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CR Construction Group Holdings Limited

華營建築集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1582)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

The total revenue of the Group for the six months ended 30 June 2022 increased to approximately HK\$2,870.4 million as compared to that of approximately HK\$2,394.8 million (restated) for the six months ended 30 June 2021.

The total gross profit of the Group increased to approximately HK\$120.8 million for the six months ended 30 June 2022 as compared to that of approximately HK\$107.0 million (restated) for the six months ended 30 June 2021.

Profit attributable to the equity holders of the Company for the six months ended 30 June 2022 amounted to approximately HK\$36.2 million as compared to that of approximately HK\$33.5 million for the six months ended 30 June 2021. If excluding the restatement resulted from the acquisition under common control of CR Construction (U.K.) Investments Company Limited, the previously reported profit attributable to the equity holders of the Company would amount to approximately HK\$33.5 million for the six months ended 30 June 2021.

The Board has resolved to declare the payment of an interim dividend of HK2.5 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 13 September, 2022 and such interim dividend will not be subject to any withholding tax in Hong Kong.

The board (the “**Board**”) of directors (the “**Directors**”) of CR Construction Group Holdings Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2021, as follows:

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

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
			(Restated)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	4	2,870,415	2,394,789
Contract costs		<u>(2,749,634)</u>	<u>(2,287,814)</u>
Gross profit		120,781	106,975
Other income	4	3,709	10,900
Administrative expenses		(61,787)	(67,667)
Other operating expenses, net		(14,430)	(1,595)
Finance costs	6	<u>(7,093)</u>	<u>(6,890)</u>
PROFIT BEFORE TAX	5	41,180	41,723
Income tax expense	7	<u>(4,993)</u>	<u>(8,220)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>36,187</u>	<u>33,503</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		<u>(10,208)</u>	<u>(2,015)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		<u>(10,208)</u>	<u>(2,015)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>25,979</u>	<u>31,488</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	9	<u>HK7.24 cents</u>	<u>HK6.70 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		As at 30 June 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) (Restated) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	28,447	24,468
Right-of-use assets	11	50,459	62,717
Prepayments and deposits		8,044	8,261
Deferred tax assets		1,903	428
		<u>88,853</u>	<u>95,874</u>
TOTAL non-current assets			
		<u>88,853</u>	<u>95,874</u>
CURRENT ASSETS			
Contract assets	12	1,917,819	1,745,968
Trade receivables	13	688,918	707,195
Prepayments, deposits and other receivables		43,562	29,390
Tax recoverable		405	336
Cash and cash equivalents		110,428	69,137
		<u>2,761,132</u>	<u>2,552,026</u>
TOTAL current assets			
		<u>2,761,132</u>	<u>2,552,026</u>
CURRENT LIABILITIES			
Trade and retention payables	14	1,176,499	1,116,519
Other payables and accruals		835,558	724,785
Dividend payable	8	9,000	–
Interest-bearing bank borrowings	15	160,000	130,000
Amounts due to an intermediate holding company		22,487	28,058
Loans from an intermediate holding company		19,185	20,089
Lease liabilities	11	16,943	21,288
Tax payable		9,223	5,610
		<u>2,248,895</u>	<u>2,046,349</u>
TOTAL current liabilities			
		<u>2,248,895</u>	<u>2,046,349</u>
NET CURRENT ASSETS			
		<u>512,237</u>	<u>505,677</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>601,090</u>	<u>601,551</u>

		As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) (Restated) HK\$'000
NON-CURRENT LIABILITIES			
Provision		5,700	7,000
Lease liabilities	<i>11</i>	31,444	38,384
		<u>37,144</u>	<u>45,384</u>
Total non-current liabilities		37,144	45,384
		<u>37,144</u>	<u>45,384</u>
Net assets		563,946	556,167
		<u>563,946</u>	<u>556,167</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		5,000	5,000
Reserves		558,946	551,167
		<u>558,946</u>	<u>551,167</u>
Total equity		563,946	556,167
		<u>563,946</u>	<u>556,167</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

1. CORPORATE AND GROUP INFORMATION

CR Construction Group Holdings Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit Nos. 3-16, Level 32, Standard Chartered Tower of Millennium City 1, No. 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the provision of building construction services and repair, maintenance, addition and alteration (“**RMAA**”) works in Hong Kong, Malaysia and the United Kingdom.

CR Construction Investments Limited (“**CR Investments**”), a company incorporated in the British Virgin Islands (the “**BVI**”), is the immediate holding company of the Company. In the opinion of the Directors, Zhejiang State-owned Capital Operation Company Limited, a company established in the People’s Republic of China (the “**PRC**”), is the ultimate holding company of the Company.

2.1 ACQUISITION UNDER COMMON CONTROL

On 30 January 2022, the Company entered into a share purchase agreement (the “**Share Purchase Agreement**”) with China Zhejiang Construction Group (H.K.) Limited (“**CZH**”), an intermediate holding company of the Company, pursuant to which the Group conditionally agreed to purchase the entire issued share capital of CR Construction (U.K.) Investment Company Limited (“**UKI**”), a company incorporated in the British Virgin Islands (the “**Acquisition**”). The Acquisition was completed on 30 January 2022 (the “**Acquisition Date**”).

The consideration payable under the Share Purchase Agreement for the Acquisition is HK\$9,200,000, payable at the Acquisition Date. The consideration shall be adjusted by the consideration adjustment (the “**Consideration Adjustment**”) if the audited net profit of CR Construction (U.K.) Company Limited (“**CRUK**”), the British subsidiary of UKI, is less than HK\$1,500,000 for the year ending 31 December 2022.

As at the Acquisition Date, CRUK, UKI and CZH entered into a deed of assignment and settlement (the “**Deed of Assignment and Settlement**”), whereby certain trade receivables of CRUK, amounting to approximately HK\$20,979,000 was assigned to CZH as full settlement of the current accounts between CRUK (as borrower) and CZH (as lender).

Further details of the Share Purchase Agreement, the Consideration Adjustment and the Deed of Assignment and Settlement are set out in the announcement of the Company dated 30 January 2022.

The Company and UKI were under the common control of CZH before and after the Acquisition. The Acquisition of UKI has been accounted for based on the principles of merger accounting as if the Acquisition had occurred on the date when the combining entities first came under the common control of CZH. Accordingly, the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group for the six months ended 30 June 2022 and 2021 include the results and cash flows of UKI from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of CZH, where this is a shorter period. The condensed consolidated statement of financial position as at 31 December 2021 have been restated to include the carrying amounts of the assets and liabilities of UKI.

The comparative amounts of the financial statements of the Group have been restated to include the financial statement items of UKI. The effect of the Acquisition on and, hence, the items so restated in the comparative financial statements are summarised below:

Effect on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2021

	At previously reported <i>HK\$'000</i>	Acquisition of UKI <i>HK\$'000</i>	Consolidation adjustment <i>HK\$'000</i>	As restated <i>HK\$'000</i>
REVENUE	2,394,789	–	–	2,394,789
Contract costs	(2,287,814)	–	–	(2,287,814)
Gross profit	106,975	–	–	106,975
Other income	158	10,742	–	10,900
Administrative expenses	(56,951)	(10,716)	–	(67,667)
Other operating income/(expense), net	(1,596)	1	–	(1,595)
Finance costs	(6,890)	–	–	(6,890)
Profit before tax	41,696	27	–	41,723
Income tax expense	(8,220)	–	–	(8,220)
Profit for the period	<u>33,476</u>	<u>27</u>	<u>–</u>	<u>33,503</u>
OTHER COMPREHENSIVE LOSS				
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange difference on translation of foreign operations	(1,989)	(26)	–	(2,015)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(1,989)</u>	<u>(26)</u>	<u>–</u>	<u>(2,015)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>31,487</u>	<u>1</u>	<u>–</u>	<u>31,488</u>

Effect on the condensed consolidated statement of financial position as at 31 December 2021

	At previously reported <i>HK\$'000</i>	Acquisition of UKI <i>HK\$'000</i>	Consolidation adjustment <i>HK\$'000</i>	As restated <i>HK\$'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	23,987	481	–	24,468
Right-of-use assets	61,626	1,091	–	62,717
Prepayments and deposits	8,261	–	–	8,261
Deferred tax assets	428	–	–	428
	<u>94,302</u>	<u>1,572</u>	<u>–</u>	<u>95,874</u>
Total non-current assets	94,302	1,572	–	95,874
CURRENT ASSETS				
Contract assets	1,745,968	–	–	1,745,968
Trade receivables	676,260	30,935	–	707,195
Prepayment, deposits and other receivables	28,069	1,321	–	29,390
Tax recoverable	336	–	–	336
Cash and cash equivalents	64,495	4,642	–	69,137
	<u>2,515,128</u>	<u>36,898</u>	<u>–</u>	<u>2,552,026</u>
Total current assets	2,515,128	36,898	–	2,552,026
CURRENT LIABILITIES				
Trade and retention payables	1,111,839	4,680	–	1,116,519
Other payables and accruals	716,162	8,623	–	724,785
Interest-bearing bank borrowings	130,000	–	–	130,000
Amounts due to an intermediate holding company	2,825	25,233	–	28,058
Loans from an intermediate holding company	20,089	–	–	20,089
Lease liabilities	20,870	418	–	21,288
Tax payable	5,610	–	–	5,610
	<u>2,007,395</u>	<u>38,954</u>	<u>–</u>	<u>2,046,349</u>
Total current liabilities	2,007,395	38,954	–	2,046,349
NET CURRENT ASSETS/ (LIABILITIES)	<u>507,733</u>	<u>(2,056)</u>	<u>–</u>	<u>505,677</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>602,035</u>	<u>(484)</u>	<u>–</u>	<u>601,551</u>
NON-CURRENT LIABILITIES				
Provision	7,000	–	–	7,000
Lease liabilities	37,635	749	–	38,384
	<u>44,635</u>	<u>749</u>	<u>–</u>	<u>45,384</u>
Total non-current liabilities	44,635	749	–	45,384
Net assets/(liabilities)	<u>557,400</u>	<u>(1,233)</u>	<u>–</u>	<u>556,167</u>
EQUITY				
Share capital	5,000	*	*	5,000
Reserves	552,400	(1,233)	*	551,167
	<u>557,400</u>	<u>(1,233)</u>	<u>–</u>	<u>556,167</u>
Total equity/(deficiency in assets)	557,400	(1,233)	–	556,167

* These items had amounts of less than a thousand.

2.2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 is unaudited and has been prepared in accordance with Hong Kong Accounting Standards (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

The unaudited interim condensed consolidated financial information has been prepared under the historical cost convention and is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited 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 2021, except for the adoption of accounting policy of a common control acquisition as set out in note 2.1 to the interim condensed consolidated financial information and the adoption of the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The adoption of the above revised standards has had no significant financial effect on the Group’s unaudited interim condensed consolidated financial information.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, of which the Group engages in contract work as a main contractor or subcontractor, primarily in respect of building construction, repair, maintenance and addition and alteration works. Accordingly, no segment information is presented.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Contract costs	2,749,634	2,287,814
Depreciation of property, plant and equipment	4,764	3,605
Less: Amount included in contract costs	(2,540)	(1,380)
Amount included in administrative expenses	2,224	2,225
Depreciation of right-of-use assets	10,766	8,403
Less: Amount included in contract costs	(3,148)	(2,364)
Amount included in administrative expenses	7,618	6,039
Lease payments not included in the measurement of lease liabilities	26,914	8,506
Less: Amount included in contract costs	(26,400)	(8,019)
Amount included in administrative expenses	514	487

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Employee benefit expense (including directors' remuneration):		
Salaries, allowances and benefits in kind	202,142	189,704
Pension scheme contributions	8,631	8,628
	210,773	198,332
Less: Amount included in contract costs	(170,248)	(154,277)
Amount included in administrative expenses	40,525	44,055
Auditor's remuneration	1,537	1,325
Impairment/(reversal of impairment) of trade receivables*	10,680	(609)
Impairment of contract assets*	3,504	1,783
Loss on disposal of items of property, plant and equipment	17	–
Government grant**	(1,600)	–
Research and development costs	120	–
Foreign exchange differences, net*	1	22

* These items are included in “Other operating expenses, net” on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income.

** Being wage subsidies provided by the Government of Hong Kong Special Administrative Region (the “**HKSAR Government**”) under the Employment Support Scheme (“**ESS**”) for the period ended 30 June 2022. The subsidies were for the purpose to retain employment to combat the impact of the novel coronavirus 2019 pandemic (“**COVID-19**”). As a condition of receiving the subsidies under the ESS, the Group has undertaken not to make redundancies of its Hong Kong employees from 1 May 2022 to 30 June 2022. There are no unfilled conditions or contingencies related to these subsidies.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	3,634	2,555
Increase in discounted amounts of retention payables arising from the passage of time	2,960	3,912
Interest on lease liabilities	499	423
	<u>7,093</u>	<u>6,890</u>

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — Hong Kong		
Charge for the period	6,468	8,635
Deferred	(1,475)	(415)
	<u>4,993</u>	<u>8,220</u>

8. DIVIDEND

The final dividend of HK1.8 cents (for the year ended 31 December 2020: HK2.75 cents) per ordinary share, in an aggregate amount of HK\$9,000,000 for the year ended 31 December 2021 (for the year ended 31 December 2020: HK\$13,750,000), was approved by the Company's shareholders at the annual general meeting of the Company held on 25 June 2022 and paid on 30 July 2022.

On 25 August 2022, the board of directors declared an interim dividend of HK2.5 cents (six months ended 30 June 2021: HK2.5 cents) per ordinary share, in an aggregate amount of HK\$12,500,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$12,500,000).

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

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$36,187,000 (2021 (restated): HK\$33,503,000), and the weighted average number of ordinary shares of 500,000,000 (2021: 500,000,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts for the six months ended 30 June 2022 and 2021 as the Group had no potentially dilutive ordinary share in issue during those periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets at a cost of HK\$8,826,000 (30 June 2021 (restated): HK\$7,667,000).

11. LEASES

The Group has entered into new lease agreements during the six months ended 30 June 2022 and resulted in an addition of right-of-use assets and lease liabilities of HK\$2,236,000 (six months ended 30 June 2021: HK\$4,975,000).

12. CONTRACT ASSETS

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	<i>Notes</i>		
Contract assets arising from construction services	<i>(a)</i>	1,135,480	1,029,221
Retention receivables	<i>(b)</i>	790,207	721,293
		1,925,687	1,750,514
Impairment		(7,868)	(4,546)
		<u>1,917,819</u>	<u>1,745,968</u>

Notes:

- (a) Contract assets consist of the Group's rights to consideration for works completed but unbilled amounts resulting from construction contracts and RMAA services. The contract assets are transferred to trade receivables when the rights become unconditional which is generally one to three months.

The expected timing of recovery or settlement for contract assets, net of loss allowances, arising from construction services as at 30 June 2022 and 31 December 2021 is as follows:

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	<u>1,129,772</u>	<u>1,026,339</u>

- (b) Retention receivables held by contract customers arising from the Group's construction work and certain RMAA work are settled within a period ranging from one year to two years after the completion of the construction work and acceptance by customers, as stipulated in the construction contracts.

The due date for settlement of the Group's retention receivables, net of loss allowances, as at 30 June 2022 and 31 December 2021 is as follows:

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Due within one year	551,029	429,882
Due after one year	<u>237,018</u>	<u>289,747</u>
	<u>788,047</u>	<u>719,629</u>

13. TRADE RECEIVABLES

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	HK\$'000	(Restated) HK\$'000
Trade receivables	704,513	712,304
Impairment	<u>(15,595)</u>	<u>(5,109)</u>
	<u>688,918</u>	<u>707,195</u>

The Group's trading terms with its customers are on credit. The Group's credit period with customers range from 14 to 45 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables is an amount due from a related party, an unincorporated joint venture operated by the intermediate holding company, of HK\$896,000 (31 December 2021: HK\$12,843,000), with similar credit terms as other third parties, which is unsecured and non-interest-bearing. The maximum amount outstanding during the period for an amount due from a related party was HK\$12,933,000 (31 December 2021: HK\$13,675,000).

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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) (Restated) HK\$'000
Within 1 month	448,098	437,127
1 to 2 months	139,209	169,814
2 to 3 months	10,436	23,168
3 to 12 months	52,081	74,923
Over 1 year	39,094	2,163
	<u>688,918</u>	<u>707,195</u>

14. TRADE AND RETENTION PAYABLES

	<i>Notes</i>	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) (Restated) HK\$'000
Trade payables	<i>(a)</i>	548,587	523,705
Retention payables	<i>(b)</i>	627,912	592,814
		<u>1,176,499</u>	<u>1,116,519</u>

Notes:

- (a) 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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) (Restated) HK\$'000
Within 1 month	52,921	34,249
1 to 2 months	107,259	232,023
2 to 3 months	166,914	126,134
Over 3 months	221,493	131,299
	<u>548,587</u>	<u>523,705</u>

The average credit period on trade payables is 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

- (b) Retention payables held by the Group arose from the Group's construction work and RMAA work and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract work by the subcontractors, as stipulated in the subcontracting contracts.

15. INTEREST-BEARING BANK BORROWINGS

		30 June 2022 (Unaudited)			31 December 2021 (Audited)		
		Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current							
Bank loans	Hong Kong Interbank Offered Rate ("HIBOR")+ 1.4-1.6		On demand	<u>160,000</u>	HIBOR+ 1.4-1.6	On demand	<u>130,000</u>
					30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	
Analysed into:							
Bank loans repayable:							
On demand					<u>160,000</u>	<u>130,000</u>	

Note:

All borrowings were in Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is one of the leading building contractors in Hong Kong and principally acts as a main contractor in building construction works and repair, maintenance, alteration and addition (“**RMAA**”) works across the public and private sectors in Hong Kong, Malaysia and the United Kingdom.

The building construction services provided by the Group primarily consist of building works for new buildings, including residential, commercial and industrial buildings, while the Group’s RMAA works include the general upkeep, maintenance, improvement, refurbishment, alteration and addition of existing facilities and components of buildings and their surroundings.

As at 30 June 2022, the Group had 43 projects on hand with an aggregate original contract sum of approximately HK\$18.6 billion, which includes projects in progress and projects that have been awarded to the Group but not yet commenced. As at 31 December 2021, excluding the projects from the acquisition of CR Construction (U.K.) Investments Company Limited, the Group had 37 projects on hand with an aggregate original contract sum of approximately HK\$17.4 billion.

During the Reporting Period, the Group had been awarded 12 new projects with an aggregate original contract sum of approximately HK\$1.0 billion and had completed 7 projects with an aggregate original contract sum of approximately HK\$1.0 billion. The acquisition of CR Construction (U.K.) Investments Company Limited has led to an addition of 1 project on hand with an original contract sum of approximately HK\$1.2 billion to the Group.

THE PROSPECTS

During the Reporting Period, the global economy has shown signs of recovery with the relaxation of COVID19-related travel restrictions and quarantine requirements in place in Hong Kong for the coronavirus outbreak 2019 (“**COVID-19**”), while the uncertainties led by the COVID-19 Omicron variant still exist. The revenue of the Group from the construction business in Hong Kong for the six months ended 30 June 2022 demonstrate an increase in comparison to that for the six months ended in 30 June 2021.

From late April to May 2022, the Group had been awarded 2 new projects which were the first and second construction projects of the Group to build with Modular Integrated Construction (MiC) method which is expected to create new business opportunities in the building construction sector, the Directors are of the view that such construction method represents a good opportunity for the Group to diversify its existing business operation, thereby broadening the revenue stream of the Group and is in the interests of the Group.

From July and early August 2022, the Group has been further awarded 3 new projects in relation to a building construction contract with an original contract sum of approximately HK\$299.0 million and 2 RMAA contracts with aggregate original contract sum of approximately HK\$2.2 million. The Group will continue to ensure projects are completed on time with the highest quality and implement various cost-effective measures to improve its competitiveness. The Group still remains prudently optimistic about the prospects of the construction industry in Hong Kong, Malaysia and the United Kingdom.

In the second half of 2022, the impact of the COVID-19 pandemic on worldwide economy is still uncertain. The Company will continue to devote efforts in seeking for new potential construction business opportunities, so as to generate new profit growth points for the Group. In particular, the Group still believes that the outlook of building construction is still optimistic. Leveraging on its industrial knowledge, the Company is keen to explore suitable business opportunities in the construction sector locally or overseas.

FINANCIAL REVIEW

Revenue

The total revenue of the Group increased by approximately HK\$475.6 million or approximately 19.9% from approximately HK\$2,394.8 million for the six months ended 30 June 2021 to approximately HK\$2,870.4 million for the six months ended 30 June 2022.

Building Construction Works

The revenue generated from the building construction works increased by approximately HK\$264.2 million or approximately 13.4% from approximately HK\$1,971.3 million for the six months ended 30 June 2021 to approximately HK\$2,235.5 million for the six months ended 30 June 2022. The increase in revenue was attributable to the increase in revenue generated from newer projects and existing projects to the group during the Reporting Period.

RMAA Works

The revenue generated from the RMAA works increased by approximately HK\$211.4 million or approximately 49.9% from approximately HK\$423.5 million for the six months ended 30 June 2021 to approximately HK\$634.9 million for the six months ended 30 June 2022. The increase was mainly attributable to a new project and an existing project which had substantial work progress during the Reporting Period.

Contract Costs

The Group's contract costs primarily consisted of subcontracting costs, material costs, direct staff costs and site overheads. The contract costs of the Group increased by approximately HK\$461.8 million or approximately 20.2% from approximately HK\$2,287.8 million for the six months ended 30 June 2021 to approximately HK\$2,749.6 million for the six months ended 30 June 2022. Such increase was attributable to the increase in subcontracting costs, material costs, direct staff costs and site overheads for newer projects and existing projects during the Reporting Period.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from approximately HK\$107.0 million for the six months ended 30 June 2021 to approximately HK\$120.8 million for the six months ended 30 June 2022. The Group's gross profit margin was approximately 4.2% and 4.5% for the six months ended 30 June 2022 and 2021, respectively. The gross profit margin of the Group decreased slightly by approximately 0.3 percentage points by comparing the six months ended 30 June 2022 against the six months ended 30 June 2021.

Building Construction Works

The gross profit of building construction works was approximately HK\$65.9 million for the six months ended 30 June 2022, representing a decrease of approximately HK\$12.8 million from approximately HK\$78.7 million for the six months ended 30 June 2021. The gross profit margin decreased from approximately 4.0% for the six months ended 30 June 2021 to approximately 2.9% for the six months ended 30 June 2022. The decrease in gross profit and gross profit margin was mainly due to the increase in subcontracting fees for contract works for projects which were close to completion or were practically completed during the Reporting Period.

RMAA Works

The gross profit of RMAA works was approximately HK\$54.9 million for the six months ended 30 June 2022, representing an increase of approximately HK\$26.6 million from the gross profit of approximately HK\$28.3 million for the six months ended 30 June 2021. The gross profit margin increased by approximately 1.9 percentage points from approximately 6.7% for the six months ended 30 June 2021 to approximately 8.6% for the six months ended 30 June 2022. The increase in the gross profit and gross profit margin for the six months ended 30 June 2022 was mainly due to additional cost incurred for variation orders for a project during the prior period, while the respective revenue was only certified during the Reporting Period.

Other Income

The other income of the Group decreased by approximately HK\$7.2 million, from approximately HK\$10.9 million for the six months ended 30 June 2021 to approximately HK\$3.7 million for the six months ended 30 June 2022. The decrease was mainly attributable to the decrease in consultancy services income generated by CR Construction (U.K.) Investments Company Limited.

Administrative Expenses

Administrative expenses of the Group decreased from approximately HK\$67.7 million for the six months ended 30 June 2021 to approximately HK\$61.8 million for the six months ended 30 June 2022. The decrease was mainly due to the decrease in staff costs and professional service fee, which was partly offset by the increase in depreciation of right-of-use assets

Other Operating Expenses, net

The other operating expenses of the Group increased by approximately HK\$12.8million, from approximately HK\$1.6 million for the six months ended 30 June 2021 to approximately HK\$14.4 million for the six months ended 30 June 2022. The increase was primarily due to the increase in expected credit losses provisioning on receivable assets according to HKFRS 9.

Finance Costs

The finance costs of the Group increased by approximately HK\$0.2 million, from approximately HK\$6.9 million for the six months ended 30 June 2021 to approximately HK\$7.1 million for the six months ended 30 June 2022. The increase was mainly due to the increase in the Hong Kong Interbank Offered Rate (HIBOR) on bank loans, which was partly offset by the decrease in interest expense for discounted amounts of retention payables arising from the passage of time.

Income Tax Expenses

The income tax expenses decreased by approximately HK\$3.2 million or approximately 39.0%, from approximately HK\$8.2 million for the six months ended 30 June 2021 to approximately HK\$5.0 million for the six months ended 30 June 2022. The decrease was mainly due to the utilisation of tax losses for setoff against assessable profits. The effective tax rate were approximately 12.1% and 19.7% for the six months ended 30 June 2022 and 2021, respectively.

Net Profit

The net profit of the Group increased by approximately HK\$2.7 million, or approximately 8.1%, from approximately HK\$33.5 million for the six months ended 30 June 2021 to approximately HK\$36.2 million for the six months ended 30 June 2022. The net profit margin for the six months ended 30 June 2022 and 2021 were approximately 1.3% and 1.4%, respectively.

If excluding the restatement resulted from the acquisition of CR Construction (U.K.) Investments Company Limited, the previously reported net profit and net profit margin of the Group would amount to approximately HK\$33.5 million and 1.4% for the six months ended 30 June 2021, respectively.

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of 773 employees as at 30 June 2022 (30 June 2021: 778). Total staff costs of the Group (excluding the Directors' remuneration) for the six months ended 30 June 2022 were approximately HK\$203.6 million (six months ended 30 June 2021: approximately HK\$191.0 million). If excluding the restatement resulted from the acquisition of CR Construction (U.K.) Investments Company Limited, the Group had a total of 763 employees as at 30 June 2021, and total staff costs of the Group (excluding the Directors' remuneration) for the six months ended 30 June 2021 were approximately HK\$182.9 million. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees. The salary and benefit level of the employees of the Group are competitive and individual performance is rewarded through the Group's salary, bonus and other cash subsidies system. The Group conducts review on salary adjustment, discretionary bonuses and promotions based on the performance of each employee twice a year. The emoluments of the Directors and the senior management are decided by the Board with reference to the recommendation from the remuneration committee of the Company, having considered factors such as the Group's financial performance and the individual performance of the Directors, etc.

The Company provides introductory training at the time when members of our staff first join us and thereafter regular on-the-job training, depending on the staff's role. In addition, it is our policy to provide training to our staff on an as-needed basis to enhance their technical and industry knowledge. During the Reporting Period, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and eligible employees. No share option has been granted, exercised, expired or lapsed under the Share Option Scheme since its adoption and up to the date of this announcement.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Acquisition of a target company in the United Kingdom

On 30 January 2022, the Company and China Zhejiang Construction Group (H.K.) Limited (中國浙江建設集團(香港)有限公司) (the “**Seller**”), one of the controlling shareholders of the Company, entered into the share purchase agreement (the “**Share Purchase Agreement**”), pursuant to which the Company has agreed to acquire and the Seller has agreed to sell the entire issued share capital of CR Construction (U.K.) Investments Company Limited (the “**Target Company**”) for an aggregate consideration of HK\$9.2 million. The Target Company had a U.K. subsidiary, which was principally engaged in the provision of (i) project management services to construction industry; and (ii) the construction services in the United Kingdom. The said acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all the conditions precedent under the Share Purchase Agreement have been fulfilled, the completion took place on 30 January 2022 and the Target Company has become a wholly-owned subsidiary of the Company since then.

The Company considers that the aforesaid acquisition was an opportunity for the Group to expand construction business into the United Kingdom, which is a developing market with growth potential and benefits. The acquisition will allow the Group to leverage on the expertise, experience and resources of the Target Company in planning the development and management of construction works and projects in the United Kingdom, thereby diversifying the Group’s business risk geographically and enlarging the business scale, revenue and customer base of the Group, which will benefit the Company and the Shareholders in the long term.

CAPITAL EXPENDITURE

During the Reporting Period, the Group invested approximately HK\$8.8 million (Year ended 31 December 2021: approximately HK\$9.0 million) on the acquisition of property, plant and equipment. Capital expenditure was principally funded by internal resources.

CAPITAL COMMITMENTS

The Group had capital commitments of approximately HK\$1.4 million as at 30 June 2022 (31 December 2021: HK\$1.9 million).

CONTINGENT LIABILITIES

Save as disclosed below, the Group had no other contingent liabilities as at 30 June 2022:

- (a) As at 30 June 2022, performance bonds of approximately HK\$1,550,355,000 (31 December 2021: HK\$1,416,475,000) were given by banks in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contract work.

At the end of the Reporting Period, the Directors do not consider it is probable that such claim will be made against the Group.

- (b) In the ordinary course of the Group's construction business, the Group has been subject to a number of claims due to 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. At the end of the Reporting Period, the Directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

FOREIGN EXCHANGE EXPOSURE

The Group operates in Hong Kong, Malaysia and the United Kingdom and most of the transactions denominated in Hong Kong Dollars, Malaysian ringgit and Great British Pound. The Group currently does not have a foreign currency hedging policy. However, the Board closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should that need arise.

GEARING RATIO

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing net debt with the total capital plus net debt, was approximately 79.2% (31 December 2021: approximately 78.3%). Net debt includes trade and retention payables, other payables, accruals and provision, interest-bearing bank borrowings, amounts due to an intermediate holding company, loans from an intermediate holding company and lease liabilities less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the Group maintained a healthy liquidity position, with working capital financed mainly by internal and external resources.

As at 30 June 2022, the Group reported net current assets of approximately HK\$512.2 million, as compared to approximately HK\$505.7 million as at 31 December 2021. As at 30 June 2022, the Group's cash and cash equivalents were approximately HK\$110.4 million, representing an increase of approximately HK\$41.3 million as compared to approximately HK\$69.1 million as at 31 December 2021.

The shares of the Company (the “**Shares**”) were successfully listed on the Stock Exchange on 16 October 2019 (the “**Listing Date**”). There has been no change in the capital structure of the Group since then.

DEBTS AND CHARGE ON ASSETS

The Group had interest-bearing bank borrowings of approximately HK\$160.0 million as at 30 June 2022 (31 December 2021: HK\$130.0 million). Analysis of the maturity profile of the interest-bearing bank borrowings of the Group as at 30 June 2022 and 31 December 2021 is set out in the note 15 to the interim condensed consolidated financial information in this announcement.

Borrowings were denominated in Hong Kong dollar and interests on borrowings were mainly charged at floating rate. The Group did not employ any financial instrument for hedging purpose during the Reporting Period. However, the Group pays vigilant attention to and monitors interest rate risks continuously and cautiously.

TREASURY POLICY

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Group's liquidity and financing requirements are frequently reviewed. The Board closely monitors the Group's liquidity position to ensure that the Group can meet its funding requirements for business development.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group may from time to time consider appropriate new business opportunities as and when appropriate, in order to enhance its shareholders' value. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 30 June 2022.

DIVIDEND

The Board recommended the payment of an interim dividend of HK2.5 cents (six months ended 30 June 2021: HK2.5 cents) per ordinary share of the Company for the six months ended 30 June 2022. The interim dividend will be paid on or around Friday, 30 September, 2022 to shareholders whose names appear on the register of members of the Company on Tuesday, 13 September 2022 and such interim dividend will not be subject to any withholding tax in Hong Kong.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 9 September 2022 to Tuesday, 13 September 2022, both days inclusive, in order to determine the entitlement of the Company's shareholders who are entitled to receive the interim dividend, during which period no transfers of the Company's shares shall be effected. In order to qualify for the entitlement of the interim dividend, all transfer of the Company's shares, accompanied by the relevant share certificates and transfer forms, must be lodged for registration with Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Thursday, 8 September, 2022.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report contained in Appendix 14 to the Listing Rules (the “**CG Code**”) as its own code of corporate governance.

The Company has complied with all applicable code provisions of the CG Code for the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he or she has complied with the required standards as set out in the Model Code for the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The unaudited consolidated interim results for the six months ended 30 June 2022 have been reviewed by the auditor of the Company, 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 HKICPA. The Board, through the audit committee of the Company, has also conducted a review of the internal control and the unaudited consolidated interim results for the six months ended 30 June 2022.

SUBSEQUENT EVENT

As at the date of this announcement, there is no significant event that requires additional disclosures or affecting the Group after the Reporting Period.

PUBLICATION OF THE INTERIM RESULTS AND 2022 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<https://www.cr-construction.com.hk>), and the interim report of the Group for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
CR Construction Group Holdings Limited
Guan Manyu
Chairman

Hong Kong, 25 August 2022

As at the date of this announcement, the Company has five executive directors, namely Mr. Guan Manyu, Mr. Li Kar Yin, Ms. Chu Ping, Mr. Law Ming Kin, Mr. Chan Tak Yiu; one non-executive director, namely Mr. Yang Haojiang; and three independent non-executive directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Ho Man Yiu Ivan, and Mr. Lau Pak Shing.