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Lai Si Construction
Lai Si Enterprise Holding Limited
黎氏企業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2266)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

(in Macau Pataca (“MOP”) thousand, unless otherwise stated)

	For the six months ended 30 June 2019 (Unaudited)		2018 (Unaudited)	Percentage increase/ (decrease)
Revenue	100,914		71,205	41.7%
Gross profit	21,727		10,783	101.5%
Gross profit margin	21.5%		15.1%	6.4%
Profit (loss) attributable to owners of the Company	1,064		(9,907)	N/A
Earnings (loss) per share (<i>MOP cents</i>)	0.3		(2.5)	N/A
	As at 30 June 2019 (Unaudited)		As at 31 December 2018 (Audited)	Percentage increase
Equity attributable to owners of the Company	218,753		217,689	0.5%

FINAL DIVIDEND

The Board resolved not to declare any payment of interim dividend for the six months ended 30 June 2019.

The board (the “**Board**”) of directors (the “**Directors**”) of Lai Si Enterprise Holding Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding six months ended 30 June 2018 as set out below:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	<i>Notes</i>	2019 MOP'000 (Unaudited)	2018 MOP'000 (Unaudited)
Revenue	4	100,914	71,205
Cost of sales		(79,187)	(60,422)
Gross profit		21,727	10,783
Other income, gains and losses, net		692	4
Administrative expenses		(19,744)	(19,310)
Finance costs		(1,023)	(1,384)
PROFIT/(LOSS) BEFORE TAX	5	1,652	(9,907)
Income tax expense	6	(588)	–
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,064	(9,907)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation		–	23,294
Income tax effect		–	(2,795)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		–	20,499
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,064	10,592
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted			
– For profit/(loss) for the period	8	MOP0.3 cent	(MOP2.5 cents)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>MOP'000</i>	<i>MOP'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	82,794	83,862
Investment properties		26,780	26,780
Right-of-use assets		13,824	–
Total non-current assets		123,398	110,642
CURRENT ASSETS			
Trade receivables	10	60,521	53,055
Contract assets		85,263	94,733
Prepayments, other receivables and other assets		21,472	12,713
Amount due from a director		672	680
Amount due from the ultimate holding company		1	1
Pledged bank deposits		3,600	3,600
Cash and bank balances		46,552	51,898
Total current assets		218,081	216,680
CURRENT LIABILITIES			
Trade payables	11	23,914	26,166
Contract liabilities		11,288	4,378
Lease liabilities		1,947	–
Other payables and accruals		10,904	12,069
Interest-bearing bank borrowings		56,739	61,694
Tax payable		2,310	1,962
Total current liabilities		107,102	106,269
NET CURRENT ASSETS		110,979	110,411
TOTAL ASSETS LESS CURRENT LIABILITIES		234,377	221,053

	30 June 2019 MOP'000 (Unaudited)	31 December 2018 MOP'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	3,604	3,364
Lease liabilities	12,020	—
Total non-current liabilities	15,624	3,364
Net assets	218,753	217,689
EQUITY		
Share capital	4,120	4,120
Reserves	214,633	213,569
Total equity	218,753	217,689

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

1. CORPORATE AND GROUP INFORMATION

Lai Si Enterprise Holding Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 1 June 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 10 February 2017. The Company’s immediate and ultimate holding company is SHK-Mac Capital Limited (“**SHKMCL**”), a company incorporated in the British Virgin Islands (“**BVI**”) with limited liability. The Company’s registered office address is Cricket Square, Hutchins Drive, P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, the Cayman Islands and its principal place of business is located at Macau Lai Si Enterprise Centre, Rua Da Ribeira Do Patane No. 54, Macau.

The Company is an investment holding company.

The Company and its subsidiaries (the “**Group**”) completed group reorganisation on 23 January 2017. Please refer to Note 2 to the consolidated financial statements in the Group’s 2017 Annual Report for details.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with *HKAS 34 Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019 listed out below.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee - Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for an office premise, a warehouse, a staff quarter and a restaurant. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase <i>MOP'000</i> (Unaudited)
Assets	
Increase in right-of-use assets	477
Increase in total assets	<u>477</u>
Liabilities	
Increase in lease liabilities	477
Increase in total liabilities	<u>477</u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>MOP'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	757
Weighted average incremental borrowing rate as at 1 January 2019	<u>3.19%</u>
Discounted operating lease commitments as at 1 January 2019	734
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	<u>(257)</u>
Lease liabilities as at 1 January 2019	<u>477</u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of the office premise and restaurant due to the significance of these assets to its operations.

Amounts recognised in the interim consolidated statement of financial position and profit or loss

The carrying amounts of the Group right-of-use assets and lease liabilities, and the movements during the period are as follows:

	Right-of-use assets			Lease liabilities
	Office premise	Restaurant	Total	
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2019	477	–	477	477
Additions	–	14,032	14,032	13,620
Amortisation charge	(239)	(446)	(685)	–
Interest expense	–	–	–	115
Payments	–	–	–	(245)
As at 30 June 2019	<u>238</u>	<u>13,586</u>	<u>13,824</u>	<u>13,967</u>

The Group recognised rental expenses from a short-term lease of approximately MOP101,000 for the six months ended 30 June 2019.

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The Group determined that the interpretation did not have any significant impact on the Group’s interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

Six months ended 30 June 2019

	Fitting-out, alteration and addition works <i>MOP'000</i> (Unaudited)	Construction works <i>MOP'000</i> (Unaudited)	Repair and maintenance services <i>MOP'000</i> (Unaudited)	Total <i>MOP'000</i> (Unaudited)
Segment revenue (note 4)				
Sales to external customers	<u>92,124</u>	<u>5,758</u>	<u>3,032</u>	<u>100,914</u>
Segment results	20,238	(298)	1,107	21,047
Corporate expenses				(19,064)
Other income, gains and losses, net				692
Finance costs				<u>(1,023)</u>
Profit before tax				<u><u>1,652</u></u>

Six months ended 30 June 2018

	Fitting-out, alteration and addition works <i>MOP'000</i> (Unaudited)	Construction works <i>MOP'000</i> (Unaudited)	Repair and maintenance services <i>MOP'000</i> (Unaudited)	Total <i>MOP'000</i> (Unaudited)
Segment revenue				
Sales to external customers	<u>67,416</u>	<u>2,609</u>	<u>1,180</u>	<u>71,205</u>
Segment results	12,216	(2,972)	584	9,828
Corporate expenses				(18,355)
Other income, gains and losses, net				4
Finance costs				<u>(1,384)</u>
Loss before tax				<u><u>(9,907)</u></u>

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	MOP'000	MOP'000
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Fitting-out, alteration and addition works	92,124	67,416
Construction works	5,758	2,609
Repair and maintenance services	3,032	1,180
	100,914	71,205

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2019

Segments	Fitting-out, alteration and addition works MOP'000 (Unaudited)	Construction works MOP'000 (Unaudited)	Repair and maintenance services MOP'000 (Unaudited)	Total MOP'000 (Unaudited)
Geographical markets				
Macau	61,903	5,758	2,637	70,298
Hong Kong	30,221	–	395	30,616
Total revenue from contracts with customers	92,124	5,758	3,032	100,914
Timing of revenue recognition				
Services transferred over time	92,124	5,758	–	97,882
Services transferred at a point in time	–	–	3,032	3,032
Total revenue from contracts with customers	92,124	5,758	3,032	100,914

For the six months ended 30 June 2018

Segments	Fitting-out, alteration and addition works <i>MOP'000</i> (Unaudited)	Construction works <i>MOP'000</i> (Unaudited)	Repair and maintenance services <i>MOP'000</i> (Unaudited)	Total <i>MOP'000</i> (Unaudited)
Geographical markets				
Macau	33,459	2,609	1,180	37,248
Hong Kong	33,957	–	–	33,957
Total revenue from contracts with customers	<u>67,416</u>	<u>2,609</u>	<u>1,180</u>	<u>71,205</u>
Timing of revenue recognition				
Services transferred over time	67,416	2,609	–	70,025
Services transferred at a point in time	<u>–</u>	<u>–</u>	<u>1,180</u>	<u>1,180</u>
Total revenue from contracts with customers	<u>67,416</u>	<u>2,609</u>	<u>1,180</u>	<u>71,205</u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2019	2018
	<i>MOP'000</i>	<i>MOP'000</i>
	(Unaudited)	(Unaudited)
Cost of services provided*	79,187	60,422
Bank interest income	(269)	(975)
Impairment of financial and other assets, net:		
Impairment of trade receivables, net	23	320
(Reversal of impairment)/impairment of contract assets, net	(25)	246
	<u>(2)</u>	<u>566</u>
Foreign exchange differences, net	<u>146</u>	<u>605</u>

* Included in cost of services provided are the staff costs incurred in the amount of approximately MOP13,622,000 (six months ended 30 June 2018: MOP10,497,000).

6. INCOME TAX

Macau complementary tax has been provided at progressive rates up to 12% (2018: progressive rates up to 12%) on the estimated taxable profits arising in Macau during the period. Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	For the six months ended 30 June	
	2019	2018
	<i>MOP'000</i>	<i>MOP'000</i>
	(Unaudited)	(Unaudited)
Current – Macau		
Charge for the period	69	–
Current – Hong Kong		
Charge for the period	279	–
Deferred	240	–
Total tax charge for the period	588	–

7. DIVIDENDS

No dividend has been paid or declared by the Group during the six months ended 30 June 2019 and 2018.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount for the period is based on the profit/(loss) for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 of 400,000,000 (six months ended 30 June 2018: 400,000,000).

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the capital expenditure for acquisition of property, plant and equipment was approximately MOP149,000 (six months ended 30 June 2018: MOP808,000).

In addition, during the six months ended 30 June 2018, the Group transferred certain leasehold land and buildings with an aggregate carrying amount of MOP3,486,000 to investment properties, which were revalued at MOP26,780,000. The resulting revaluation surplus of MOP23,294,000 and the related deferred tax liabilities of MOP2,795,000 upon the transfer have been recognised in other comprehensive income and deferred tax liabilities, respectively.

10. TRADE RECEIVABLES

	30 June 2019 MOP'000 (Unaudited)	31 December 2018 MOP'000 (Audited)
Trade receivables	61,918	54,428
Impairment	(1,397)	(1,373)
	<u>60,521</u>	<u>53,055</u>

The Group allows an average credit period of 30 days to its customers. Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of existing customers is reviewed by the Group regularly.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 MOP'000 (Unaudited)	31 December 2018 MOP'000 (Audited)
Within 1 month	27,515	29,645
1 to 2 months	11,464	1,161
2 to 3 months	1,286	138
Over 3 months	20,256	22,111
	<u>60,521</u>	<u>53,055</u>

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019 MOP'000 (Unaudited)	31 December 2018 MOP'000 (Audited)
Within 1 month	6,551	13,066
1 to 2 months	155	1,592
2 to 3 months	802	1,395
Over 3 months	16,406	10,113
	23,914	26,166

12. CONTINGENT LIABILITIES

(a) Sin Fong Garden Building

In October 2012, one of the supporting pillars of the residential building called “Sin Fong Garden Building” collapsed due to the loss of stability. Such collapse was accused to be caused by the dismantlement and construction of the foundation work undertaken in an adjacent new residential building project, of which Lai Si was one of the contractors. As a result, in September 2015, several flat owners of Sin Fong Garden Building filed a lawsuit against several defendants including Lai Si, seeking for a compensation for the loss of property, in a total sum of approximately HK\$48,950,000, to be borne jointly by the defendants. However, according to the report issued by the team of technical advisers and experts engaged by the Macau Government to study the causes of the incident, the collapse of Sin Fong Garden Building was caused by the substandard supporting pillars of Sin Fong Garden Building, instead of the dismantlement and foundation work undertaken in the adjacent new residential building.

In October 2015, the Macau Government has filed a lawsuit against several defendants including Lai Si, seeking a compensation for the costs incurred by the Macau Government for (i) measures it had taken to prevent Sin Fong Garden Building from being collapsed; (ii) ensuring the safety of citizens and adjacent buildings; and (iii) the technical advisers and experts it had hired to study the causes of the incident, in a total sum of approximately MOP12,806,000, to be borne jointly by the defendants.

Up to the date of approval of this condensed consolidated financial information, the proceedings are scheduled for the trial hearings. The first hearing dates for the lawsuit filed by the Macau Government are scheduled on 4 and 5 December 2019 while the date for another lawsuit filed by several flat owners of Sin Fong Garden Building is yet to be confirmed. After consulting the Group's lawyer, the directors of the Company are of the opinion that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and hence no provision is made in the condensed consolidated financial information. The Controlling Shareholders have undertaken to indemnify the Group against all losses and liabilities arising from the above proceedings.

(b) Dispute on payment with a subcontractor

As at 30 June 2019, a subsidiary of the Group was a defendant in a lawsuit brought by a subcontractor of two of the Group's fitting-out projects on a total settlement dispute amount of MOP4.6 million. The directors, based on the advice from the Group's legal counsel, believe that the subsidiary has a valid defence against the lawsuit and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

Up to the date of approval of this condensed consolidated financial information, the proceedings are scheduled for the trial hearings. The first hearing date for one of the fitting-out projects is scheduled on 16 January 2020 while the date of another fitting-out project is yet to be confirmed. After consulting the Group's lawyer, the directors of the Company are of the opinion that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and hence no provision is made in the condensed consolidated financial information.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 10 February 2017, the shares (the “**Shares**”) of Lai Si Enterprise Holding Limited (the “**Company**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) when 100,000,000 Shares were offered for subscription at HK\$1.15 each.

The Company and its subsidiaries (collectively, the “**Group**”) provide services of (i) fitting-out works as an integrated fitting-out contractor; (ii) construction works as a main contractor; and (iii) repair and maintenance services, mainly in Macau. During the six months ended 30 June 2019, all of the Group’s revenue was derived from Macau and Hong Kong and the Group undertook projects from both private and public sectors.

The Group’s customers primarily include (i) hotel and casino developers and owners, international retailers and restaurant owners for fitting-out works; (ii) land owners and the Macau Government for construction works; and (iii) operators of hotels and casinos, retail shops and restaurants for repair and maintenance works.

The Group’s revenue comprised of (a) fitting-out works; (b) construction works; and (c) repair and maintenance services. During the six months ended 30 June 2019, the total value for the new fitting-out projects awarded to the Group, representing the aggregate awarded contract sum, amounted to approximately MOP174.2 million as compared to the six months ended 30 June 2018 of approximately MOP59.1 million. As at 30 June 2019, the Group had an aggregate value of backlog for fitting-out projects and construction projects of approximately MOP115.9 million as compared to approximately MOP46.2 million as at 30 June 2018.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group’s revenue during the six months ended 30 June 2019 and 2018 by business segments:

	Six months ended 30 June (Unaudited)			
	2019		2018	
	MOP’000	%	MOP’000	%
Fitting-out works	92,124	91.3	67,416	94.7
Construction works	5,758	5.7	2,609	3.7
Repair and maintenance works	3,032	3.0	1,180	1.6
Total	<u>100,914</u>	<u>100.0</u>	<u>71,205</u>	<u>100.0</u>

During the six months ended 30 June 2019, the Group's revenue increased by approximately MOP29.7 million or 41.7%. The increase was attributable to increase in fitting-out works of approximately MOP24.7 million or 36.6% and in construction works of approximately MOP3.1 million or 120.7% which was mainly due to improved operating environment in the overall fitting-out industry in Macau.

Gross profit and gross profit margin

The following table sets forth a breakdown of the Group's gross profit and gross profit margin during the six months ended 30 June 2019 and 2018 by business segments:

	Six months ended 30 June (Unaudited)			
	2019		2018	
	Gross profit		Gross profit	
	Gross profit (loss) MOP'000	(loss) margin %	Gross profit (loss) MOP'000	(loss) margin %
Fitting-out works	20,879	22.7	13,129	19.5
Construction works	(266)	(4.6)	(2,937)	(112.6)
Repair and maintenance works	1,114	36.7	591	50.1
Total/overall	21,727	21.5	10,783	15.1

During the six months ended 30 June 2019, the Group's gross profit increased by approximately MOP10.9 million or 101.5% from approximately MOP10.8 million for the six months ended 30 June 2018 to approximately MOP21.7 million for the six months ended 30 June 2019. The increase in gross profit was in line with the increase in revenue. Gross loss in construction works segment was recorded due to extra cost incurred.

The Group's gross profit margin increased from approximately 15.1% for the six months ended 30 June 2018 to approximately 21.5% for the six months ended 30 June 2019. The increase in gross profit margin was mainly attributable to higher gross profit margin from fitting-out works.

Other income, gains and losses

The Group's other income and gains increased by MOP688,000 from approximately MOP4,000 for the six months ended 30 June 2018 to approximately MOP692,000 for the six months ended 30 June 2019. The increase was mainly due to increase in rental income.

Administrative expenses

The Group's administrative expenses increased by approximately MOP0.4 million or 2.2% from approximately MOP19.3 million for the six months ended 30 June 2018 to approximately MOP19.7 million for the six months ended 30 June 2019. There was no significant changes.

Finance costs

The Group's finance costs was approximately MOP1.0 million for the six months ended 30 June 2019, compared to that for the six months ended 30 June 2018 of approximately MOP1.4 million. The decrease was due to bank overdraft decrease.

Income tax expense

The Group incurred income tax expense approximately MOP0.6 million for the six months ended 30 June 2019. The amount was increased as compared with nil amount for the six months ended 30 June 2018 which was loss making.

Profit (loss) for the period attributable to owners of the Company

As a combined result of the above, the Group's profit for the period attributable to owners of the Company amounted to approximately MOP1.1 million for the six months ended 30 June 2019 as compared to the Group's loss attributable to owners of the Company of approximately MOP9.9 million for the six months ended 30 June 2018.

Earnings (loss) per Share

The Company's earnings per Share for the six months ended 30 June 2019 was MOP0.3 cent (30 June 2018: loss per share MOP2.5 cents), representing an increase of MOP2.8 cents which was due to improved operating environment in the overall fitting-out industry in Macau.

Interim dividend

The Board resolved not to declare payment of any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and financial resources and capital structure

The management and control of the Group's financial, capital management and external financing functions are centralised at its headquarters in Macau. The Group adheres to the principle of prudent financial management to minimise financial and operational risks. The Group mainly relies upon internally generated funds and bank borrowings to finance its operations and expansion.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group, and mitigate the effects of fluctuations in cash flows. The management of the Group believes that the Group has sufficient working capital for its future operational requirement.

As at 30 June 2019, the Group had net current assets of approximately MOP111.0 million, increased by approximately MOP0.6 million over the net current assets of approximately MOP110.4 million as recorded at 31 December 2018.

As at 30 June 2019, the Group had bank balances and cash of MOP46.6 million (31 December 2018: MOP51.9 million).

As at 30 June 2019, the Group had an aggregate of pledged bank deposits of MOP3.6 million (31 December 2018: MOP3.6 million) that were used to secure banking facilities.

As at 30 June 2019, interest-bearing bank borrowings amounted to MOP56.7 million (31 December 2018: MOP61.7 million) of which MOP3.8 million, MOP3.9 million, MOP12.4 million and MOP36.6 million (31 December 2018: MOP6.8 million, MOP3.8 million, MOP12.2 million and MOP38.9 million) will mature within one year, one year to two years, two years to five years and more than five years, respectively. The loans carry interest at variable market rates by reference to the prevailing Prime Rate and Hong Kong Interbank Offered Rate. The effective interest rates as at 30 June 2019 (which were also equal to contracted interest rates) ranged from 2.7% to 4.4% (31 December 2018: 2.7% to 4.4%).

The Group continued to maintain a healthy liquidity position. As at 30 June 2019, the Group's current assets and current liabilities were MOP218.1 million (31 December 2018: MOP216.7 million) and MOP107.1 million (31 December 2018: MOP106.3 million), respectively. The Group's current ratio as at 30 June 2019 remained stable at 2.0 (31 December 2018: 2.0). The Group has maintained sufficient liquid assets to finance its operations.

The Group's gearing ratio, calculated by dividing total debts (including interest-bearing bank borrowings) with total equity, was 0.26 as at 30 June 2019 (31 December 2018: 0.28). The decrease was primarily due to bank loan repayment.

As at 30 June 2019, the share capital and equity attributable to owners of the Company amounted to MOP4.1 million and MOP218.8 million, respectively (31 December 2018: MOP4.1 million and MOP217.7 million, respectively).

Charge on the Group's assets

As at 30 June 2019, the leasehold land and building, investment properties and pledged bank deposits pledged to secure certain borrowings granted to the Group amounted to MOP81.4 million, MOP26.8 million and MOP3.6 million (31 December 2018: MOP82.3 million, MOP26.8 million and MOP3.6 million), respectively.

Contingent liabilities and capital commitments

Sin Fong Garden Building

In October 2012, one of the supporting pillars of the residential building called “Sin Fong Garden Building” collapsed due to the loss of stability. Such collapse was alleged to be caused by the dismantlement and construction of the foundation work undertaken in an adjacent new residential building project, of which Lai Si was one of the contractors. As a result, in September 2015, several flat owners of Sin Fong Garden Building filed a lawsuit against several defendants including Lai Si, seeking for a compensation for the loss of property, in a total sum of approximately HK\$49.0 million, to be borne jointly by the defendants. However, according to the report issued by the team of technical advisors and experts engaged by the Macau Government to study the causes of the incident, the collapse of Sin Fong Garden Building was caused by the substandard supporting pillars of Sin Fong Garden Building, instead of the dismantlement and foundation work undertaken in the adjacent new residential building.

In October 2015, the Macau Government has further filed a lawsuit against several defendants including Lai Si, seeking for a compensation for the costs incurred by the Macau Government for (i) measures it had taken to prevent Sin Fong Garden Building from being collapsed; (ii) ensuring the safety of citizens and adjacent buildings; and (iii) the technical advisors and experts it had hired to study the causes of the incident, in a total sum of approximately MOP12.8 million, to be borne jointly by the defendants.

Up to the date of this announcement, the proceedings are scheduled for the trial hearings. The first hearing dates for the lawsuit filed by the Macau Government are scheduled on 4 and 5 December 2019 while the date for another lawsuit filed by several flat owners of Sin Fong Garden Building is yet to be confirmed. After consulting the Group's lawyer, the Directors are of the opinion that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and hence no provision is made to the financial information. The Controlling Shareholders have undertaken to indemnify the Group against all losses and liabilities arising from the above proceedings.

Dispute on payment with a subcontractor

As at 30 June 2019, a subsidiary of the Group was a defendant in a lawsuit brought by a subcontractor of two of the Group's fitting-out projects on a total settlement dispute amount of MOP4.6 million. The directors, based on the advice from the Group's legal counsel, believe that the subsidiary has a valid defence against the lawsuit and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

Up to the date of this announcement, the proceedings are scheduled for the trial hearings. The first hearing date for one of the fitting-out projects is scheduled on 16 January 2020 while the date of another fitting-out project is yet to be confirmed. After consulting the Group's lawyer, the Directors are of the opinion that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and hence no provision is made to the financial information.

As at 30 June 2019, the Group did not have any capital commitments (31 December 2018: Nil).

Exposure to fluctuations in exchange rates and interest rates and corresponding hedging arrangements

The Group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Group is exposed to currency risk primarily through purchase of raw materials and sales proceeds received from customers that are denominated in a currency other than the Group entities' functional currency. The currencies giving rise to this risk are primarily HK\$ and RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity.

The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances, bank overdrafts and bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Credit exposure

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees arisen from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable and other receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The policy of allowances for doubtful debts of the Group is based on the evaluation and estimation of collectability and ageing analysis of the outstanding debts. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive, discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. The management closely monitors the subsequent settlement of the counterparties.

In addition to the above, in year 2018, upon the implementation of HKFRS 9, the Group had engaged professional valuer service on the collectibility of the overall account receivables portfolio. The professional valuer took forward looking approach in assessing credit risk (expected credit losses). General provision on account receivable was made accordingly.

In this regard, the management of the Group considers that credit risk is well taken care and addressed.

The Group is exposed to concentration of credit risk as at 30 June 2019 on trade receivables and contract assets from the Group's five major customers amounting to approximately MOP20.4 million (31 December 2018: MOP45.8 million) and accounted for approximately 15.4% (31 December 2018: 31.0%) of the Group's total trade receivables and contract assets. The major customers of the Group are certain reputable organisations. The management of the Group considers that the credit risk is limited in this regard.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Liquid funds were also under the scope of review by the professional valuer as in account receivables.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events after 30 June 2019 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the total number of full-time employees of the Group was 164 (31 December 2018: 163).

The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The Group may pay a discretionary bonus to its employees based on individual performance in recognition of their contribution and hard work.

The Group's gross staff costs from operations (including the directors' emoluments) was MOP25.3 million for the six months ended 30 June 2019 (30 June 2018: MOP21.8 million).

The Company adopted a share option scheme so that the Company may grant options to the eligible participants as incentives or rewards for their contribution to the Group. Since the listing of the Shares, no share option had been granted under the share option scheme.

USE OF PROCEEDS FROM THE SHARE OFFER

The Shares have been listed and traded on the Main Board of the Stock Exchange since 10 February 2017.

The net proceeds from the Placing and Public Offer (the “**Share Offer**”) (as defined in the prospectus of the Company dated 27 January 2017 (the “**Prospectus**”)) amounted to approximately HK\$89.8 million (equivalent to approximately MOP92.5 million) (after deducting underwriting fees and commissions and all related expenses). Such net proceeds are intended to be applied in accordance with the proposed application as disclosed in the Prospectus.

Items	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Finance fitting-out projects in Macau	49.4	29.4	20.0
Finance construction projects in Macau	17.9	13.9	4.0
Finance the start-up costs of fitting-out business in Hong Kong	9.0	9.0	—
Hire additional staff for the Group’s business operation	4.5	4.5	—
General working capital	9.0	9.0	—
	<u>89.8</u>	<u>65.8</u>	<u>24.0</u>

As at 30 June 2019, the unutilised net proceeds from the Share Offer were deposited in the bank accounts of the Group.

MARKET REVIEW

In the first half of 2019, the volume of fitting-out works in Macau’s market was maintaining at a relatively low level, primarily due to the slowdown of Macau’s economic growth, as well as the prolonged impact from the Sino-US trade dispute on the global economic environment. On top of that, the upcoming license renewals of casinos and hotels in Macau had resulted in the delay of several large gaming corporations’ construction projects, and renovation projects are postponed one after another due to an unexpectedly long process of review and approval of construction proposals by Macau’s governmental authorities. To summarise the above, the shrinkage of fitting-out market in Macau during the first half of 2019 was primarily attributed to the foresaid factors.

On the other hand, the Group began actively establishing overseas branches a few years ago. Growing increasingly developed, the Hong Kong branch has already gained its foothold and received recognition in Hong Kong's fitting-out market. Meanwhile, in view of the high market demand for fitting-out works in Southeast Asian countries and the region, the Group intends to expand its business to those Southeast Asian countries. Inspections are actively undergoing at the moment. The Group expects to successfully secure new project development plans in Southeast Asian countries in the second half of 2019.

OUTLOOK

The Group has always been pursuing a diversified development of its business. Apart from the core business of fitting-out works, the Group is searching for additional area of development and exploring other businesses, such as its growing catering business, as well as retailing and trading business which are under planning. The Group believes that engaging in such business sectors will bring additional contribution and opportunities to the Company. Furthermore, the Government of the People's Republic of China is now committed to the development of Guangdong-Hong Kong-Macau Greater Bay Area with a plan to forge the Greater Bay Area into one of the best bay areas around the globe which is suitable for living, career-development and travelling. This planning policy favors the economic integration between Guangdong Province and the two Special Administrative Regions and an enhanced cooperation between Guangdong, Hong Kong and Macau, thus encouraging more investment projects and commercial activities to take place in the Greater Bay Area, which in turn provides driving force for the real estate market and drives the development in fitting-out and construction industries. Therefore, the Group is optimistic about the future development of Guangdong-Hong Kong-Macau Greater Bay Area and will seize this opportunity to align ourselves with the national planning strategy and actively participate in the development of the Greater Bay Area.

INTERIM DIVIDEND

The Board resolved not to declare payment of any interim dividend for the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions (the “**Securities Dealing Code**”). Specific enquiry has been made with all the Directors and all of them confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management of the Company the accounting principles and policies adopted by the Group, and the financial information of the Group and the unaudited interim results announcement of the Company for the six months ended 30 June 2019.

SCOPE OF WORK OF MESSRS. ERNST & YOUNG

The interim results for the six months ended 30 June 2019 is unaudited, but has been reviewed by the Group’s auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the HKICPA, whose unmodified review report will be included in the interim report to be sent to the shareholders of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.lai-si.com). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be published on the above websites and despatched to the shareholders of the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners and other professional parties for their support during the six months ended 30 June 2019.

By order of the Board
Lai Si Enterprise Holding Limited
LAI Ieng Man
Executive Director and Chairman

Macau, 28 August 2019

As at the date of this announcement, the executive directors of the Company are Mr. LAI Ieng Man, Mr. LAI Meng San, Ms. LAI Ieng Wai and Ms. CHEONG Weng Si, and the independent non-executive directors of the Company are Mr. CHAN Chun Sing, Mr. CHAN Iok Chun and Ms. LAM Mei Fong.