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## HUARCHI GLOBAL GROUP HOLDINGS LIMITED

### 華記環球集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2296

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Huarchi Global Group Holdings Limited (the “**Company**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (together as the “**Group**”) for the six months ended 30 June 2020, together with the relevant comparative figures as follows:

### Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 MOP'000 (unaudited)	2019 MOP'000 (unaudited)
Revenue	4	154,906	197,121
Cost of services		(120,724)	(153,857)
Gross profit		34,182	43,264
Other income		1,320	968
Other net losses		(1)	–
Administrative and other operating expenses		(14,599)	(8,321)
Finance costs		(1,036)	(1,372)
Listing expenses		–	(1,001)
Profit before taxation		19,866	33,538
Income tax expense	6	(2,874)	(4,539)
Profit and total comprehensive income for the period attributable to owners of the Company	7	<u>16,992</u>	<u>28,999</u>
Earnings per share attributable to owners of the Company	9		
– Basic		<u>MOP0.85 cents</u>	<u>MOP1.93 cents</u>

## Condensed Consolidated Statement of Financial Position

At 30 June 2020

	<i>Notes</i>	At 30 June 2020 <i>MOP'000</i> (unaudited)	At 31 December 2019 <i>MOP'000</i> (audited)
Non-current assets			
Plant and equipment		334	389
Right-of-use assets		615	32
		<u>949</u>	<u>421</u>
Current assets			
Trade and other receivables	10	198,530	196,892
Amount due from ultimate holding company		—*	—*
Contract assets	11	52,041	56,437
Pledged bank deposits		23,586	32,068
Bank balances and cash		136,278	131,511
		<u>410,435</u>	<u>416,908</u>
Current liabilities			
Trade and other payables	12	(81,390)	(101,883)
Contract liabilities	11	(4,252)	(3,101)
Lease liabilities		(387)	(34)
Tax payable		(11,902)	(9,028)
Bank overdrafts		(9,156)	(11,213)
Bank borrowings		(30,000)	(35,000)
		<u>(137,087)</u>	<u>(160,259)</u>
Net current assets		<u>273,348</u>	<u>256,649</u>
Total assets less current liabilities		<u>274,297</u>	<u>257,070</u>
Non-current liabilities			
Lease liabilities		(235)	—
Net assets		<u>274,062</u>	<u>257,070</u>
Capital and reserves			
Share capital		20,630	20,630
Reserves		253,432	236,440
Total equity attributable to owners of the Company		<u>274,062</u>	<u>257,070</u>

\* The balances represent amount less than MOP1,000

# Notes to the Condensed Consolidated Interim Financial Statements

*For the six months ended 30 June 2020*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 June 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business in Hong Kong is 905B, 9/F., Harbour Crystal Centre, 100 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong. The address of its headquarter and principal place of business in Macau is Alameda Dr. Carlos d'Assumpção No. 249 Edif. China Civil Plaza 7 Andar E&F Macau. The issued ordinary shares of the Company (“**Share(s)**”) were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 November 2019. The ultimate holding company of the Company is Seong Wa Holdings Limited (“**Seong Wa**”), which was incorporated in the British Virgin Islands.

The principal activity of the Company is an investment holding company and its subsidiaries provide services of fitting-out works, construction works and repair and maintenance works in Macau.

These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 (the “**Condensed Consolidated Interim Financial Statements**”) are presented in Macau Pataca (“**MOP**”) which is same as the functional currency of the Company and all values are rounded to the nearest thousand except otherwise indicated.

## 2. BASIS OF PREPARATION

The unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The unaudited Condensed Consolidated Interim Financial Statements have been prepared on the historical cost basis.

The unaudited Condensed Consolidated Interim Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual report of the Company for the year ended 31 December 2019.

The Condensed Consolidated Interim Financial Statements have not been audited nor reviewed by the independent auditor of the Company but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

### **3. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies and methods of computation used in the unaudited Condensed Consolidated Interim Financial Statements are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2019.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the HKICPA that are relevant for the preparation of the Condensed Consolidated Interim Financial Statements and mandatorily effective for the current interim period beginning on or after 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the above mentioned amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these Condensed Consolidated Interim Financial Statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

#### 4. REVENUE

Revenue represents the amounts received and receivable for fitting-out works, construction works and repair and maintenance works rendered by the Group to customers, net of discounts, in which contract revenue from fitting-out and construction works are recognised over time and revenue from repair and maintenance works is recognised upon completion.

An analysis of the Group's revenue is as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b><i>MOP'000</i></b>	<i>MOP'000</i>
	<b>(unaudited)</b>	(unaudited)
Revenue recognised over time:		
Contract revenue from fitting-out works	<b>152,326</b>	196,290
Contract revenue from construction works	<b>2,473</b>	795
	<b>154,799</b>	197,085
Repair and maintenance works	<b>107</b>	36
Total	<b>154,906</b>	197,121

#### 5. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), being the executive directors of the Company, in order for the CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

- (a) Fitting-out works;
- (b) Construction works; and
- (c) Repair and maintenance works.

The CODM makes decisions according to the operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

**(a) Segment revenue and profit**

The following is an analysis of the Group's revenue and results by operating segment:

*For the six months ended 30 June 2020*

	<b>Fitting-out works MOP'000 (unaudited)</b>	<b>Construction works MOP'000 (unaudited)</b>	<b>Repair and maintenance works MOP'000 (unaudited)</b>	<b>Total MOP'000 (unaudited)</b>
Segment revenue – external	<u>152,326</u>	<u>2,473</u>	<u>107</u>	<u>154,906</u>
Segment results	<u>34,055</u>	<u>111</u>	<u>16</u>	<u>34,182</u>
Corporate expenses				(14,599)
Other income				1,320
Other net losses				(1)
Finance costs				<u>(1,036)</u>
Profit before taxation				<u>19,866</u>

*For the six months ended 30 June 2019*

	Fitting-out works <i>MOP'000</i> (unaudited)	Construction works <i>MOP'000</i> (unaudited)	Repair and maintenance works <i>MOP'000</i> (unaudited)	Total <i>MOP'000</i> (unaudited)
Segment revenue – external	<u>196,290</u>	<u>795</u>	<u>36</u>	<u>197,121</u>
Segment results	<u>43,171</u>	<u>84</u>	<u>9</u>	<u>43,264</u>
Corporate expenses				(9,322)
Other income				968
Finance costs				<u>(1,372)</u>
Profit before taxation				<u>33,538</u>

Segment results mainly represented profit earned by each segment, excluding income and expenses of the corporate function, which include certain other income, net losses, certain administrative and other expenses, listing expenses and finance costs.

**(b) Geographical information**

The Group's operations are solely located in Macau.

**6. INCOME TAX EXPENSE**

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>MOP'000</i></b>	<b><i>MOP'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Macau Complementary Tax — current period	<u>2,874</u>	<u>4,539</u>

Macau Complementary Tax is calculated at 12% of the estimated assessable profits exceeding MOP600,000 for the period.

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i><b>MOP'000</b></i>	<i><b>MOP'000</b></i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit for the period has been arrived at after charging/(crediting):		
Cost of services	<u>120,724</u>	<u>153,857</u>
Other items:		
Depreciation of plant and equipment	55	38
Depreciation of right-of-use assets	194	466
Impairment losses of trade receivables	423	–
Government subsidies in relation to COVID-19	<u>(600)</u>	<u>–</u>

## 8. DIVIDENDS

No dividend has been paid or declared by the Company during the six months ended 30 June 2020 and 2019.

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i><b>MOP'000</b></i>	<i><b>MOP'000</b></i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	<u>16,992</u>	<u>28,999</u>
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i><b>'000</b></i>	<i><b>'000</b></i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,000,000</u>	<u>1,500,000</u>



The calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company and weighted average number of shares in issue. The number of Shares for the six months ended 30 June 2019 for the purpose of basic earnings per share has been retrospectively adjusted for the 1,499,987,520 shares which were issued pursuant to the capitalisation issue that took place on 24 October 2019.

Diluted earnings per share are not presented as there were no potential dilutive ordinary shares in issue during both periods.

## 10. TRADE AND OTHER RECEIVABLES

	At <b>30 June 2020</b> <i>MOP'000</i> <b>(unaudited)</b>	At 31 December 2019 <i>MOP'000</i> (audited)
Trade receivables, net of loss allowance	<b>105,047</b>	113,321
Retention receivables	<b>75,321</b>	74,510
	<b>180,368</b>	187,831
Other receivables, prepayment and deposits	<b>18,162</b>	9,061
Total trade and other receivables	<b><u>198,530</u></b>	<b><u>196,892</u></b>

Retention receivables are unsecured, interest-free and recoverable at the end of the defects liability period of individual contracts, ranging from 1 year to 5 years from the date of the completion of the respective projects.

The Group allows generally a credit period ranging from 0 to 90 days to its customers. The following is an aging analysis of trade receivables presented based on dates of invoices issued at the end of the reporting period, net of loss allowance.

	At <b>30 June</b> <b>2020</b> <i>MOP'000</i> <b>(unaudited)</b>	At 31 December 2019 <i>MOP'000</i> (audited)
0 – 30 days	<b>38,957</b>	44,618
31 – 60 days	<b>33,312</b>	51,587
61 – 90 days	<b>22,635</b>	466
Over 90 days	<b>10,143</b>	16,650
	<u><b>105,047</b></u>	<u>113,321</u>

## 11. CONTRACT ASSETS AND CONTRACT LIABILITIES

	At <b>30 June</b> <b>2020</b> <i>MOP'000</i> <b>(unaudited)</b>	At 31 December 2019 <i>MOP'000</i> (audited)
Disclosure of revenue-related items:		
Contract assets		
Provision of fitting-out works	<b>51,480</b>	56,437
Provision of construction works	<b>561</b>	–
	<u><b>52,041</b></u>	<u>56,437</u>
Contract liabilities		
Provision of fitting-out works	<b>685</b>	3,101
Provision of construction works	<b>3,567</b>	–
	<u><b>4,252</b></u>	<u>3,101</u>

The changes in contract assets and liabilities are due to i) adjustments arising from changes in the measure of progress of contracting work, or ii) reclassification to trade receivables when the Group has unconditional right to the consideration.

As at 30 June 2020, contract liabilities included receipt in advance from customers amounting to approximately MOP4,252,000 (31 December 2019: MOP3,101,000).

Contract assets as the end of the reporting period are expected to be recovered and settled in subsequent year.

Contract liabilities as at the end of the reporting period are expected to be recognised as revenue in subsequent year.

### **Transaction prices allocated to the remaining performance obligations**

The transaction prices allocated to the remaining performance obligations unsatisfied (or partially unsatisfied) as at 30 June 2020 of the amount MOP131,314,000 which are expected to be substantially recognised as revenue in subsequent year.

## **12. TRADE AND OTHER PAYABLES**

Trade and other payables at the end of the reporting period comprise amounts outstanding for trade purposes and daily operating costs. The average credit period taken for trade purchase is 0 to 35 days.

	At <b>30 June 2020</b> <i>MOP'000</i> <b>(unaudited)</b>	At 31 December 2019 <i>MOP'000</i> (audited)
Trade payables	<b>5,206</b>	14,118
Retention payables ( <i>Note</i> )	<b>38,912</b>	44,741
	<b>44,118</b>	58,859
Accrued contract costs	<b>34,827</b>	38,758
Accruals and other payables	<b>2,445</b>	4,266
Total trade and other payables	<b><u>81,390</u></b>	<b><u>101,883</u></b>

*Note:* Retention payables are interest-free and payable at the end of the defects liability period of individual contracts, ranging from 1 to 5 years from the completion date of the respective project.

The following is an aging analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	<b>At 30 June 2020 <i>MOP'000</i> (unaudited)</b>	<b>At 31 December 2019 <i>MOP'000</i> (audited)</b>
1 – 30 days	<b>1,278</b>	2,522
31 – 60 days	<b>1,990</b>	6,473
61 – 90 days	<b>223</b>	791
Over 90 days	<b>1,715</b>	4,332
	<b><u>5,206</u></b>	<b><u>14,118</u></b>

The retention payables are to be settled within 2 years based on the expiry of defects liability period at the end of the reporting period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Outlook

The Group mainly provides services of (i) fitting-out works; (ii) construction works; and (iii) repair and maintenance works in Macau, and the projects undertaken by the Group can be divided into (a) public sector projects and (b) private sector projects by the types of project employers.

For the six months ended 30 June 2020, as affected by the COVID-19 pandemic, the Group's ongoing and new projects has been delayed. The Group's revenue for the six months ended 30 June 2020 decreased by approximately 21.4% to approximately MOP154,906,000 (six months ended 30 June 2019: approximately MOP197,121,000). Meanwhile, project tendering and other related administrative procedures and processes have been delayed due to various preventive measures adopted by some of the Group's customers and government departments to respond the COVID-19 pandemic, for example, the "Work from Home". Coupled with the uncertain economic outlook owing to the COVID-19 pandemic, customers of the Group were also urged to be more prudent in project budgeting and investing in new project. As at 30 June 2020, the transaction prices allocated to the remaining performance obligations of the Group amounted to approximately MOP131,314,000 (31 December 2019: approximately MOP202,235,000).

The Group expected that, along with the alleviation of the COVID-19 pandemic, the Group's business shall resume to normal. The Group will continue to follow its fundamental development strategies of (i) strengthening the Group's financial capabilities to undertake more new and larger scale fitting-out and construction projects; and (ii) further improving our production capacity, capabilities and cost efficiency. Meanwhile, the Group maintains an optimistic outlook on the development of the fitting-out industry in Macau.

### Fitting-out works

The Group provides fitting-out works for both new buildings and existing buildings in Macau. A fitting-out project involves shop drawing, procurement of materials, execution of fitting-out works, site supervision, management of subcontractors and overall project management. As at 31 December 2019, the Group had 20 fitting-out projects in progress, and for the six months ended 30 June 2020, the Group was awarded 21 new fitting-out projects, of which, 18 fitting-out projects have been practically completed, and 23 fitting-out projects are still in progress.

## **Construction works**

A construction project involves works including foundation works, and buildings services systems installation. The Group is also responsible for structural calculation and shop drawing, procurement of materials, site supervision, management of subcontractors and overall project management. The Group may subcontract site works to other subcontractors, including but not limited to, foundation works and building services systems installation. As at 31 December 2019, the Group had two construction projects in progress, and for the six months ended 30 June 2020, no new construction projects were awarded and no construction projects have been practically completed, and two construction projects are still in progress.

## **Repair and maintenance works**

The Group also provides repair and maintenance services for existing properties in Macau on (i) as-needed basis; and (ii) regularly over a fixed period. Repair and maintenance services provided by the Group include repair or replacement of interior decorative parts, as well as other works for building services systems such as installation of CCTV systems and air-conditioning systems. As at 31 December 2019, the Group had two repair and maintenance projects in progress, and for the six months ended 30 June 2020, the Group was awarded four new repair and maintenance projects, of which, three repair and maintenance projects have been practically completed, and three repair and maintenance projects are still in progress.

In summary, the Group had 28 projects still in progress as at 30 June 2020, of which, 18 projects were public sector projects and 10 projects were private sector projects in terms of the types of project employers. The Group will continue to strive to balance the development of public sector projects and private sector projects.

## Financial Review

### Revenue

The following table sets forth a breakdown of the Group's revenue and the percentage of total revenue by the type of works for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June			
	2020		2019	
	Percentage of <i>MOP'000</i> total revenue	Percentage of <i>MOP'000</i> total revenue	Percentage of <i>MOP'000</i> total revenue	Percentage of <i>MOP'000</i> total revenue
Fitting-out works	152,326	98.3%	196,290	99.5%
Construction works	2,473	1.6%	795	0.4%
Repair and maintenance works	107	0.1%	36	0.1%
	<u>154,906</u>	<u>100.0%</u>	<u>197,121</u>	<u>100.0%</u>

For the six months ended 30 June 2020, the revenue of the Group amounted to approximately MOP154,906,000, representing a decrease of approximately 21.4% from approximately MOP197,121,000 for the six months ended 30 June 2019, of which (i) revenue derived from fitting out works was approximately MOP152,326,000, representing a decrease of approximately 22.4% compared to approximately MOP196,290,000 for the six months ended 30 June 2019, which was mainly because the progress of the Group's on-going fitting-out projects have been delayed as affected by the COVID-19 pandemic since the beginning of 2020, including (a) delay in construction materials delivery due to the suspension of production in the Mainland China; and (b) the Group's subcontractors, who mainly relied on non-resident workers, failed to complete their works on time due to the shortage of non-resident workers in Macau, as a result of the 14-day quarantine measure in Macau and Guangdong Province since March 2020; (ii) revenue derived from construction works was approximately MOP2,473,000, representing an increase of approximately 211.1% compared to approximately MOP795,000 for the six months ended 30 June 2019. Such increase was mainly attributed to a construction project in the public sector with a total contract value of approximately MOP16.2 million, which commenced during the six months ended 30 June 2020; and (iii) revenue derived from repair and maintenance works was approximately MOP107,000, representing an increase of approximately MOP71,000 compared to approximately MOP36,000 for the six months ended 30 June 2019.

### Cost of services

Cost of services includes subcontracting fees, staff costs, material costs and others. The total cost of services decreased by approximately 21.5% from approximately MOP153,857,000 for the six months ended 30 June 2019 to approximately MOP120,724,000 for the six months ended 30 June 2020, which was attributed to the decrease in revenue.

## Gross profit and gross profit margin

The following table sets forth the Group's gross profit and gross profit margin by the type of works for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June			
	2020		2019	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>MOP '000</i>	margin %	<i>MOP '000</i>	margin %
Fitting-out works	34,055	22.4 %	43,171	22.0%
Construction works	111	4.5 %	84	10.6%
Repair and maintenance works	16	15.0 %	9	25.0%
	<u>34,182</u>	22.1 %	<u>43,264</u>	21.9%

The Group's gross profit decreased by approximately 21.0% from approximately MOP43,264,000 for the six months ended 30 June 2019 to approximately MOP34,182,000 for the six months ended 30 June 2020, which was mainly attributed to the decrease in overall project revenue.

The gross profit margin of fitting-out works maintained at a stable level of approximately 22.0% for the six months ended 30 June 2019 and 2020.

The gross profit margin of construction works decreased from approximately 10.6% for the six months ended 30 June 2019 to approximately 4.5% for the six months ended 30 June 2020, mainly due to a rectification cost of a construction project incurred during the defect liability period (as referred to note 10 of notes to the Condensed Consolidated Interim Financial Statements), resulting a decrease in the overall gross profit margin of construction works.

The gross profit margin of repair and maintenance works decreased from approximately 25.0% for the six months ended 30 June 2019 to approximately 15.0% for the six months ended 30 June 2020. The decrease was mainly due to the higher costs incurred as a result of the greater complexity of the repair and maintenance projects undertaken for the six months ended 30 June 2020.

As a result, the Group's overall gross profit margin increased from approximately 21.9% for the six months ended 30 June 2019 to approximately 22.1% for the six months ended 30 June 2020.



### **Other income and other net losses**

The Group's other income and other net losses for the six months ended 30 June 2020 was approximately MOP1,319,000 (six months ended 30 June 2019: approximately MOP968,000), which included (i) government subsidies for our Macau operating subsidiaries of approximately MOP600,000 which is an economic support measure against the COVID-19 pandemic in Macau; and (ii) interest income of approximately MOP692,000.

### **Administrative and other operating expenses**

The administrative and other operating expenses of the Group for the six months ended 30 June 2020 amounted to approximately MOP14,599,000 (six months ended 30 June 2019: approximately MOP8,321,000), representing an increase of approximately MOP6,278,000 or approximately 75.4% compared with the same period of last year. This was mainly due to (i) the increase of staff costs by approximately MOP2,417,000; and (ii) the increase of legal and professional fee by approximately MOP2,659,000 mainly for the business consultancy fee and the compliance fee incurred during the six months ended 30 June 2020 after listing.

### **Listing expenses**

No listing expenses incurred for the six months ended 30 June 2020 since it was non-recurring in nature while the Group incurred listing expenses of approximately MOP1,001,000 for the six months ended 30 June 2019.

### **Finance costs**

The finance costs of the Group decreased from approximately MOP1,372,000 for the six months ended 30 June 2019 to approximately MOP1,036,000 for the six months ended 30 June 2020. Such decrease was mainly due to the repayment of bank borrowings of approximately MOP7,000,000 and approximately MOP5,000,000 for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively.

### **Income tax expense**

The income tax expense of the Group decreased from approximately MOP4,539,000 for the six months ended 30 June 2019 to approximately MOP2,874,000 for the six months ended 30 June 2020, mainly due to the shrinking in profit before taxation of the Group.

### **Profit for the period**

The Group's profit for the period attributable to owners of the Company decreased by approximately MOP12,007,000 from approximately MOP28,999,000 for the six months ended 30 June 2019 to approximately MOP16,992,000 for the six months ended 30 June 2020. Such decrease was the result of the combined effects of the aforementioned items.

## **Liquidity and Financial Resources**

As at 30 June 2020, the Group had cash and cash equivalents of approximately MOP136,278,000 (31 December 2019: approximately MOP131,511,000), which represented the bank and cash balances of the Group. As at 30 June 2020, the Group's pledged bank deposits amounted to approximately MOP23,586,000 (31 December 2019: approximately MOP32,068,000).

As at 30 June 2020, bank borrowings amounted to approximately MOP30,000,000 (31 December 2019: approximately MOP35,000,000), and bank overdrafts amounted to approximately MOP9,156,000 (31 December 2019: approximately MOP11,213,000).

The Group's current and quick ratio was 3.0 (31 December 2019: 2.6). Current ratio is calculated as current assets divided by current liabilities at the end of reporting period. Quick ratio is calculated as current assets excluding inventories divided by current liabilities at the end of reporting period. As the Group did not have any inventory on the condensed consolidated statement of financial position, the quick ratio was the same as the current ratio and the Group maintains sufficient liquid asset and a healthy financial position.

The Group's gearing ratio was 14.5% (31 December 2019: 18.0%), which was calculated as total debt divided by total equity at the end of reporting period. The decrease in the gearing ratio was mainly due to the increase in capital of approximately MOP16,992,000.

The Group constantly implements prudent financial management and has sufficient cash and bank balances in hand. The management believes that the Group's financial resources are sufficient to meet the working capital requirements in future.

## **Debts and Charge on the Group's Assets**

As at 30 June 2020, the outstanding bank borrowings, bank overdrafts and unutilised bank facilities of the Group were approximately MOP30,000,000, MOP9,156,000 and MOP128,577,000, respectively, which have been secured by the Group's pledged bank deposits and the Company's corporate guarantee.

## **Treasury Policy**

The Group regularly monitors the liquidity requirements to ensure to maintain sufficient cash resources for the working capital needs and capital expenditure needs. The Group generally finances its working capital and capital expenditure through cash flows generated from operating activities and external financing, and maintains a steady financial position.

## Capital Structure

The Shares were listed on the Main Board of the Stock Exchange on 21 November 2019 and the Company's capital structure has not changed since then. The capital structure of the Company consists of issued share capital, share premium, statutory reserve and retained earnings.

## Significant Investments, Material Acquisitions or Disposals of Subsidiaries and Associates of the Group

For the six months ended 30 June 2020, the Group did not hold any significant investments, and made no material acquisitions or disposals of its subsidiaries and associates.

## Future Plans for Significant Investments

Save as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 31 October 2019 (the "**Prospectus**"), as at 30 June 2020, the Group did not have any future plans for significant investments.

## Comparison of Business Objectives with Actual Business Progress and Use of Proceeds

The net proceeds from the initial public offerings detailed in the Prospectus ("**Share Offer**") were approximately HK\$91,771,000 (approximately equivalent to MOP94,661,000) (after deduction of underwriting fees and related listing expenses), of which approximately HK\$35,105,000 had been utilised as of 30 June 2020 as follows:

Intended use	Actual	Amount	Amount	Amount	Remaining	Expected
	amount	utilised as of	utilised	utilised for the	balance	timeline of
	of net	31 December	as of	six months	as at	full utilisation of
	proceeds	2019	30 June	ended	30 June	the remaining
	HK\$'000	HK\$'000	HK\$'000	30 June	2020	balance as at
			2020	2020	2020	30 June 2020
To finance our fitting-out and construction projects in Macau	62,693	20,573	35,105	14,532	27,588	31 December 2020
To increase our workforce	15,967	-	-	-	15,967	31 December 2021
To purchase machinery and equipment	13,111	-	-	-	13,111	30 June 2021
	<u>91,771</u>	<u>20,573</u>	<u>35,105</u>	<u>14,532</u>	<u>56,666</u>	

As at 30 June 2020, the unutilised net proceeds from the Share Offer had been deposited in the bank account(s) of the Group.

Due to the fact that new fitting-out and construction projects in Macau have been substantially delayed as affected by the COVID-19 pandemic since the beginning of the year 2020, approximately HK\$27.6 million of the assigned proceeds to finance the Group's fitting-out and construction projects in Macau remained unutilised as of 30 June 2020. The Directors are of the view that the Group's new projects are expected to be resumed and kick-started during the six months ending 31 December 2020, and the unutilised proceeds to finance the Group's fitting-out and construction projects in Macau is expected to be fully utilised by 31 December 2020.

In light of the impact from the COVID-19 pandemic and the progress of the Group's new projects as mentioned above, the use of proceeds to increase the Group's workforce and purchase machinery and equipment was also delayed for the six months ended 30 June 2020. The Directors are of the view that, along with the alleviation of the COVID-19 pandemic, the Group will increase its workforce and purchase machinery and equipment for both the needs of new projects and general use of the Group's operation. It is being expected that the remaining unutilised proceed of approximately HK\$16.0 million to increase the Group's workforce and HK\$13.1 million to purchase machinery and equipment, respectively, will be utilised together with the Group's new projects, while the remaining will be fully utilised by 31 December 2021 and 30 June 2021 to increase the Group's workforce and purchase machinery and equipment for the Group's operation.

Other than the time schedule, the Directors are not aware of any material changes in the plans in relation to the use of proceeds as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The total remaining balance of the net proceeds are expected to be fully utilised by 31 December 2021 for the same purpose as set out above and in the Prospectus, based on the Directors' best estimate of the future market conditions, but subject for adjustment. Should there be any material change in the intended use of the net proceeds from the Share Offer as described in the Prospectus, the Company will make announcement(s) as and when appropriate.

### **Employees and Remuneration Policy**

As at 30 June 2020, the Group had 45 (31 December 2019: 56) employees, and most of the employees were stationed in Macau. The Group will enter into separate employment contracts with each of its employees in accordance with the applicable employment laws in Macau. The remuneration package offered to the Group's employees generally included basic salaries, bonuses and other cash allowances or subsidies. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority having regard to the operating results of the Group and prevailing market condition.

### **Capital Commitments and Contingent Liabilities**

As at 30 June 2020, the Group had no capital commitment (31 December 2019: nil). As at 30 June 2020, the Group had contingent liabilities of approximately MOP76,520,000 (31 December 2019: approximately MOP82,965,000). The decrease was primarily due to the release of bank guarantee given to potential customers for an invitation to tender.

## **Foreign Exchange Exposure**

The Group earns revenue mainly in MOP and incurs costs mainly in MOP and HK\$. The Directors believe that the Group's cash flows from operations and liquidity are not exposed to significant foreign exchange risk, and therefore, no hedging policy is currently in place for foreign exchange risk. However, the Group will continue to monitor foreign exchange risk and consider hedging significant foreign exchange risk when necessary.

## **DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

## **SHARE OPTION SCHEME**

The Company has adopted a share option scheme ("**Scheme**") on 24 October 2019 which was valid and effective for 10 years from its date of adoption. No options have been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2020.

## **CORPORATE GOVERNANCE**

In the opinion of the directors of the Company, the Company has complied with the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2020, save for the deviation from code provision A.2.1 as disclosed below:

Under Code Provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the six months ended 30 June 2020, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Lou is acting as the chairman of the Board and our managing director, who in practice operates as the chief executive of our Group. Our Directors are of the view that, Mr. Lou has been a key leadership figure of our Group and engaging with the overall management and in formulating our business plans and operating strategies, and our Group has benefited from Mr. Lou's extensive business network in the Macau construction industry and his technical expertise in the engineering fields. As such, our Directors are of the view that it would be in our Group's best interest for Mr. Lou to continue performing the two roles in terms of effective management and business development. Our Directors further believe that the balance of power and authority is adequately ensured by the operations of the Board, which comprises experienced and high-calibre individuals, with three of them being independent non-executive Directors, one of whom is a financial expertise.

Based on the above factors, the Board considers that the deviation from the code provision A.2.1 of the Code is appropriate.

The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

### **Compliance Disclosure of the Deed of Non-Competition**

The Company received an annual confirmation and declaration by each of the executive Directors and Seong Wa (the controlling shareholders of the Company who are also the covenantors under a deed of non-competition entered in favour of the Group dated 24 October 2019 (the “**Deed of Non-competition**”)), pursuant to which each of the covenantors confirmed that (i) none of them, their close associates (as defined in the Listing Rules) or companies controlled by them (other than any member of the Group) had any business, involvement, engagement or interest in any company, business or project that is or is likely to compete, either directly or indirectly, with the business of any member of the Group; or had any other conflict of interest which any such person has or may have, either directly or indirectly, with the Group; (ii) they had provided all information requested by the Company which was necessary for annual review; and (iii) none of them has been offered or has referred to the Group any opportunity to invest, participate or be engaged in or operate any project or new business opportunity that is or is likely to compete with the business of the Group.

The independent non-executive Directors had reviewed the aforesaid confirmations by each of the executive Directors and Seong Wa on their non-competition undertakings under the Deed of Non-competition and non-competing business confirmation under the Listing Rules by each of the executive Directors.

In addition, the independent non-executive Directors also evaluated the effective implementation of the Deed of Non-competition based on the fact that (i) no whistleblowing message has been received by the independent non-executive Directors for non-compliance of the Deed of Non-competition up to the date of the 2019 annual report; (ii) each of the executive Directors and Seong Wa respectively confirmed that they have complied with the terms of the Deed of Non-competition up to the date of the 2019 annual report during the board meeting held on 31 March 2020, with the presence of the independent non-executive Directors; and (iii) the independent non-executive Directors have reviewed the part of the Group’s internal control measures from the internal control review report for the year ended 31 December 2019, which was prepared by an external independent consultant, during the audit committee meeting held on 31 March 2020.

The independent non-executive Directors were satisfied with the compliance of the non-competition undertaking of each of the executive Directors and Seong Wa for the year ended 31 December 2019.

The Board believed that each of the executive Directors and Seong Wa had met their obligations to act in the best interest of the Company under the Deed of Non-competition to protect the interest of the shareholders of the Company as described on the page 172 of the Prospectus.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry made by the Company, that they have complied with the required standard as set out in the Model Code throughout the reporting period.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, namely Dr. LAM Chi Kit *BBS MH JP*, Dr. SIN Wai Chiu Joseph and Mr. LO Chun Chiu Adrian. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed and reviewed the unaudited Condensed Consolidated Interim Financial Statements for the reporting period.

## **PUBLICATION OF INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

The interim report of the Company for the six months ended 30 June 2020 is to be despatched to the shareholders of the Company and made available on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.huarchi.com](http://www.huarchi.com) in due course.

By Order of the Board  
**LOU Cheok Meng**  
*Chairman and Managing Director*

Hong Kong, 31 August 2020

*As at the date of this announcement, Mr. Lou Cheok Meng, Mr. Chang Wa Jeong, Mr. Ao Weng Kong and Mr. Leong Ka In are the executive Directors of the Company; and Dr. Lam Chi Kit BBS MH JP, Dr. Sin Wai Chiu Joseph and Mr. Lo Chun Chiu Adrian are the independent non-executive Directors of the Company.*