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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

Warrant Code: 1642

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “**Directors**”) (the “**Board**”) 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 2021, 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 2021

	Notes	Six months ended 30 June	
		2021 MOP'000 (unaudited)	2020 MOP'000 (unaudited)
Revenue	4	189,197	154,906
Cost of services		(150,719)	(120,724)
Gross profit		38,478	34,182
Other income, net		116	1,319
Administrative and other operating expenses		(12,010)	(14,599)
Finance costs		(1,123)	(1,036)
Profit before taxation		25,461	19,866
Income tax expense	6	(4,116)	(2,874)
Profit and total comprehensive income for the period attributable to owners of the Company	7	<u>21,345</u>	<u>16,992</u>
Earnings per share attributable to owners of the Company			
– Basic	9	<u>MOP1.10 cents</u>	<u>MOP0.85 cents</u>
– Diluted	9	<u>MOP1.10 cents</u>	<u>MOP0.85 cents</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	<i>Notes</i>	At 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Non-current assets			
Plant and equipment	10	2,720	279
Right-of-use assets	10	2,352	421
		<u>5,072</u>	<u>700</u>
Current assets			
Trade and other receivables	11	248,219	259,557
Amount due from ultimate holding company		—*	—*
Contract assets	12	111,138	37,219
Pledged bank deposits		45,464	26,535
Bank balances and cash		39,859	88,834
		<u>444,680</u>	<u>412,145</u>
Current liabilities			
Trade and other payables	13	(86,724)	(102,789)
Contract liabilities	12	(9,346)	(12,582)
Lease liabilities		(997)	(365)
Tax payable		(7,701)	(3,586)
Bank overdrafts		(21,782)	(16,404)
Bank borrowings		(75,000)	—
		<u>(201,550)</u>	<u>(135,726)</u>
Net current assets		<u>243,130</u>	<u>276,419</u>
Total assets less current liabilities		<u>248,202</u>	<u>277,119</u>
Non-current liabilities			
Lease liabilities		(1,347)	(34)
Net assets		<u><u>246,855</u></u>	<u><u>277,085</u></u>
Capital and reserves			
Share capital	14	20,630	20,630
Reserves		226,225	256,455
Total equity attributable to owners of the Company		<u><u>246,855</u></u>	<u><u>277,085</u></u>

* The balances represent amount less than MOP1,000

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

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 Windward 3, Regatta Office Park, PO Box 1350, 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 were 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 and joint operation provide services of fitting-out works, construction works and repair and maintenance works mainly in Macau.

These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021 (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 2020.

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 2020.

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 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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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 net amounts received and receivable for fitting-out works, construction works (including foundation works and building services system installation) 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:

	Six months ended 30 June	
	2021	2020
	<i>MOP'000</i>	<i>MOP'000</i>
	(unaudited)	(unaudited)
Contract revenue from fitting-out works	65,247	152,326
Contract revenue from construction works	123,901	2,473
Repair and maintenance works	49	107
	<hr/>	<hr/>
Total	<u>189,197</u>	<u>154,906</u>

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 2021

	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>65,247</u>	<u>123,901</u>	<u>49</u>	<u>189,197</u>
Segment results	<u>31,904</u>	<u>6,572</u>	<u>2</u>	<u>38,478</u>
Corporate expenses				(12,010)
Other income, net				116
Finance costs				<u>(1,123)</u>
Profit before taxation				<u>25,461</u>

For the six months ended 30 June 2020

	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>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, net				1,319
Finance costs				<u>(1,036)</u>
Profit before taxation				<u>19,866</u>

Segment results mainly represented profit earned by each segment, excluding income and expenses of the corporate function, which include certain other income, net, certain administrative and other expenses and finance costs. The operating segments do not derive any revenue from transactions with other operating segments of the Group.

(b) Geographical information

The Group's operation and the locations of the customers are mainly located in Macau.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>MOP'000</i>	<i>MOP'000</i>
	(unaudited)	(unaudited)
Macau Complementary Tax — current period	<u>4,116</u>	<u>2,874</u>

The Company is tax exempted under the Laws of Cayman Islands and subject to Hong Kong Profits Tax at a tax rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profit arising in Hong Kong.

Macau Complementary Tax is calculated at 12% (six months ended 30 June 2020: 12%) of the estimated assessable profits exceeding MOP600,000 for the period.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	<i>MOP'000</i>	<i>MOP'000</i>
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging/(crediting):		
Cost of services	<u>150,719</u>	<u>120,724</u>
Other items:		
Depreciation of plant and equipment	272	55
Depreciation of right-of-use assets	389	194
(Reversal of impairment)/impairment of trade receivables, net	(71)	423
Government subsidies in relation to Coronavirus Disease 2019 (“COVID-19”)	<u>–</u>	<u>(600)</u>

8. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

A final dividend in respect of the year ended 31 December 2020 of HK2.5 cents (approximately equivalent to MOP2.6 cents) per share, HK\$50,000,000 (approximately equivalent to MOP51,575,000) (31 December 2019: Nil) in total was declared pursuant to the resolution passed by the Board on 31 March 2021 and the approval of the shareholders of the Company at the annual general meeting of the Company held on 31 May 2021. This final dividend was paid on 10 June 2021.

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:

	Six months ended 30 June	
	2021 MOP'000 (unaudited)	2020 MOP'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share	<u>21,345</u>	<u>16,992</u>
	Six months ended 30 June	
	2021 '000	2020 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,000,000</u>	<u>2,000,000</u>

(a) Basic earnings per share

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.

(b) Diluted earnings per share

The Company's bonus warrants issued during the current interim period could potentially dilute earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive during the current interim period.

10. MOVEMENTS IN PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Acquisition of plant and equipment

During the six months ended 30 June 2021, the Group acquired items of plant and equipment with a cost of approximately MOP2,713,000 (six months ended 30 June 2020: Nil).

(b) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into lease agreements for use of offices, and therefore recognised additions to right-of-use assets of approximately MOP2,321,000 (six months ended 30 June 2020: MOP777,000).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Trade receivables, net	111,071	123,542
Retention receivables, net	77,917	78,000
	188,988	201,542
Other receivables, prepayment and deposits (<i>Note</i>)	59,231	58,015
Total trade and other receivables	<u>248,219</u>	<u>259,557</u>

Note: Other receivables, prepayments and deposits included prepayments to suppliers and subcontractors of approximately MOP51,498,000 (31 December 2020: MOP49,477,000).

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 for impairment.

	At 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Within 30 days	27,221	88,826
31 – 60 days	17,581	5,999
61 – 90 days	2,989	–
Over 90 days	63,280	28,717
	<u>111,071</u>	<u>123,542</u>

12. CONTRACT ASSETS AND CONTRACT LIABILITIES

	At 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Disclosure of revenue-related items:		
Contract assets		
Provision of fitting-out works	7,050	27,377
Provision of construction works	<u>104,088</u>	<u>9,842</u>
	<u>111,138</u>	<u>37,219</u>
Contract liabilities		
Provision of fitting-out works	714	1,807
Provision of construction works	<u>8,632</u>	<u>10,775</u>
	<u>9,346</u>	<u>12,582</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 2021, contract liabilities included receipt in advance from customers amounting to approximately MOP9,346,000 (31 December 2020: MOP12,582,000).

Contract assets as at the end of the reporting period are expected to be recovered after one year is MOP39,782,000 (31 December 2020: Nil), which is within the normal operation cycle and is classified as current.

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 2021 of the amount approximately MOP199,356,000 (31 December 2020: MOP330,645,000) which are expected to be recognised as revenue within 2 years (31 December 2020: within 1 year).

13. 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 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Trade payables	3,561	15,544
Retention payables (<i>Note</i>)	<u>42,693</u>	<u>27,419</u>
	46,254	42,963
Accrued contract costs	38,415	55,663
Accruals and other payables	<u>2,055</u>	<u>4,163</u>
Total trade and other payables	<u><u>86,724</u></u>	<u><u>102,789</u></u>

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:

	At 30 June 2021 <i>MOP'000</i> (unaudited)	At 31 December 2020 <i>MOP'000</i> (audited)
Within 30 days	800	7,749
31 – 60 days	279	1,108
61 – 90 days	523	–
Over 90 days	<u>1,959</u>	<u>6,687</u>
	<u><u>3,561</u></u>	<u><u>15,544</u></u>

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.

14. SHARE CAPITAL

(a) Shares

Details of the share capital of the Company are as follows:

	30 June 2021 (unaudited)		31 December 2020 (audited)	
	Number of shares '000	Share capital MOP'000	Number of shares '000	Share capital MOP'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of period/year and at end of period/ year	<u>10,000,000</u>	<u>103,150</u>	<u>10,000,000</u>	<u>103,150</u>
Issued and fully paid:				
At beginning of period/year and at end of period/ year	<u><u>2,000,000</u></u>	<u><u>20,630</u></u>	<u><u>2,000,000</u></u>	<u><u>20,630</u></u>

(b) Bonus warrants issue

On 30 April 2021, the Company had issued a circular relating to the bonus warrants issue (the “**Warrants**”), and obtained approval from the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Warrants and new shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants, the stock code of the Warrants is 1642.

The Warrants were issued to the qualifying shareholder on the basis of one Warrant for every five shares held on 14 May 2021 which may fall to be issued upon exercise of the subscription rights attaching to the Warrants. A total of 400,000,000 Warrants were issued by the Company to the shareholders pursuant to the Warrant, represented by the Warrant certificates. The Warrants were issued in registered form and each Warrant will entitle the holder thereof to subscribe in cash for 1 new share at an initial subscription price of HK\$1.50 per share during the subscription period from 27 May 2021 to 26 May 2022. As the date of this announcement, none of the Warrants were exercised.

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.

The Group's revenue for the six months ended 30 June 2021 increased by approximately 22.1% to approximately MOP189,197,000 (six months ended 30 June 2020: MOP154,906,000).

Meanwhile, since the COVID-19 epidemic continues, there remains a significant degree of uncertainty over the severity and duration of the economic downturn in Macau. As at 30 June 2021, the transaction prices allocated to the remaining performance obligations of the Group amounted to approximately MOP199,356,000 (31 December 2020: MOP330,645,000).

However, along with the implementation of various epidemic prevention measures in Macau, the COVID-19 epidemic situation has remained steady and the overall economic activities in Macau have been recovering gradually, which leads to the Group's results of the current interim period better than the corresponding period of last year. 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.

Fitting-out works

The Group provides fitting-out works for both new and existing buildings in Macau. Fitting-out projects involve shop drawing, interior design, procurement of materials, execution of fitting-out works, site supervision, management of subcontractors and overall project management. As at 31 December 2020, the Group had 28 fitting-out projects in progress, and for the six months ended 30 June 2021, the Group was awarded 16 new fitting-out projects, of which, 14 fitting-out projects have been practically completed, and 30 fitting-out projects are still in progress. During the current interim period, the Group was awarded 41 design projects, of which 27 design projects have been completed, and 14 projects are still in progress.

Construction works

Construction works include 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 2020, the Group had seven construction projects in progress, and for the six months ended 30 June 2021, four new construction projects were awarded and three construction projects have been practically completed, and eight 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 2020, the Group had three repair and maintenance projects in progress, and for the six months ended 30 June 2021, the Group was awarded four new repair and maintenance projects, all seven repair and maintenance projects are still in progress.

In summary, the Group had 59 projects in progress as at 30 June 2021, of which, 30 projects were public sector projects and 29 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 2021 and 2020:

	For the six months ended 30 June			
	2021		2020	
	<i>MOP'000</i>	<i>Percentage of total revenue</i>	<i>MOP'000</i>	<i>Percentage of total revenue</i>
Fitting-out works	65,247	34.5%	152,326	98.3%
Construction works	123,901	65.4%	2,473	1.6%
Repair and maintenance works	49	0.1%	107	0.1%
	<u>189,197</u>	<u>100.0%</u>	<u>154,906</u>	<u>100.0%</u>

For the six months ended 30 June 2021, the revenue of the Group amounted to approximately MOP189,197,000, representing an increase of approximately 22.1% from approximately MOP154,906,000 for the six months ended 30 June 2020 mainly attributable to an approximate of 49 times more in construction works revenue than the same period of last year. Such increase mainly attributed to approximately MOP132,007,000 of contract sum from construction projects awarded during the current interim period, while approximately MOP299,727,000 unsatisfied performance obligations to be recognised subsequent to the year ended 31 December 2020, among others approximately MOP142,000,000 of a construction project would be cancelled.

Cost of services

Cost of services includes subcontracting fees, staff costs, material costs and others. The total cost of services increased by approximately 24.9% from approximately MOP120,724,000 for the six months ended 30 June 2020 to approximately MOP150,719,000 for the six months ended 30 June 2021, which was basically in line with the increase 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 2021 and 2020:

	For the six months ended 30 June			
	2021		2020	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>MOP '000</i>	<i>%</i>	<i>MOP '000</i>	<i>%</i>
Fitting-out works	31,904	48.9%	34,055	22.4%
Construction works	6,572	5.3%	111	4.5%
Repair and maintenance works	2	4.1%	16	15.0%
	<u>38,478</u>	20.3%	<u>34,182</u>	22.1%

The Group's gross profit increased by approximately 12.6% from approximately MOP34,182,000 for the six months ended 30 June 2020 to approximately MOP38,478,000 for the six months ended 30 June 2021, which was mainly attributable to an increase in design projects with aggregate total contract sum of approximately MOP34.2 million awarded during the current interim period.

The gross profit margin of fitting-out works increased from approximately 22.4% for the six months ended 30 June 2020 to approximately 48.9% for the six months ended 30 June 2021, which was mainly attributable to the 41 design projects awarded to the Group covering the Guangdong-Macao Greater Bay Area and major cities in the Mainland China with an aggregate total contract sum of approximately MOP34.2 million during the current interim period, most of which are fitting-out related projects such as shop drawings, architectural design etc., as a result of the increase of the design projects which generally has a higher gross profit margin than fitting-out or construction project as compared to the previous record of the Group.

The gross profit margin of construction works recorded a slightly increase from approximately 4.5% for the six months ended 30 June 2020 to approximately 5.3% for the six months ended 30 June 2021.

Other income, net

The Group's other income, net for the six months ended 30 June 2021 was approximately MOP116,000 (six months ended 30 June 2020: MOP1,319,000), which included (i) foreign exchange loss of approximately MOP104,000; and (ii) interest income of approximately MOP220,000.

Administrative and other operating expenses

The administrative and other operating expenses of the Group for the six months ended 30 June 2021 amounted to approximately MOP12,010,000 (six months ended 30 June 2020: MOP14,599,000), representing a decrease of approximately MOP2,589,000 or approximately 17.7% compared with the same period of last year. This was mainly due to the decrease of staff costs by approximately MOP3,498,000, mainly attributed to (i) a decrease in the staff head count; and (ii) special bonus paid in the corresponding period of last year.

Finance costs

The finance costs of the Group for the six months ended 30 June 2021 to approximately MOP1,123,000 (six months ended 30 June 2020: MOP1,036,000). Finance costs was mainly attributed to the bank borrowings of approximately MOP75,000,000 for the six months ended 30 June 2021, of which approximately MOP25,000,000 and MOP50,000,000 was received in January 2021 and late May 2021 respectively.

Income tax expense

The income tax expense of the Group increased from approximately MOP2,874,000 for the six months ended 30 June 2020 to approximately MOP4,116,000 for the six months ended 30 June 2021, mainly due to the increase in profit before taxation of the Group.

Profit for the period

The Group's profit for the period attributable to owners of the Company increased by approximately MOP4,353,000 from approximately MOP16,992,000 for the six months ended 30 June 2020 to approximately MOP21,345,000 for the six months ended 30 June 2021. Such increase was the result of the combined effects of the aforementioned items.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had cash and cash equivalents of approximately MOP39,859,000 (31 December 2020: MOP88,834,000), which represented the bank and cash balances of the Group. As at 30 June 2021, the Group's pledged bank deposits amounted to approximately MOP45,464,000 (31 December 2020: MOP26,535,000).

As at 30 June 2021, bank borrowings amounted to approximately MOP75,000,000 (31 December 2020: Nil), and bank overdrafts amounted to approximately MOP21,782,000 (31 December 2020: MOP16,404,000).

The Group's current and quick ratio was 2.2 (31 December 2020: 3.0). 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 40.2% (31 December 2020: 6.1%), which was calculated as total debt divided by total equity at the end of reporting period. The increase in the gearing ratio was mainly due to the increase in bank borrowing during the six month ended 30 June 2021.

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 2021, the outstanding bank borrowings, bank overdrafts and unutilised bank facilities of the Group were approximately MOP75,000,000, MOP21,782,000 and MOP228,234,000, respectively, which were 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

There has been no change in the capital structure of the Company during the six months ended 30 June 2021. The capital structure of the Company consists of issued share capital, share premium, statutory reserve and retained earnings.

BONUS WARRANTS ISSUE

On 30 April 2021, the Company had issued a circular relating to the Warrants, and obtained approval from the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Warrants and new shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants, the stock code of the Warrants is 1642.

The Warrants were issued to the qualifying shareholder on the basis of one Warrant for every five shares held on 14 May 2021 which may fall to be issued upon exercise of the subscription rights attaching to the Warrants. A total of 400,000,000 Warrants were issued by the Company to the shareholders pursuant to the Warrant, represented by the Warrant certificates. The Warrants were issued in registered form and each Warrant will entitle the holder thereof to subscribe in cash for 1 new share at an initial subscription price of HK\$1.50 per share during the subscription period from 27 May 2021 to 26 May 2022. As the date of this announcement, none of the Warrants were exercised.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATES OF THE GROUP

For the six months ended 30 June 2021, 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, as at 30 June 2021, the Group did not have any other future plans for significant investments.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS AND CHANGE IN USE OF PROCEEDS

The net proceeds from the 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\$62,693,000 had been utilised as of 30 June 2021 as follows:

Intended use	Actual amount of net proceeds <i>HK\$'000</i>	Amount utilised as of 30 June 2021 <i>HK\$'000</i>	Remaining balance as at 30 June 2021 <i>HK\$'000</i>	Expected timeline of full utilisation of the remaining balance as at 30 June 2020
To finance the Group's fitting-out and construction projects in Macau	62,693	62,693	—	
To increase the Group's 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>62,693</u>	<u>29,078</u>	

CHANGE IN USE OF PROCEEDS

As at 30 June 2021, the unutilised net proceeds amounted to approximately HK\$29.1 million (the "Unutilised Net Proceeds"). The Board having considered the business environment and recent development of the Group, resolved to change the use of the Unutilised Net Proceeds. Set out below is the utilisation of the net proceeds as at 30 June 2021 and the proposed change of use of the Unutilised Net Proceeds:

Intended use of Net Proceeds	Original approximate percentage of net proceeds as stated in the Prospectus	Revised approximate percentage of net proceeds	Unutilised amount of net proceeds up to 30 June 2021 <i>(HK\$'000)</i>	Revised allocation of Unutilised Net Proceeds <i>(HK\$'000)</i>	Expected timeline for fully utilising the remaining net proceeds
To finance the Group's fitting-out and construction projects in Macau	68.3%	100%	—	29,078	On or before 30 June 2022
To increase the Group's workforce	17.4%	—	15,967	—	Not Applicable
To purchase machinery and equipment	14.3%	—	13,111	—	Not Applicable
	<u>100%</u>	<u>100%</u>	<u>29,078</u>	<u>29,078</u>	

REASONS FOR THE CHANGE IN USE OF PROCEEDS

In order to facilitate the Group to undertake additional projects in the future, the Board has resolved to change the use of the net proceeds. The Unutilised Net Proceeds allocated for increasing the Group's workforce and purchasing machinery and equipment will be reallocated to finance the Group's fitting-out and construction projects in Macau.

The Group continuously submits tenders for new fitting-out and construction projects in Macau, which greater needs for working capital is expected to bear early stage payments for successful tender(s).

The outbreak of the COVID-19 pandemic has triggered an economic downturn in Macau and was a significant impact to the Macau's fitting-out and construction industry. As the COVID-19 epidemic continues, there remains a significant degree of uncertainty over the severity and duration of the economic downturn in Macau, as well as the trajectory of the economic recovery once the outbreak has been contained. In view of the aforesaid, the Board believes that it is financially prudent to strengthen the liquidity management of the Group in order to enhance its flexibility in responding to different challenges ahead. In particular, the Board considers that it is vital to ensure that the Group has sufficient working capital to support its ongoing projects in case of any unexpected material delay or disruption in projects implementation.

In light of the potential impact due to the outbreak of the COVID-19, the Board considers that the Group has genuine needs to enhance its reserve for financing its upcoming projects.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had 48 (31 December 2020: 63) 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 2021, the Group had capital commitment of approximately CNY2,000,000 (31 December 2020: Nil). As at 30 June 2021, the Group had contingent liabilities of approximately MOP74,211,000 (31 December 2020: MOP78,792,000). 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 any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil)

A final dividend in respect of the year ended 31 December 2020 of HK2.5 cents (approximately equivalent to MOP2.6 cents) per share, HK\$50,000,000 (approximately equivalent to MOP51,575,000) (2019: Nil) in total was declared pursuant to the resolution passed by the Board on 31 March 2021 and the approval of the shareholders of the Company at the annual general meeting of the Company held on 31 May 2021. This final dividend was paid on 10 June 2021.

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 2021.

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 2021.

CORPORATE GOVERNANCE

In the opinion of the Directors, 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 2021, 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 2021, 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 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 this announcement; (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 this announcement during the board meeting held on 31 August 2021, with the presence of the independent non-executive Directors; and (iii) the independent non-executive Directors had reviewed the part of the Group's internal control measures from the internal control review report for the year ended 31 December 2020, which was prepared by an external independent consultant, during the audit committee meeting held on 31 March 2021.

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 period ended 30 June 2021.

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 2021 is to be despatched to the shareholders of the Company and made available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.huarchi.com in due course.

By order of the Board
Huarchi Global Group Holdings Limited
Lou Cheok Meng
Chairman and Managing Director

Hong Kong, 31 August 2021

As at the date of this announcement, Mr. Lou Cheok Meng (Chairman and Managing Director), Mr. Chang Wa Jeong and Mr. Ao Weng Kong 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.