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Unity Enterprise Holdings Limited

盈滙企業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2195)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

INTERIM RESULTS HIGHLIGHTS

- Revenue increased by approximately 11.9% to approximately HK\$97.7 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$87.3 million).
- Gross profit increased by approximately 8.0% to approximately HK\$17.3 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$16.0 million).
- The Group recorded a profit attributable to equity holders of the Company of approximately HK\$10.6 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$9.4 million).
- Basic earnings per share was approximately HK1.21 cents for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK1.25 cents).
- During the period from 1 January 2021 to 29 March 2021 which was prior to the Listing, the Company declared interim dividends of HK\$288,000 (six months ended 30 June 2020: HK\$150,000) per ordinary share amounting to HK\$28.8 million to its shareholder. No other dividend has been paid, declared or proposed subsequently during the six months ended 30 June 2021 as the Board resolved not to declare an interim dividend other than those disclosed above.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Unity Enterprise Holdings Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020.

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	6	97,694	87,308
Cost of services		(80,379)	(71,278)
		<hr/>	<hr/>
Gross profit		17,315	16,030
Other incomes and gain	7	817	610
Administrative expenses		(4,101)	(3,408)
Loss allowances on trade receivables and contract assets		1,326	1,350
Listing expenses		(2,186)	(3,065)
Finance costs	8	(192)	(47)
		<hr/>	<hr/>
Profit before income tax	9	12,979	11,470
Income tax expense	10	(2,398)	(2,100)
		<hr/>	<hr/>
Profit and total comprehensive income for the period		10,581	9,370
		<hr/>	<hr/>
Profit attributable to equity holders of the Company		10,581	9,370
		<hr/>	<hr/>
Earnings per share attributable to equity holders of the Company			
Basic and diluted	12	HK1.21 cents	HK1.25 cents
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UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Note</i>	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>13</i>	1,691	130
Deferred tax assets		745	648
Total non-current assets		2,436	778
Current assets			
Trade receivables	<i>14</i>	112,734	152,073
Contract assets	<i>15</i>	34,978	33,585
Deposits, prepayments and other receivables	<i>16</i>	6,699	8,700
Amount due from a director		–	28,899
Tax recoverable		2,250	600
Time deposit		50,000	–
Cash and bank balances		25,590	15,604
Total current assets		232,251	239,461
Current liabilities			
Trade payables	<i>17</i>	55,215	108,859
Accrued liabilities and other payables	<i>18</i>	11,425	47,653
Lease liabilities		342	72
Tax payable		20,704	18,207
Bank borrowings	<i>19</i>	–	8,463
Total current liabilities		87,686	183,254
Net current assets		144,565	56,207
Total assets less current liabilities		147,001	56,985
Non-current liabilities			
Bank borrowings	<i>19</i>	–	2,870
NET ASSETS		147,001	54,115
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		10,000	–
Reserves		137,001	54,115
TOTAL EQUITY		147,001	54,115

NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL

Unity Enterprise Holdings Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands on 13 March 2019 under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands, and its principal place of business is Unit 1103, 11th Floor, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 31 March 2021.

The principal activity of the Company is investment holding while its subsidiaries are principally engaged in provision of repair, maintenance, alteration and addition (“**RMAA**”) works services in Hong Kong.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Harvest Land Company Limited (“**Harvest Land**”), which is incorporated in the British Virgin Islands (“**BVI**”).

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements (the “**unaudited interim financial statements**”) are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange and the Hong Kong Companies Ordinance. These unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited interim financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the amendments to HKFRSs as disclosed in note 3 below.

These unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand (“**HK\$’000**”) except when otherwise indicated. These unaudited condensed consolidated interim financial statements have not been audited or reviewed by the Company’s external auditors, but have been reviewed by the Company’s audit committee.

3. ADOPTION OF HKFRSs

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of amendments to HKFRSs effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

For the current period, the Group has applied all the new and revised HKFRSs as well as amendments to and interpretation of HKFRSs that are relevant to its operations and effective for the financial periods beginning on or after 1 January 2021. These applications do not have a material impact on the condensed consolidated interim financial statements of the Group.

4. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²
Amendments to AG 5 (revised)	Merger Accounting for Common Control Combinations ¹
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018–2020 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ¹
HK Int 5 (2020)	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but is available for early adoption

The directors of the Company anticipate that the adoption of the above new and amendments to HKFRSs will have no material impact on the financial statements of the Group in the future.

5. OPERATING SEGMENT INFORMATION

Geographical Information

The Group's revenue is solely generated from, and non-current assets are located in, Hong Kong, based on the location of the relevant entities' operation.

Information about Major Customers

During the reporting period, revenue from major customers who contributed over 10% of the total revenue of the Group is as follows:

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Customer A	26,556	28,812
Customer B	23,735	19,165
Customer C	18,834	10,289

6. REVENUE

Revenue represents the fair value of amounts received and receivable for the provision of RMAA works provided by the Group to customers.

Disaggregation of Revenue

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Type of contract nature		
Project-based		
— Subcontractor	69,436	75,770
— Main contractor	11,442	1,601
Term-contract based	16,816	9,937
	<u>97,694</u>	<u>87,308</u>
Type of developments		
Residential	60,269	35,869
Commercial and industrial	37,425	51,439
	<u>97,694</u>	<u>87,308</u>

Revenue from contract with customers arose from provision of RMAA works rendered in Hong Kong under long term contracts and was recognised over time during the reporting period. All the Group's provision of RMAA works is made directly with the customers. Contracts with the Group's customers are mainly fixed-price contracts.

7. OTHER INCOMES AND GAIN

The Group's other incomes and gain recognised are as follows:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Gain on disposal of property, plant and equipment	435	–
Government subsidies (<i>note 1</i>)	–	610
Reimbursement of litigation costs and disbursement (<i>note 2</i>)	380	–
Bank interest income	2	–
	<u>817</u>	<u>610</u>

Notes:

1. The government subsidies are mainly related to wage subsidies from the Government of Hong Kong Special Administrative Region under the Employment Support Scheme (“ESS”). Under the terms of the ESS, the Group is required to undertake and warrant that they will not implement redundancies during the subsidy period and spend all the wages subsidies on paying salaries to their employees.
2. Hong Dau Construction Company Limited (“HDC”) had been joined as a third party in District Court Civil Action 2744 of 2017. Subsequent to the settlement of the main action between the plaintiff and the defendants, the defendants paid HDC a total sum of HK\$380,000 being agreed costs and disbursements and discontinued the third party proceeding against HDC.

8. FINANCE COSTS

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on bank borrowings	186	36
Interest on lease liabilities	6	11
	<u>192</u>	<u>47</u>

9. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Employee benefit expenses (including directors' remuneration):		
— Directors' fee	120	—
— Salaries, allowances and other benefits	3,806	3,137
— Contributions to retirement benefits schemes	134	126
	<hr/>	<hr/>
Total employee benefit expenses	4,060	3,263
	<hr/>	<hr/>
Depreciation of property, plant and equipment	214	427
	<hr/>	<hr/>

The employee benefit expenses included in cost of services were approximately HK\$2,055,000 (six months ended 30 June 2020: approximately HK\$1,744,000) for the six months ended 30 June 2021.

10. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the two-tiered profits tax rates regime, Hong Kong Profits Tax of a qualified entity in the Group was provided at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. The profits of the other Hong Kong subsidiary will be taxed at a flat rate of 16.5%.

During the year ended 31 December 2019, the Hong Kong Inland Revenue Department (“IRD”) has issued an enquiry letter to HDC requesting breakdowns and details of cost of construction work executed by HDC for the year of assessment 2012/13. An additional assessment was issued by IRD demanding additional profits tax of HK\$1,320,000 for the year of assessment 2012/13. The Group has filed an objection to IRD in respect of the aforesaid additional assessment. A tax reserve certificate of HK\$1,320,000 for condition holdover order of objection against the additional assessment was purchased by the Group.

During the year ended 31 December 2020, the IRD issued an additional assessment demanding additional profits tax of HK\$1,320,000 for the year of assessment 2013/14 to HDC. The Group filed an objection to IRD in respect of the aforesaid assessment and an unconditional holdover of an amount of HK\$720,000 was granted by IRD on 27 March 2020.

In February 2021, the IRD issued additional assessments demanding additional profits tax of HK\$1,650,000 for the year of assessment 2014/15 to HDC and HK\$165,000 for the year of assessment 2014/15 to Hong Dau Construction & Engineering Co. Limited (“HDE”). The Group filed objections to the IRD in respect of the aforesaid assessments on 17 February 2021 and 24 February 2021 for HDC and HDE, respectively. In relation to HDE, an unconditional holdover of an amount of HK\$165,000 was granted by the IRD on 12 March 2021. In relation to HDC, as no part of the tax has been held over by the IRD, the Group has made a payment of HK\$1,650,000 to the IRD on 29 March 2021 in respect of the additional assessment for HDC.

According to the deed of indemnity dated 18 March 2021 (the “Deed of Indemnity”), the Controlling Shareholders have undertaken in favour of the Group to indemnify all outstanding taxes incurred prior to the Listing and all reasonable costs, expenses or other liabilities which any member of the Group may incur in connection with the investigation, assessment, settlement or contesting of any taxation claim. For further information in relation to the Deed of Indemnity, please refer to the paragraph headed “E. Other information — 1. Tax and other indemnities” in the Appendix V to the Prospectus.

11. DIVIDENDS

During the period from 1 January 2021 to 29 March 2021, the Company declared interim dividends of HK\$288,000 (six months ended 30 June 2020: HK\$150,000) per ordinary share amounting to HK\$28,800,000 to its shareholder which were settled through the current account with a director. Other than the above, no dividend has been paid or declared by other companies comprising the Group for the six months ended 30 June 2021.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2021 and 2020 is based on the profit for the period attributable to ordinary equity holders of the Company of approximately HK\$10,581,000 (six months ended 30 June 2020: approximately HK\$9,370,000), and the weighted average number of ordinary shares of 876,389,000 (six months ended 30 June 2020: 750,000,000) in issue during the six months ended 30 June 2021.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of plant and machinery with a cost of approximately HK\$1.8 million (six months ended 30 June 2020: HK\$2,000). Items of plant and machinery with zero net book value were disposed of during the six months ended 30 June 2021, resulting in a gain on disposal of approximately HK\$0.4 million (six months ended 30 June 2020: Nil).

14. TRADE RECEIVABLES

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Trade receivables, gross	116,400	157,108
Less: Loss allowances recognised	(3,666)	(5,035)
	<u>112,734</u>	<u>152,073</u>

The credit terms of the trade receivables are ranged from 30 to 45 days from the date of invoice.

The ageing analysis of trade receivables net of loss allowances at the end of reporting period/year based on invoice date is as follows:

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Within one month	15,470	28,307
One to three months	22,531	68,893
More than three months but within one year	69,910	50,246
More than one year	4,823	4,627
	<u>112,734</u>	<u>152,073</u>

As at 31 December 2020, trade receivables of approximately HK\$7,270,000 were subject to assignment and charge arrangement, in which the proceeds from a specific contract with a customer is assigned to a bank to secure the bank loans of the Group (note 19).

15. CONTRACT ASSETS

The following table provides information about contract assets from contracts with customers:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Contract assets		
Retention receivables	36,220	34,784
Less: Loss allowances recognised	(1,242)	(1,199)
	<u>34,978</u>	<u>33,585</u>

As at 30 June 2021, the amounts of contract assets that are expected to be recovered after one year are approximately HK\$24,173,000 (31 December 2020: approximately HK\$19,568,000).

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Rental, utilities and sundry deposits	2,552	2,511
Tax reserve certificate	1,320	1,320
Advances paid to subcontractors	2,827	–
Deferred listing expenses	–	4,840
Other prepayments	–	29
	<u>6,699</u>	<u>8,700</u>

None of the above deposits and other receivables is either past due or impaired.

17. TRADE PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables	<u>55,215</u>	<u>108,859</u>

The credit term of the trade payables is 30 days from the date of invoice. The ageing analysis of trade payables based on the invoice date as of the end of the reporting period/year is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within one month	8,730	26,334
One to three months	8,382	55,446
More than three months	38,103	27,079
	<u>55,215</u>	<u>108,859</u>

18. ACCRUED LIABILITIES AND OTHER PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Retention payables	10,575	11,063
Other payables and accruals	688	1,333
Accrued contract costs	162	24,831
Accrued listing expenses	–	10,426
	<u>11,425</u>	<u>47,653</u>

As at 30 June 2021, the retention payables that are expected to be settled after one year are approximately HK\$10,512,000 (31 December 2020: approximately HK\$10,561,000).

19. BANK BORROWINGS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Bank loans:		
Current		
Repayable within one year	—	8,463
Non-current		
Repayable after one year but not exceeding two years	—	1,900
Repayable after two years but not exceeding five years	—	970
	—	2,870
	—	11,333

As at 31 December 2020, the bank loans of approximately HK\$7,533,000 carried interest rates at floating rates of 6% per annum and were secured by personal guarantees executed by the Controlling Shareholder (as defined below), Mr. Yeung Wing Sun, and his spouse, Ms. Yu So Yin, to the extent of HK\$15,000,000 as at 31 December 2020 and a deed of assignment over the proceeds from a specific contract with a customer and trade receivables of approximately HK\$7,270,000 (note 14) of the Group were subject to the aforesaid assignment and charge arrangement.

As at 31 December 2020, the loan under the SME Financing Guarantee Scheme of HK\$3,800,000 carried interest rate at floating rates of 2.75% per annum and was guaranteed by Hong Kong Mortgage Corporation Insurance Limited and Mr. Yeung Wing Sun to the extent of HK\$3,800,000.

BUSINESS REVIEW

The ordinary shares of the Company (the “**Share(s)**”) were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 31 March 2021 (“**Listing**”). The Group is a contractor specialising in repair, maintenance, alteration and addition (“**RMAA**”) works in Hong Kong. The Group undertook repair and maintenance services, involving the upkeep, restoration and improvement of existing buildings and facilities, including the services of re-roofing, external and internal walls refurbishment, floor screeding and retiling, spalling repair, scaffolding, repairing and replacement of windows and door, plastering, painting, improvement of fire services system, plumbing and drainage works and the Group also provided additional ancillary services, such as alteration and addition works of building layout and structural works, design of new structural works and checking of structural adequacy of existing constructions and interior decoration works to the existing premises.

During the six months ended 30 June 2021, the Group made synergetic efforts in overcoming the challenges under the outbreak of the Coronavirus disease (“**COVID-19**”), such that the financial performance for the six months ended 30 June 2021 was under a healthy position. One of the sizeable projects, namely project TG (MBIS), was still in early stage of project progress in the first half of the year. The Directors expect the profit contribution from this sizable project will increase in the second half of the year.

As at 30 June 2021, the Group had a total of 14 contracts (31 December 2020: 15 contracts) on hand (including contracts in progress and contracts yet to be commenced) with an aggregate original contract sum of approximately HK\$568.5 million (31 December 2020: approximately HK\$610.4 million).

PROSPECTS

The outbreak of the COVID-19 in Hong Kong since January 2020 may affect the progress of the projects on hand and business environment in Hong Kong. According to the latest discussions between the major customers, the Group does not expect that the outbreak of COVID-19 will materially affect the progress of the ongoing projects based on the latest market conditions. The Group will closely monitor the development of the pandemic and the Directors consider that the Group would generally be able to discharge the obligations under the existing contracts.

With the growing demand for RMAA works resulted from various mandatory inspection requirement, such as the Mandatory Building Inspection Scheme, revitalisation and redevelopment of ageing buildings, the Directors are confident that the Group will be able to strengthen its market position, increase the market share and capture the growth in the RMAA industry. The Directors will continue to deploy efforts in tendering for RMAA works and seek more business opportunities.

In view of growing emphasis being placed on environmental-friendliness, construction productivity and occupational health and safety, the Group will put emphasis on promoting the use of metal scaffolding systems in coming years in order to minimise safety risks associated with degradation of bamboo in bamboo scaffolding system.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group's unaudited consolidated revenue amounted to approximately HK\$97.7 million (six months ended 30 June 2020: approximately HK\$87.3 million). The increase in revenue of approximately 11.9% was mainly attributable to the increase in revenue from five newly awarded projects during the six months ended 30 June 2021 and the increase of the repair and maintenance orders from a customer, which is a public transport company and property developer.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2021, the gross profit amounted to approximately HK\$17.3 million (six months ended 30 June 2020: approximately HK\$16.0 million), while the gross profit margin was approximately 17.7% (six months ended 30 June 2020: approximately 18.4%). The increase in gross profit of approximately 8.0% was primarily attributable to the increase in revenue as discussed above.

The slight drop in the gross profit margin was mainly driven by the completion of certain projects on hand in 2020 which were with relatively higher gross profit margin. The Directors consider that, compared to the competitors of the Group, the gross profit margin has been maintained at a stable level during the six months ended 30 June 2021.

Other Incomes and Gain

For the six months ended 30 June 2021, the other incomes and gain amounted to approximately HK\$0.8 million, which was contributed by the disposal of a motor vehicle with a gain of approximately HK\$0.4 million and the reimbursement of litigation costs and disbursements of approximately HK\$0.4 million.

For the six months ended 30 June 2020, the other incomes and gain amounted to approximately HK\$0.6 million, which was the government subsidies received by the Group due to the outbreak of COVID-19, including the anti-epidemic fund received from the Government under the Employment Support Scheme and from the Construction Industry Council.

Administrative Expenses

Administrative expenses primarily comprise staff costs, depreciation, office expenses, audit fee and professional fees. The administrative expenses increased from approximately HK\$3.4 million for the six months ended 30 June 2020 to approximately HK\$4.1 million for the six months ended 30 June 2021, representing an increase of approximately HK\$0.7 million or 20.3%. Such increase was mainly attributable to the increase in legal and professional fee, including the post-listing expenses and the increase in staff cost.

Finance Costs

The Group's finance costs were approximately HK\$0.2 million for the six months ended 30 June 2021 and approximately HK\$47,000 for the six months ended 30 June 2020. The increase in finance costs of HK\$145,000 was mainly attributable to the increase in interest on bank borrowings, which was primarily driven by the Group's business growth and increasing working capital for sustaining its business operation.

Income Tax Expense

The income tax expense slightly increased from approximately HK\$2.1 million for the six months ended 30 June 2020 to approximately HK\$2.4 million for the six months ended 30 June 2021, representing an increase of approximately 14.2%. Such increase was mainly attributable to the increase in profit before tax as a result of the aforesaid for the six months ended 30 June 2021.

Profit and Total Comprehensive Income for the Period

Profit and total comprehensive income for the period increased by approximately 12.9% from approximately HK\$9.4 million for the six months ended 30 June 2020 to approximately HK\$10.6 million for the six months ended 30 June 2021. Excluding the non-recurring listing related expenses and other income and gains, the adjusted profit for the six months ended 30 June 2021 increased to approximately HK\$12.0 million (six months ended 30 June 2020: approximately HK\$11.8 million), representing a slight increase of approximately HK\$0.1 million or 1.1%. Such increase was mainly contributed by the increase in revenue, which was partially offset by the increase in administrative expenses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The liquidity requirements are primarily attributable to the working capital for the business operations. The principal sources of liquidity are cash generated from the operations, borrowings and the proceeds from the Listing. As at 30 June 2021, the Group maintained a healthy liquidity position with net current assets balance, a time deposit and cash and bank balances of approximately HK\$144.6 million (31 December 2020: approximately HK\$56.2 million), HK\$50 million (31 December 2020: Nil) and approximately HK\$25.6 million (31 December 2020: approximately HK\$15.6 million) respectively. The time deposit and cash and bank balances were denominated in Hong Kong dollars. The Shares of the Company were listed on Main Board of the Stock Exchange on 31 March 2021. There has been no change in the capital structure of the Company since then. As at the date of this announcement, the capital structure of the Company comprised mainly issued share capital and reserves.

Bank Borrowings

As at 30 June 2021, the Group had no outstanding bank borrowings (31 December 2020: approximately HK\$11.3 million). The bank borrowings as at 31 December 2020 were denominated in Hong Kong dollars.

Gearing Ratio

The Group's gearing ratio is calculated as bank borrowings divided by the total equity. As at 30 June 2021, the Group's gearing ratio was nil (31 December 2020: approximately 20.9%).

Net Debt to Equity Ratio

The net debt to equity ratio recorded net cash position as at 30 June 2021 and 31 December 2020.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

Capital Expenditures

For the six months ended 30 June 2021, the Group incurred capital expenditures of approximately HK\$1.8 million, primarily due to the purchase of a motor vehicle and the renewal of the tenancy agreement.

CONTINGENT LIABILITIES

In the ordinary course of the Group's business, the Group has been subject to a number of claims of personal injuries suffered by employees of the Group or of the Group's subcontractors in accidents arising out of and in the course of their employment. The Directors are of the opinion that such claims are substantially covered by insurance and would not result in material adverse impact on the financial position or results and operations of the Group.

At the end of each reporting period, the Group had outstanding performance bonds as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Performance bonds for guarantee of completion of projects issued by insurance companies	<u>6,613</u>	<u>6,613</u>

FOREIGN EXCHANGE EXPOSURE

The Group has a minimal exposure to foreign currency risk as most of the business transactions and assets and liabilities of the Group are principally denominated in Hong Kong Dollar. As such, the Directors consider the Group's risk in foreign exchange is insignificant and no foreign exchange hedging was conducted by the Group during the six months ended 30 June 2021.

SUBSEQUENT EVENTS AND EFFECT OF COVID-19

Since the first confirmed case of the COVID-19 in Hong Kong, the Directors have closely monitored the development of the outbreak of COVID-19 and kept regular communications with its customers and subcontractors to understand whether there would be any significant impacts on the status or progress of the Group's ongoing projects and availability of subcontractors in the local market.

Based on the currently available information, the Directors consider that the COVID-19 event would not have a material financial impact to the Group. However, given the inherent unpredictable nature and rapid development relating to COVID-19, the Group's business might be affected should the situations in Hong Kong deteriorates and the directors of the Company will continue to closely monitor in this regard.

Save as disclosed above, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the six months ended 30 June 2021 and up to the date of this announcement.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

For the six months ended 30 June 2021, the Group did not have any significant investments, acquisitions or disposals.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 19 March 2021 (the "**Prospectus**"), as at the date of this announcement, the Group did not have other plans for material investments and capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 26 employees (31 December 2020: 25 employees) who were directly employed by the Group and based in Hong Kong. The Group offers remuneration package to the employees which includes salary and bonuses. Generally, the Group considers employees' salaries based on each of their qualifications, position and seniority. Our Company has an annual review system to appraise the performance of the employees, which constitutes the grounds of our decision as to the salary raises, bonuses and promotions. The remuneration of the Directors is decided by the Board upon the recommendation from the remuneration committee of the Company having regard to the Group's operating results, individual performance and comparable market statistics.

DIVIDEND

During the period from 1 January 2021 to 29 March 2021, which was prior to the Listing, the Company declared interim dividends of HK\$288,000 (six months ended 30 June 2020: HK\$150,000) per ordinary share amounting to HK\$28.8 million to its shareholder which were settled through the current account with a director. Other than the abovementioned, no dividend has been paid, declared or proposed subsequently during the six months ended 30 June 2021 as the Board resolved not to declare an interim dividend other than those disclosed above.

USE OF PROCEEDS

The amount of gross proceeds from the Share Offer is HK\$140 million and the amount of net proceeds from the Share Offering is approximately HK\$90.7 million after deducting underwriting commissions and the finalised expenses relating to the Share Offer (the “**Net Proceeds**”).

The Net Proceeds from the Share Offering have been and will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the Prospectus, details of which are outlined below:

Purposes	Intended use of Net Proceeds <i>HK\$ million</i>	Utilised amount as at 30 June 2021 <i>HK\$ million</i>	Unutilised amount as at 30 June 2021 <i>HK\$ million</i>	Expected timeline for utilising the unutilised Net Proceeds
Upgrading the construction equipment and enhancing the safety measures through the provision of metal scaffolding system	57.5	–	57.5	By December 2022
Meeting working capital requirement and paying certain upfront costs and expenses	25.7	15.8	9.9	By December 2022
Further strengthening our manpower	7.5	0.2	7.3	By December 2022
	<hr/>	<hr/>	<hr/>	
Total	<u>90.7</u>	<u>16.0</u>	<u>74.7</u>	

As at the date of this announcement, there was no change for the intended use of Net Proceeds as disclosed in the Prospectus.

CORPORATE GOVERNANCE CODE

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules. During the period from 31 March 2021 (the "**Listing Date**") to the date of this announcement, the Company has complied with the applicable code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. All Directors, after specific enquiries by the Company, confirmed that they have complied with the required standard set out in the Model Code since the Listing Date and up to the date of this announcement.

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

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries since the Listing Date and up to the date of this announcement.

COMPETING INTERESTS

The controlling shareholders, namely Harvest Land and Mr. Yeung (collectively, the "**Controlling Shareholder(s)**") had entered into the deed of non-competition in favour of the Company on 18 March 2021 (the "**Non-competition Undertaking**"). Each of the Controlling Shareholders has confirmed that he/it had complied with the Non-Competition Undertaking since the Listing Date and up to the date of this announcement. The independent non-executive Directors have reviewed that state of compliance of each of the Controlling Shareholder with the Non-competition Undertaking and as far as the independent non-executive Directors can ascertain, there has been no breach of the undertakings given in the Non-competition Undertaking by the Controlling Shareholders since the Listing Date and up to the date of this announcement.

REVIEW OF INTERIM FINANCIAL RESULTS BY AUDIT COMMITTEE

The unaudited interim consolidated financial information of the Group for the six months ended 30 June 2021 and the accounting information given in this interim result announcement has not been audited by the Company's external auditor but has been reviewed by the audit committee of the Company, which was of the opinion that the preparation of such accounting information complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.hongdau.com.hk and the Stock Exchange's website at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2021 will be despatched to its shareholders and will also be published on the websites of both the Stock Exchange and the Company in due course in the manner as required by the Listing Rules.

On behalf of the Board

Yeung Wing Sun

Chairman and Executive Director

Hong Kong, 25 August 2021

As at the date of this announcement, the Board comprises Mr. Yeung Wing Sun (Chairman) and Mr. Chan Leung (Chief Executive Officer) as executive Directors; Mr. Li Fat Chung as non-executive Director; and Ms. Chan Mei Wah, Mr. Mak Alexander and Mr. Wu Hak Ping as independent non-executive Directors.