: HK\$55,000,000).

At 30 September 2020, bank borrowing amounting to approximately HK\$3,800,000 (31 March 2020: Nil) is secured by pledged bank deposit of approximately HK\$4,018,000 (31 March 2020: Nil) and guaranteed by the Company for HK\$9,000,000 (31 March 2020: Nil).

At 30 September 2020, bank borrowing amounting to approximately HK\$4,000,000 (31 March 2020: Nil) is guaranteed by Mr. Nam Ho Kwan for HK\$4,000,000 (31 March 2020: Nil).

At 30 September 2020, bank borrowing amounting to HK\$1,993,000 (31 March 2020: HK\$1,993,000) is secured by payment for a life insurance policy.

12. Share Capital

	Number of shares	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2019, 31 March 2020 and 30 September 2020	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2019, 31 March 2020 and 30 September 2020	1,300,000,000	13,000

13. Performance Bonds

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Indemnities issued to banks and an insurance company for performance bonds in respect of contracts for management contracting services	1,254	1,401

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 2020 and 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:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Pledged and restricted bank deposits	17,630	13,538
Pledged deposits to an insurance company	327	371
Payment for a life insurance policy	2,642	2,644
	20,599	16,553

15. Related Parties Transactions

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

Key management personnel remuneration

	Three months ended 30 September 2020		Six months ended 30 September 2020	
	HK\$'000 (Unaudited)	2019 HK\$'000 (unaudited)	HK\$'000 (Unaudited)	2019 HK\$'000 (unaudited)
Salaries, allowances and other benefits	715	874	1,431	1,674
Directors' fees	135	135	270	315
Discretionary bonus	-	-	-	-
Contributions to defined contribution plans	14	14	27	27
	864	1,023	1,728	2,016

16. Fair Value Measurements

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in the unaudited condensed consolidated financial information 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

	Level 3	
	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Assets measured at fair value		
Financial assets at FVPL		
– Payment for a life insurance policy	2,642	2,644

During the six months ended 30 September 2020, 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 at 30 September 2020 and 31 March 2020.

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 Group's net loss increased from approximately HK\$3.6 million for the six months ended 30 September 2019 to approximately HK\$10.0 million for the six months ended 30 September 2020. As mentioned in the first quarterly results announcement of the Company dated 7 August 2020, the increase in net loss was mainly attributable to substantial drop of revenue recorded by the Group in respect of the Reporting Period during which Hong Kong continued to undergo a historic economic downturn spawned mainly by the persistent outbreak of coronavirus pandemic. Affected by the extremely weak business sentiment in both Hong Kong and Macau, the number of new construction or property development projects in the market had continuously decreased, which led to extreme competition in tendering for new projects for water circulation systems.

Looking forward, given the uncertainty of the duration of the coronavirus pandemic, it is expected that the pandemic may continue to affect the business environment in Hong Kong and Macau in the foreseeable future. The high labour cost and shortage of experienced labour caused by reduced labour mobility in light of the travel restrictions due to the coronavirus pandemic between Hong Kong, Macau and the mainland China are amongst the challenges which industry peers have faced. It is expected that the Group will continue to face such intense competition to secure projects amid the downturn of economy while we use our best efforts to manage the progress and costs of projects to enhance our competitiveness in sourcing projects. Although the Directors remain confident in the long term business outlook of Hong Kong and Macau and also the performance of the Group, the financial results of the Group in particular in the Financial Year 2020/2021 may potentially be affected as a result of the adversities.

Riding on our solid experience in design, procurement and installation services of water circulation system and our established business connections with various main contractors and property developers in the industry, the Group will continue to explore the opportunities to diversify or expand our businesses in Hong Kong, Macau and mainland China to maintain the continuous growth of the Group. The Directors will also keep close track of the economic environment and the development of the coronavirus pandemic and evaluate its business strategies from time to time to adapt the challenging market for the sustainable development of the Group and grasp any potential business opportunities to enhance the long-term potential growth in the future and generate the best returns to the shareholders.

Financial Review

Revenue

Our total revenue decreased by approximately HK\$55.9 million or 76.4% from approximately HK\$73.1 million for the six months ended 30 September 2019 to approximately HK\$17.2 million for the six months ended 30 September 2020.

As previously disclosed, the magnitude in decrease in our total revenue in the fourth quarter for the Financial Year 2019/2020 became larger due to the economic downturn as impacted by the social unrest in Hong Kong in the second half of 2019 and the coronavirus pandemic. The continuous outbreak of the coronavirus pandemic further devastates the economy in both Hong Kong and Macau during the Reporting Period. Affected by the extremely weak business sentiment, the number of new construction or property development projects in our operating markets had decreased which led to extreme competition that the Group in tendering for new projects for water circulation systems. As a result, the amount of project works performed by the Group had decreased as compared to six months ended 30 September 2019, leading to a substantial drop in our revenue for the six months ended 30 September 2020.

Moreover, the decrease in revenue was also due to the completion of certain mega-size projects during the year ended 31 March 2020 and no new mega-size project has been awarded to the Group during the Reporting Period.

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 decreased by approximately HK\$51.0 million or 77.0% from approximately HK\$66.2 million for the six months ended 30 September 2019 to approximately HK\$15.2 million for the six months ended 30 September 2020. Such decrease was primarily driven by the decrease in cost of consumables of approximately HK\$8.2 million and the decrease in sub-contracting fees of approximately HK\$41.1 million, which were mainly due to the decrease in revenue as discussed above and as a result, less amount of parts and components were procured for the projects and less labour were required to execute the project work.

Gross profit and gross profit margin

Our gross profit decreased by approximately HK\$4.9 million or 71.5% from approximately HK\$6.9 million for the six months ended 30 September 2019 to approximately HK\$2.0 million for the six months ended 30 September 2020. Such decrease was primarily attributable to the decrease in revenue.

Our gross profit margin increased from approximately 9.4% for the six months ended 30 September 2019 to approximately 11.4% for the six months ended 30 September 2020. The increase was mainly because for the six months ended 30 September 2019, certain works performed under variation orders carried a relatively lower gross profit margin, while for the six months ended 30 September 2020, there was no such variation orders.

Other income

Our other income increased from approximately HK\$0.2 million for the six months ended 30 September 2019 to approximately HK\$1.5 million for the six months ended 30 September 2020, primarily due to the subsidies received from the HKSAR Government under the Employment Support Scheme during the six months ended 30 September 2020.

Administrative expenses

Our administrative expenses increased by approximately HK\$2.9 million or 31.9% from approximately HK\$9.1 million for the six months ended 30 September 2019 to approximately HK\$12.0 million for the six months ended 30 September 2020, primarily due to the recognition of legal costs of approximately HK\$5.3 million incurred in connection with the arbitration award involving the project located at Kennedy Town as mentioned in the first quarterly results announcement of the Company dated 7 August 2020.

If the aforesaid one-off legal cost was excluded, the administrative expenses of the Group in respect of the Reporting Period decreased by approximately HK\$2.3 million or 25.9% from approximately HK\$9.1 million for the six months ended 30 September 2019 to approximately HK\$6.8 million for the six months ended 30 September 2020. It signified the efforts made by the Group in controlling the costs incurred in its ordinary business operation.

Finance costs

Our finance costs slightly decreased by approximately HK\$0.1 million or 7.0% from approximately HK\$1.5 million for the six months ended 30 September 2019 to approximately HK\$1.4 million for the six months ended 30 September 2020, primarily due to the decrease in the average level of bank borrowings during the Reporting Period.

Income tax expenses

For the six months ended 30 September 2020 and 2019, there was no assessable profits in Hong Kong and Macau and as a result, no income tax expense was provided.

Net Loss

As a result of the foregoing, our net loss increased from approximately HK\$3.6 million for the six months ended 30 September 2019 to approximately HK\$10.0 million for the six months ended 30 September 2020.

Dividends

No dividend was declared or proposed by the Board for the six months ended 30 September 2020 and 2019.

Event after the Reporting Period

The Board is not aware of any significant event subsequent to 30 September 2020 which would materially affect the Group's operating and financial performance.

Liquidity, financial resources and funding

As at 30 September 2020, the Group had total assets of approximately HK\$154.1 million (31 March 2020: approximately HK\$155.1 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$87.7 million (31 March 2020: approximately HK\$78.7 million) and approximately HK\$66.4 million (31 March 2020: approximately HK\$76.4 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 30 September 2020 were approximately HK\$56.1 million (31 March 2020: approximately HK\$42.5 million), and current ratio as at 30 September 2020 was approximately 1.8 times (31 March 2020: approximately 2.0 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 and bank overdrafts divided by total equity, increased from approximately 55.6% as at 31 March 2020 to approximately 84.5% as at 30 September 2020, primarily due to the increase in the level of bank borrowings and the decrease in the total equity. The increase in the level of bank borrowings was primarily due to the new bank loan raised 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 the 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 2020, the Company's issued share capital was HK\$13,000,000 (31 March 2020: HK\$13,000,000) divided into 1,300,000,000 ordinary Shares of par value of HK\$0.01 each (31 March 2020: 1,300,000,000 of HK\$0.01 each).

Capital Commitments

As at 30 September 2020 and 31 March 2020, the Group did not have any capital commitments contracted but not provided for.

Segmental information

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

Future plans for material investments and capital assets

As at 30 September 2020, 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 2020, 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 information, as at 30 September 2020 and 31 March 2020, 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 information, as at 30 September 2020 and 31 March 2020, the Group did not have other pledge of assets.

Employees and remuneration policies

As at 30 September 2020, the Group employed a total of 33 employees (31 March 2020: 37 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$6.9 million for the six months ended 30 September 2020 (for the six months ended 30 September 2019: approximately HK\$9.1 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 2020, 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	652,290,000	Long position	50.18%

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. These Shares were pledged to Prudential Brokerage Limited on 14 September 2020.

Save as disclosed above, as at 30 September 2020, 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, Underlying Shares or Debentures**

So far as the Directors are aware, as at 30 September 2020, 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)</i>	652,290,000	Long position	50.18%
Mr. Nam Ho Kwan	Interest in controlled corporation <i>(Note)</i>	652,290,000	Long position	50.18%
Prudential Brokerage Limited	Person having security interest in shares	652,290,000	Long position	50.17%
Ms. Chen Mingxia	Beneficial owner	243,750,000	Long position	18.75%

Notes: 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. These Shares were pledged to Prudential Brokerage Limited on 14 September 2020.

Save as disclosed above, as at 30 September 2020, 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 2020, 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 2020 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.

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 of the Company dated 16 May 2017 (the “Prospectus”). To cope with the increasingly challenging external business environment, the Board resolved to change and re-allocate the uses of the unutilised net proceeds. For more details including the reasons and benefits for the said change, please refer to the announcement of the Company dated 18 September 2020 (the “Announcement”).

As at 30 September 2020, the net proceeds had been utilised as follows:

	Actual net proceeds	Amount utilised up to 18 September 2020	Unutilised net proceeds as at 18 September 2020	Revised allocation of net proceeds as at 18 September 2020	Amount utilised from 19 September 2020 to 30 September 2020	Unutilised net proceeds as at 30 September 2020	Expected timeline for unutilised net proceeds
	<i>HK\$ million</i> <i>(Approximately)</i>	<i>HK\$ million</i> <i>(Approximately)</i>	<i>HK\$ million</i> <i>(Approximately)</i>	<i>HK\$ million</i> <i>(Approximately)</i>	<i>HK\$ million</i> <i>(Approximately)</i>	<i>HK\$ million</i> <i>(Approximately)</i>	
Strengthening of the Group's industry position and expansion of business	19.4	0.8	18.6	-	-	-	
Repayment of bank borrowings	7.6	7.6	-	20.0	-	20.0	31 December 2020
Strengthening of the Group's technical and project management capabilities	3.6	3.6	-	-	-	-	
Establishment of a Macau office/ warehouse	2.5	0.2	2.3	-	-	-	
Purchase of tools and equipment	1.6	-	1.6	-	-	-	
General working capital	3.3	3.3	-	2.5	0.1	2.4	31 March 2021
	<u>38.0</u>	<u>15.5</u>	<u>22.5</u>	<u>22.5</u>	<u>0.1</u>	<u>22.4</u>	

An analysis comparing the business objectives as set out in the Prospectus and the Announcement with the Group's actual business progress for the Reporting Period is set out below:

Business strategies as stated in the Prospectus/ the Announcement	Business objectives up to 30 September 2020 as stated in the Prospectus/ the Announcement	Actual business progress during the Reporting Period
Strengthening of our industry position and expansion of our business	Undertake more projects and satisfy potential requirements of performance bond.	As at 30 September 2020, the Group has paid approximately HK\$0.8 million to satisfy the requirement of performance bond of new projects. The unutilised net proceeds have been re-allocated to other business strategies. For details, please refer to the Announcement.
Repayment of bank borrowings	Repay outstanding amount under the bank borrowings advanced to our Group.	As at 30 September 2020, the Group has used approximately HK\$7.6 million to repay the outstanding bank borrowings.
Establishing a Macau office/warehouse	Rent an office/a warehouse in Macau and renovate and purchase fixed assets for the newly leased office/warehouse.	As at 30 September 2020, the Group has paid rental expense of approximately HK\$0.2 million for renting a temporary warehouse in Macau. The unutilised net proceeds have been re-allocated to other business strategies. For details, please refer to the Announcement.
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 2020, the Group has purchased tools and equipment of approximately HK\$24,000. The unutilised net proceeds have been re-allocated to other business strategies. For details, please refer to the Announcement.

For more details regarding the analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the date of the Listing to 31 March 2020, please refer to the annual results announcement for year ended 31 March 2020 of the Company dated 22 June 2020.

The Directors will continuously assess the plans for the use of the unutilised net proceeds and may revise or amend such plans where necessary, to reduce the impacts of the coronavirus pandemic and strive for better business performance of the Group.

PRINCIPAL RISK AND UNCERTAINTIES

Other than the potential impact of the coronavirus pandemic on the local and global economy and the operation and financial performance of the Group as mentioned under the paragraph headed "Management Discussion and Analysis – Business Review and Outlook" above, the management considers that the following are the principal risks and uncertainties faced by the Group:

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;

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;

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

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 2020.

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.

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

With effect from 23 June 2020, (i) Dr. Lam King Sun Frankie was appointed as an independent non-executive Director, chairman of Remuneration Committee and member of the Audit Committee and Nomination Committee of the Company; and (ii) Mr. Lau Wai Hung has resigned as an independent non-executive Director and ceased to be chairman of Remuneration Committee and member of the Audit Committee and Nomination Committee of the Company. For details, please refer to the announcement of the Company dated 23 June 2020.

Ms. Wang Rui, the executive Director, ceased to be a director of Hong Kong Unique Food Technology Limited (formerly known as “Hong Kong Yepsince Group Limited”), a subsidiary of the Group, with effect from 22 September 2020.

As one of cost control measures as mentioned above, the executive Directors, Mr. Nam, Mr. Ng Wan Lok and Ms. Wong Wing Hung waived 20% of their remuneration for a period of one year starting from 1 April 2020.

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 2020.

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. Chen Lei, Mr. Tsang Yung Fat and Dr. Lam King Sun Frankie. Mr. Tsang Yung Fat 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 2020 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, 6 November 2020

As at the date of this report, 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. Chen Lei, Mr. Tsang Yung Fat and Dr. Lam King Sun Frankie.