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建聯集團有限公司*

Chinney Alliance Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 385)

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

The board of directors (the “Board”) of Chinney Alliance Group Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated statement of profit or loss and the unaudited condensed consolidated statement of comprehensive income of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 together with comparative figures in 2019 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
REVENUE	3	2,177,135	2,453,426
Cost of sales/services provided		<u>(1,847,472)</u>	<u>(2,098,110)</u>
Gross profit		329,663	355,316
Other income	3	3,004	3,276
Selling and distribution costs		(6,480)	(6,882)
Administrative expenses		(258,075)	(229,261)
Other operating income/(expenses), net		16,988	(258)
Finance costs	4	<u>(7,334)</u>	<u>(5,953)</u>
PROFIT BEFORE TAX	5	77,766	116,238
Income tax expense	6	<u>(17,176)</u>	<u>(24,524)</u>
PROFIT FOR THE PERIOD		<u>60,590</u>	<u>91,714</u>
Attributable to:			
Owners of the Company		52,256	84,766
Non-controlling interests		<u>8,334</u>	<u>6,948</u>
		<u>60,590</u>	<u>91,714</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic and diluted		<u>HK8.8 cents</u>	<u>HK14.3 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	60,590	91,714
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations and net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	(2,221)	247
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of equity investment at fair value through other comprehensive income	(207)	(82)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(2,428)	165
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	58,162	91,879
Attributable to:		
Owners of the Company	49,828	84,931
Non-controlling interests	8,334	6,948
	58,162	91,879

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	964,503	881,258
Investment properties		39,191	39,191
Investment in a joint venture		—	—
Equity investment at fair value through other comprehensive income		2,623	2,830
Goodwill		14,369	14,369
Financial assets at fair value through profit or loss		6,781	6,053
Prepayments, deposits and other receivables		2,077	2,516
Deferred tax assets		50	50
Total non-current assets		1,029,594	946,267
CURRENT ASSETS			
Inventories		79,462	74,150
Contract assets		1,345,201	1,169,182
Trade receivables	10	548,389	730,073
Amount due from a related company	11	37,583	106,642
Amount due from a joint venture		967	967
Prepayments, deposits and other receivables		102,619	271,077
Derivative financial instruments		1,854	—
Tax recoverable		3,993	8,024
Pledged time deposits		529	452
Cash and cash equivalents		561,912	647,827
Total current assets		2,682,509	3,008,394
CURRENT LIABILITIES			
Trade, bills and retention monies payables	12	591,649	714,509
Trust receipt loans		121,376	144,804
Other payables and accruals		620,178	717,519
Tax payable		32,944	51,939
Interest-bearing bank borrowings		103,317	106,332
Lease liabilities		9,653	12,356
Total current liabilities		1,479,117	1,747,459
NET CURRENT ASSETS		1,203,392	1,260,935
TOTAL ASSETS LESS CURRENT LIABILITIES		2,232,986	2,207,202

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
<i>Notes</i>		
NON-CURRENT LIABILITIES		
Lease liabilities	56,379	58,756
Deferred tax liabilities	96,233	96,700
Total non-current liabilities	152,612	155,456
Net assets	2,080,374	2,051,746
EQUITY		
Equity attributable to owners of the Company		
Issued capital	59,490	59,490
Reserves	1,895,029	1,868,997
	1,954,519	1,928,487
Non-controlling interests	125,855	123,259
Total equity	2,080,374	2,051,746

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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 (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for investment properties, leasehold land and buildings included in property, plant and equipment, equity investment at fair value through other comprehensive income, financial assets at fair value through profit or loss as well as derivative financial instruments, which have been measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, except as described below. The Group has applied, for the first time, the following revised Hong Kong Financial Reporting Standards (“HKFRS”, which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The adoption of these revised accounting standards does not have material impact on the Group’s unaudited condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the trading of plastics and chemical products, provision of building related contracting services, provision of foundation piling works and sub-structure works, building construction works for both public and private sectors and others, which include distribution of aviation system and other hi-tech products and property and investment holding.

Six months ended 30 June 2020

	Plastic and chemical products (Unaudited) HK\$'000	Building related contracting services (Unaudited) HK\$'000	Building construction (Unaudited) HK\$'000	Foundation piling and ground investigation (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	181,547	904,601	305,291	686,820	98,876	2,177,135
Intersegment sales	122	33,747	–	–	–	33,869
Other revenue	243	322	607	42	30	1,244
	<u>181,912</u>	<u>938,670</u>	<u>305,898</u>	<u>686,862</u>	<u>98,906</u>	<u>2,212,248</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(33,869)</u>
Revenue						<u><u>2,178,379</u></u>
Segment results	(1,421)	41,077	14,949	39,863	2,226	96,694
<i>Reconciliation:</i>						
Interest income and unallocated gains						1,760
Unallocated expenses						<u>(20,688)</u>
Profit before tax						<u><u>77,766</u></u>

2. OPERATING SEGMENT INFORMATION *(continued)*

As at 30 June 2020

	Plastic and chemical products (Unaudited) <i>HK\$'000</i>	Building related contracting services (Unaudited) <i>HK\$'000</i>	Building construction (Unaudited) <i>HK\$'000</i>	Foundation piling and ground investigation (Unaudited) <i>HK\$'000</i>	Others (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	338,427	1,402,038	667,493	871,049	379,214	3,658,221
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(58,288)
Equity investment at fair value through other comprehensive income						2,623
Financial assets at fair value through profit or loss						2,500
Corporate and other unallocated assets						<u>107,047</u>
Total assets						<u><u>3,712,103</u></u>
Segment liabilities	87,448	840,229	172,726	339,341	95,359	1,535,103
<i>Reconciliation:</i>						
Elimination of intersegment payables						(58,288)
Corporate and other unallocated liabilities						<u>154,914</u>
Total liabilities						<u><u>1,631,729</u></u>

2. OPERATING SEGMENT INFORMATION *(continued)*

Six months ended 30 June 2019

	Plastic and chemical products (Unaudited) <i>HK\$'000</i>	Building related contracting services (Unaudited) <i>HK\$'000</i>	Building construction (Unaudited) <i>HK\$'000</i>	Foundation piling and ground investigation (Unaudited) <i>HK\$'000</i>	Others (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue:						
Sales to external customers	234,947	1,159,620	521,664	518,096	19,099	2,453,426
Intersegment sales	101	11,004	–	–	–	11,105
Other revenue	497	63	23	1,879	2	2,464
	<u>235,545</u>	<u>1,170,687</u>	<u>521,687</u>	<u>519,975</u>	<u>19,101</u>	<u>2,466,995</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(11,105)</u>
Revenue						<u><u>2,455,890</u></u>
Segment results	(2,043)	52,510	46,192	34,763	(2,266)	129,156
<i>Reconciliation:</i>						
Interest income and unallocated gains						812
Unallocated expenses						<u>(13,730)</u>
Profit before tax						<u><u>116,238</u></u>

2. OPERATING SEGMENT INFORMATION *(continued)*

As at 31 December 2019

	Plastic and chemical products (Audited) <i>HK\$'000</i>	Building related contracting services (Audited) <i>HK\$'000</i>	Building construction (Audited) <i>HK\$'000</i>	Foundation piling and ground investigation (Audited) <i>HK\$'000</i>	Others (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	361,494	1,518,685	734,277	892,941	268,509	3,775,906
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(59,695)
Equity investment at fair value through other comprehensive income						2,830
Financial assets at fair value through profit or loss						1,647
Corporate and other unallocated assets						<u>233,973</u>
Total assets						<u><u>3,954,661</u></u>
Segment liabilities	95,449	961,412	246,117	387,919	99,063	1,789,960
<i>Reconciliation:</i>						
Elimination of intersegment payables						(59,695)
Corporate and other unallocated liabilities						<u>172,650</u>
Total liabilities						<u><u>1,902,915</u></u>

3. REVENUE AND OTHER INCOME

REVENUE FROM CONTRACTS WITH CUSTOMERS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Type of goods and services		
Sales of goods	233,427	346,760
Construction services	<u>1,943,708</u>	<u>2,106,666</u>
Total revenue from contracts with customers	<u><u>2,177,135</u></u>	<u><u>2,453,426</u></u>
Timing of revenue recognition		
Goods transferred at a point in time	233,427	346,760
Services transferred over time	<u>1,943,708</u>	<u>2,106,666</u>
Total revenue from contracts with customers	<u><u>2,177,135</u></u>	<u><u>2,453,426</u></u>

OTHER INCOME

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	1,799	1,525
Gross rental income	258	1,500
Others	<u>947</u>	<u>251</u>
	<u><u>3,004</u></u>	<u><u>3,276</u></u>

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	5,221	3,587
Interest on lease liabilities	2,113	2,366
	<u>7,334</u>	<u>5,953</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment (excluding right-of-use assets)	38,146	43,783
Less: Amount included in cost of services provided	<u>(5,255)</u>	<u>(4,576)</u>
	<u>32,891</u>	<u>39,207</u>
Depreciation of right-of-use assets	16,246	6,993
Employee benefit expense (including directors' remuneration)	435,472	405,306
Less: Amount included in cost of services provided	<u>(284,184)</u>	<u>(275,636)</u>
	<u>151,288</u>	<u>129,670</u>
Loss/(gain) on disposal of items of property, plant and equipment, net*	(4)	263
Government subsidies* (note)	(15,136)	–
Fair value changes in financial assets at fair value through profit or loss*	286	–
Fair value loss/(gain) on derivative financial instruments – transaction not qualifying as hedge*	(1,854)	3
Foreign exchange differences, net*	<u>157</u>	<u>(8)</u>

* These expenses/(income) are included in "Other operating income/(expenses), net" in the condensed consolidated statement of profit or loss.

Note: The government subsidies represented mainly grants from the Employment Support Scheme of the Hong Kong Government, which aims to retain employment and combat COVID-19. There are no unfulfilled conditions or contingencies relating to these subsidies.

6. INCOME TAX

	Six months ended 30 June	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	16,394	24,172
Under provision in prior years	307	–
Current – Elsewhere		
Charge for the period	690	2,543
Under provision in prior years	252	–
Deferred	(467)	(2,191)
Total tax charge for the period	<u>17,176</u>	<u>24,524</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$52,256,000 (2019: HK\$84,766,000) and the number of 594,899,245 ordinary shares in issue during both periods.

The Group had no potential dilutive ordinary shares in issue during the periods ended 30 June 2020 and 2019.

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

The final dividend of HK4.0 cents per ordinary share for the year ended 31 December 2019 was approved by the Company's shareholders at the annual general meeting of the Company held on 9 June 2020 and paid on 7 July 2020.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group has acquired property, plant and equipment at cost of HK\$117,037,000 through an acquisition of a wholly foreign owned enterprise established in the People's Republic of China (the "PRC"). This acquisition was considered by the management as an acquisition of assets and liabilities through the acquisition of a subsidiary.

10. TRADE RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables	548,389	730,073

The Group's trading terms with its customers are mainly on credit. The credit periods range from cash on delivery to 60 days. A longer credit period may be allowed for customers with good business relationship with the Group. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current to 30 days	289,488	400,129
31 to 60 days	113,429	183,634
61 to 90 days	56,844	66,267
Over 90 days	88,628	80,043
	548,389	730,073

11. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company represents construction contracting income certified from Gold Famous Development Limited ("Gold Famous"). Gold Famous is an indirect wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok") of which Dr. James Sai-Wing Wong, a director and a controlling shareholder of the Company, is also a director of and has a beneficial interest in. Mr. James Sing-Wai Wong and Mr. Philip Bing-Lun Lam are common directors of the Company and Hon Kwok.

12. TRADE, BILLS AND RETENTION MONIES PAYABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade payables	310,311	416,371
Bills payable	12,347	15,432
Retention monies payable	268,991	282,706
	<u>591,649</u>	<u>714,509</u>

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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current to 30 days	207,403	328,461
31 to 60 days	66,441	56,234
61 to 90 days	11,876	22,465
Over 90 days	24,591	9,211
	<u>310,311</u>	<u>416,371</u>

13. EVENTS AFTER THE REPORTING PERIOD

- (a) On 20 July 2020, Kin Wing Chinney (BVI) Limited (an indirect non wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of Chinney Kin Wing Holdings Limited (“Chinney Kin Wing”), as purchaser), Chinney Kin Wing and Profit Gainer Holdings Limited (an independent third party, as vendor) entered into a memorandum of understanding in relation to the possible acquisition of 50% of the issued share capital of Senior Rich Development Limited (the “Possible Acquisition”). The Possible Acquisition, which is still under negotiation, if materialises, may constitute a major transaction for the Company and Chinney Kin Wing and will be subject to the announcement, reporting and shareholders’ approval requirements under the Listing Rules. Details of the transaction were set out in the joint announcement of the Company and Chinney Kin Wing issued on 20 July 2020.

Further announcement will be made by the Company and Chinney Kin Wing in accordance with the applicable requirements of the Listing Rules as and when appropriate.

- (b) On 18 August 2020, the Company and FRO Management Holdings Limited (“FRO Management”, an independent third party within the meaning of the Listing Rules) entered into a settlement deed (the “Settlement Deed”), pursuant to which (i) the Company agreed to buy back and FRO Management agreed to sell to the Company 25% of the issued shares in Chinney Shun Cheong Holdings Limited (“Chinney Shun Cheong”, a direct 75% subsidiary of the Company immediate before the execution of the Settlement Deed) at a cash consideration of HK\$40,000,000 together with the payment of interest of HK\$6,630,137; and (ii) FRO Management waived all rights and claims it may have under or arising from the subscription agreement dated 9 February 2017 and supplemental agreement dated 27 April 2017 entered into between Chinney Shun Cheong and FRO Management in relation to the subscription of the 5% interest bearing convertible bond in the principal amount of HK\$40,000,000 issued by Chinney Shun Cheong to FRO Management on 27 April 2017 (the “Convertible Bond”), the exercise of the conversion right under the Convertible Bond or otherwise in connection with FRO Management’s potential investment in the building services segment engaged by the Group under Shun Cheong Investments Limited and its subsidiaries. The transaction contemplated under the Settlement Deed was completed on 18 August 2020 and Chinney Shun Cheong has become a direct wholly-owned subsidiary of the Company since then. Details of the transaction were set out in the Company’s announcement published on 18 August 2020.

RESULTS

The Group recorded a revenue of HK\$2,177 million (2019: HK\$2,453 million), with net profit of HK\$60.6 million (2019: HK\$91.7 million) for the six months ended 30 June 2020. The profit attributable to the equity holders of the Company was HK\$52.3 million (2019: HK\$84.8 million).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

BUSINESS REVIEW AND PROSPECTS

Trading of plastics and chemical products

Jacobson van den Berg (Hong Kong) Limited and its fellow subsidiaries generated revenue of HK\$182 million (2019: HK\$235 million) from sales to external customers and an operating loss of HK\$1.4 million (2019: loss of HK\$2.0 million). The trading environment for our plastics business has been an uphill battle for the past two years. While the US and Mainland China reached an agreement to ease trade tensions at the beginning of the year, manufacturers were hit with shut downs due to the COVID-19 pandemic. The demand for our traditional plastic and chemical products decreased even more. The provision for slow moving plastic and chemical goods and net exchange losses from the weak Renminbi further lowered its margins. Fortunately, an increase in the sale and profit contribution from “JcoNAT” disinfectant products partly compensated for the loss from plastics operations. Our managers are diligently exploring ways to broaden the scope of its trading business to strengthen its market position and maintain quality customers. It is also developing new distribution channels for “JcoNAT” products in Hong Kong and Mainland China to expand its market presence.

Building related contracting services

Shun Cheong Investments Limited and its subsidiaries (“Shun Cheong”) has core businesses in heat, ventilation and air-conditioning, water, electrical, and fire services contributing revenue of HK\$905 million (2019: HK\$1,160 million) with operating profits of HK\$41.1 million (2019: HK\$52.5 million). The current major projects were still in early stages of construction, thus profit contribution were lower than that of the corresponding period last year. There were also increases in staff costs and overhead to support the increase in the number of active projects. As at the end of the reporting period, the segment had outstanding contract sums of approximately HK\$4,167 million, with additional HK\$357 million worth projects were awarded subsequently.

Building construction

Chinney Construction Company, Limited and Chinney Builders Company Limited, which operate in Hong Kong, and Chinney Timwill Construction (Macau) Company Limited earned a combined revenue of HK\$305 million (2019: HK\$522 million) and achieved an operating profit of HK\$14.9 million (2019: HK\$46.2 million). This business was affected by previous active projects being completed yet the award of new projects had been delayed due to the social and COVID-19 pandemic situations. Consequently, revenue and profit were both reduced for the current period. However, the award of major projects in the second and the third quarter of this year has improved business prospects for the remainder of the year. An outstanding contract sum of approximately HK\$896 million as at 30 June 2020 and additional HK\$391 million worth projects were awarded subsequent to the end of the reporting period.

Foundation piling and ground investigation

Chinney Kin Wing (together with its subsidiaries, the “Chinney Kin Wing Group”) contributed revenue of HK\$687 million (2019: HK\$518 million) and operating profit of HK\$39.9 million (2019: HK\$34.8 million) to the Group. The increase in revenue in the current period was attributable to the contribution from certain sizeable contracts from our foundation division. The gross profit recognised also increased, but not in proportion to the increase in revenue. This was due to lower profit margins resulting from the continuing weak market combined with intense competition. The Chinney Kin Wing Group and market players had to adopt more aggressive pricing policies to win business. Moreover, more stringent contractual requirements as well as higher labour costs due to operational constraints brought on by COVID-19 pandemic further eroded profit margins. At the same time, Chinney Kin Wing Group increased staff costs to reward and retain talented staff so as to maintain workforce performance and productivity.

As at 30 June 2020, Chinney Kin Wing Group had 11 and 48 projects in progress with contract sums of approximately HK\$3,107 million and HK\$356 million in the foundation and drilling divisions, respectively.

Since the outbreak of the COVID-19, the management of Chinney Kin Wing Group implemented a series of precautionary and control measures to ensure the safety of our staff and members, with the purpose of providing a safe and hassle-free workplace. To sustain business growth and achieve financial stability amid fierce competitions in the foundation market, Chinney Kin Wing Group will continue to implement a series of practical and effective measures, including but not limited to stringent cost controls, reduction of administrative expenses, optimisation of the workforce and resource allocation, enhancing production efficiency, empowering project management teams as well as strengthening the core and extended business fundamentals through a significant investment in staff recruitment and various resources in a timely manner. The management of Chinney Kin Wing will focus on bidding for large-scale and complex foundation contracts offered by public and private sectors as well as diversifying their scope of business activities. At the same time, the drilling division, DrilTech, will

endeavour to diversify its business by allocating resources to expand the scope of services in marine ground investigation, instrumentation and field testing. Given their sizeable pool of exceptionally talented team members, the management of Chinney Kin Wing foresees that DrilTech will continue to expand its client base and contribute to the stable and sustainable development of the Chinney Kin Wing Group through 2020, and in turn enhance the revenue and profit contribution in the coming years.

On 20 July 2020, the Company and Chinney Kin Wing announced a possible acquisition of the 50% equity interest in a company which holds land that can be used by the Chinney Kin Wing Group as a storage depot. If the acquisition materialises, this depot will serve as an ideal hub for our production team and general workforce to better streamline, centralise and enhance the Chinney Kin Wing Group's plant maintenance and engineering works as well as optimise the machinery and equipment storage system.

Other businesses

Other businesses recorded a profit of HK\$2.2 million (2019: loss of HK\$2.3 million), due mainly to profit contributions from Chinney Alliance Engineering Limited (the Group's aviation business) of HK\$3.3 million. The aviation business is running some significant projects for the Hong Kong International Airport and is expected to contribute profit to the Group in the coming years.

FINANCIAL REVIEW

Liquidity and financial resources

Total interest-bearing debts of the Group, which included trust receipt loans, bank loans and lease liabilities, amounted to HK\$290.7 million as at 30 June 2020 (31 December 2019: HK\$315.0 million), with no bank overdrafts (31 December 2019: bank overdrafts HK\$7.2 million excluded from total interest-bearing debts). The Group's lease liabilities amounted to HK\$66.0 million as at 30 June 2020 (31 December 2019: HK\$71.1 million). There were HK\$234.3 million or 81% (31 December 2019: HK\$256.2 million or 81%) of interest-bearing debts classified as current liabilities. The current portion of interest-bearing debts included bank borrowings with repayment-on-demand conditions imposed by the lenders. If that portion of the bank borrowings repayable after one year was classified as non-current liabilities, the current portion of the total interest-bearing debts would be reduced by HK\$16.8 million to HK\$217.5 million, or 75% of the total interest-bearing debts. Included in the current portion of interest-bearing debts were trust receipt loans of HK\$121.4 million (31 December 2019: HK\$144.8 million) for financing the purchases of goods by the Plastic Trading segment and the purchases of materials and equipment for installation in the projects of the Building Services segment. Current ratio of the Group as at 30 June 2020, measured by total current assets over total current liabilities, was 1.8 (31 December 2019: 1.7). Total unpledged cash and bank balances less bank overdrafts as at 30 June 2020 were HK\$561.9 million (31 December 2019: HK\$640.6 million). The decrease in unpledged cash and bank balances less bank overdrafts was mainly due to net cash outflow from operations of HK\$30.5 million and net cash outflow for the purchase of property, plant and equipment of HK\$22.9 million,

net repayment of trust receipt loans of HK\$23.4 million and repayment of lease liabilities of HK\$6.3 million, net of net inflow from bank loans drawn less repayments of HK\$4.2 million.

The Group had a total of HK\$2,080 million undrawn banking facilities at period-end available for its working capital, trade finance and issue of performance/surety bonds. The gearing ratio of the Group, measured by total interest-bearing borrowings of HK\$290.7 million over the equity attributable to the owners of the Company of HK\$1,954.5 million, was 14.9% as at 30 June 2020 (31 December 2019: 16.3%).

Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of a non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group when desirable.

Pledge of assets

As of 30 June 2020, certain properties having an aggregate book value of HK\$185.1 million were pledged to banks to secure bank loans and general banking facilities extended to the Group. In addition, time deposits of HK\$0.5 million were pledged to banks to secure the performance/surety bonds issued in favour of the Group's clients on contracting works.

Contingent liability

As of 30 June 2020, the Group provided corporate guarantees and indemnities to certain banks and financial institutions to secure performance/surety bonds in the aggregate amount of HK\$911.6 million issued in favour of the Group's clients on contracting works. This amount included performance/surety bonds issued in favour of the clients of the Chinney Kin Wing Group of HK\$273.7 million to which corporate guarantees and indemnities were provided by Chinney Kin Wing Group.

Except as disclosed above, the Group had no other material contingent liabilities as of 30 June 2020.

Employees and remuneration policies

The Group employed approximately 1,840 staff in Hong Kong and other parts of the PRC as of 30 June 2020. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

CONNECTED TRANSACTIONS

- (a) On 20 September 2016, Gold Famous, an indirect wholly-owned subsidiary of Hon Kwok and an indirect non wholly-owned subsidiary of Chinney Investments, Limited (“Chinney Investments”), as the employer entered into a framework agreement (the “Foundation Framework Agreement”) with Kin Wing Foundations Limited (“KWF”), an indirect wholly-owned subsidiary of Chinney Kin Wing and an indirect non wholly-owned subsidiary of the Company, as a contractor for the construction of piling foundation, pipe piling, bored pile wall works at K.C.T.L. 495, Kin Chuen Street, Kwai Chung, New Territories, Hong Kong (the “Land”) at a contract sum of HK\$210 million (the “Foundation Construction Works”). The entering into the Foundation Framework Agreement constituted a connected transaction of each of Chinney Investments, Hon Kwok, the Company and Chinney Kin Wing under the Listing Rules. On 7 November 2016, at the respective extraordinary general meetings held by each of Chinney Investments and Hon Kwok and at the respective special general meetings held by each of the Company and Chinney Kin Wing, the transaction was approved by the independent shareholders of each of Chinney Investments, Hon Kwok, the Company and Chinney Kin Wing.

Details of the transaction were set out in the joint announcement of Chinney Investments, Hon Kwok, the Company and Chinney Kin Wing dated 20 September 2016 and the Company’s circular dated 21 October 2016. During the six months ended 30 June 2020, no revenue was recognised by KWF as the Foundation Construction Works were substantially completed and pending for agreement of variation orders and final account of the project.

- (b) On 12 June 2018, Shun Cheong Data Centre Solutions Company Limited (“Shun Cheong Data Centre Solutions”), an indirect wholly-owned subsidiary of the Company, as a consultant entered into a consultancy agreement with Gold Famous (as the employer) for the provision of consultancy services by Shun Cheong Data Centre Solutions to Gold Famous in relation to the construction and development of a data centre in the Land (the “Data Centre Project”) at a consultancy fee of HK\$16,200,000 (the “Consultancy Agreement”). The entering into the Consultancy Agreement constituted a connected transaction for each of Chinney Investments, Hon Kwok and the Company. As the applicable percentage ratios for each of Chinney Investments, Hon Kwok and the Company were more than 0.1% but less

than 5%, the transactions contemplated under the Consultancy Agreement were subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirement for each of the companies under Chapter 14A of the Listing Rules.

Details of the Consultancy Agreement and transactions contemplated thereunder were set out in a joint announcement of the Chinney Investments, Hon Kwok and the Company dated 12 June 2018. The revenue recognised by Shun Cheong Data Centre Solutions in respect of the transaction amounted to HK\$4,050,000 during the six months ended 30 June 2020. The Consultancy Agreement was completed and the consultancy fee of HK\$16,200,000 was received in full.

- (c) On 12 July 2018, Chinney Construction Company, Limited ("Chinney Construction"), an indirect wholly-owned subsidiary of the Company, entered into a framework agreement with Gold Famous as the employer for the construction works to be carried out by Chinney Construction as the main contractor for the Data Centre Project at a total contract sum of HK\$757,838,691.70 (the "Construction Framework Agreement"). The entering into of the Construction Framework Agreement constituted a connected transaction of each of Chinney Investments, Hon Kwok and the Company. Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the Consultancy Agreement and the Construction Framework Agreement should be aggregated as a series of transactions as they were entered into within a 12-month period and involved parties which were connected with one another among Chinney Investments, Hon Kwok and the Company. On 24 August 2018, at the respective extraordinary general meetings held by each of Chinney Investments and Hon Kwok and on the special general meeting held by the Company, the transaction was approved by the independent shareholders of each of Chinney Investments, Hon Kwok and the Company.

Details of the transaction were set out in the joint announcement of Chinney Investments, Hon Kwok and the Company dated 12 July 2018 and the Company's circular dated 8 August 2018. During the six months ended 30 June 2020, revenue of HK\$155,018,000 was recognised by Chinney Construction in respect of the transaction.

OUTLOOK

Hong Kong's economic outlook continues to be severely restricted by the COVID-19 pandemic. At the same time, the relationship between the US and China continues to deteriorate and their conflict is widening beyond trade.

In Hong Kong, GDP fell by 9% year-on-year in the second quarter of 2020. The unemployment rate once reached 6.2%: the highest in more than 15 years, and then reduced to 6.1% in May to July 2020. The local economy has been alternatively tightening and loosening based upon the number of local COVID-19 cases, with the most recent tightening measures implement to combat the third wave of the pandemic in July. The services industry has been the worst affected and there is speculation of a new wave of bankruptcies and layoffs before the end of the year. The Cash Pay-off Scheme, the Employment Support Scheme and other funding schemes have eased some of the difficulties faced by businesses entities and households. The Group's businesses have also been affected as well as have received benefits in this economic environment. The Plastic Trading segment continues the development of products and distribution channels to grow its health related business segment. The Foundation, Building Construction and Building Services segments are facing keen competition on price and skilled workers, but have maintained their reputations for reliability and excellence. While the Group has satisfactory level of contracts secured, we are facing the most difficult business environment since the last SARS epidemic. However, we remain optimistic about prospects. As announced by the Government in the Long-term Housing Strategy Annual Progress Report 2019, the total housing supply targets for the 10-year period from fiscal year 2020/21 to 2029/30 will be 430,000 units. We believe this signals an increase in demand for the construction industry related businesses in Hong Kong for both public and private sectors for the next ten years.

APPRECIATION

I would like to thank my fellow directors for their advice and continued support, and more importantly to our staff at all levels for their dedication, hard work and contribution during these difficult times. I would also like to thank you, our shareholders, for your loyalty and support. And also thank you to our business partners and other stakeholders with whom we share our business development and success.

CORPORATE GOVERNANCE

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

Compliance with the Corporate Governance Code

In the opinion of the directors, the Company has complied with all relevant code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2020, except A.4.1, A.4.2, A.5.1 to A.5.4, A.6.7 and E.1.2, which are explained below.

1. Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election and that code provision A.4.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company’s annual general meeting under the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

According to the provisions of the Company’s Bye-laws, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save that the Chairman and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Dr. James Sai-Wing Wong, the beneficial owner of Chinney Investments, Enhancement Investments Limited and Chinney Capital Limited, which collectively hold approximately 73.68% interest in the Company, is the Chairman of the Board to safeguard their investments in the Company. In addition, the Board considers that the continuity of the office of the Chairman and Managing Director provide the Group with a strong and consistent leadership for the smooth operation of the businesses of the Group. As a result, the Board concurred that the Chairman and the Managing Director need not be subject to retirement by rotation.

2. Code provisions A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Company has not established a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a director, and collectively approving and terminating the appointment of a director as this allows a more informed and balanced decision to be made. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will

determine the suitability of the relevant candidates having due regard to the Nomination Policy and the Board Diversity Policy adopted by the Company and assess the independence of the proposed independent non-executive director(s) as appropriate.

3. Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Yuen-Tin Ng, being independent non-executive director of the Company, did not attend the annual general meeting of the Company held on 9 June 2020 due to engagement in his own business.
4. Code provision E.1.2 of the CG Code requires that the chairman of the board should attend the annual general meeting. Dr. James Sai-Wing Wong, the Chairman of the Board, did not attend the annual general meeting of the Company held on 9 June 2020 due to engagement in his own business.

Audit Committee

Regular meetings have been held by the audit committee of the Company (the “Audit Committee”) since establishment and it meets at least twice each year to review and supervise the Group’s financial reporting process and internal control. The Company’s interim results for the six months ended 30 June 2020 has not been audited, but has been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

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

By Order of the Board
James Sai-Wing Wong
Chairman

Hong Kong, 26 August 2020

At the date of this announcement, the Board comprises of eight directors, of which four are executive directors, namely Dr. James Sai-Wing Wong, Mr. Yuen-Keung Chan, Mr. James Sing-Wai Wong and Mr. Philip Bing-Lun Lam; and one is non-executive director, namely Ms. Wendy Kim-See Gan; and three are independent non-executive directors, namely Mr. Yuen-Tin Ng, Mr. Chi-Chiu Wu and Mr. Ronald James Blake.

* For identification purpose only