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Tat Hong Equipment Service Co., Ltd.

達豐設備服務有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2153)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

FINANCIAL HIGHLIGHTS

The Group recorded revenue of approximately RMB387.4 million for the six months ended 30 September 2022, representing a decrease of approximately RMB28.2 million or approximately 6.8% as compared with that for the six months ended 30 September 2021.

Loss attributable to equity shareholders of the Company for the six months ended 30 September 2022 amounted to approximately RMB41.9 million, representing a decrease of approximately RMB80.4 million or approximately 208.8% as compared with the profit attributable to equity shareholders of the Company for the same period in 2021. Such decrease was mainly due to, among the other factors, (i) the dramatic increase of exchange loss of approximately RMB37.5 million arising from foreign currency loans; (ii) the decrease in revenue due to the ongoing outbreak of the COVID-19 and the corresponding control measures in Eastern China, some projects have been postponed and delayed, thereby affecting the Group's revenue in the Period; and (iii) the increase of general provision of doubtful debts of approximately RMB5.2 million as a result of economic downturn.

Basic losses per share for the six months ended 30 September 2022 amounted to RMB4.0 cents, representing a decrease of RMB7.0 cents when compared with the basic earnings per share of RMB3.0 cents for the corresponding period in 2021.

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2022.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Tat Hong Equipment Service Co., Ltd. (the “**Company**”, together with its subsidiaries, collectively, the “**Group**”) is pleased to announce the unaudited interim condensed consolidated financial results of the Group for the six months ended 30 September 2022, together with comparative figures for the six months ended 30 September 2021 as set out below.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	Note	Six months ended 30 September	
		2022 RMB'000	2021 RMB'000
Revenue	4	387,401	415,599
Cost of sales		(311,879)	(296,148)
Gross profit		75,522	119,451
Selling and distribution expenses		(7,635)	(8,500)
General and administrative expenses		(41,343)	(46,653)
Research and development expenses		(12,217)	(12,847)
(Provision for)/reversal of financial assets and contract assets		(5,166)	20
Other income		3,497	10,696
Other (losses)/gains — net		(265)	987
Operating profit		12,393	63,154
Finance costs	5	(56,083)	(12,393)
Finance income	5	263	433
(Loss)/profit before income tax		(43,427)	51,194
Income tax credit/(expense)	6	1,547	(12,706)
(Loss)/profit for the period		(41,880)	38,488
(Loss)/profit for the period attributable to:			
Owners of the Company		(41,880)	38,488
Other comprehensive income, net of tax			
<i>Item that may be reclassified to profit or loss:</i>			
Currency translation difference		2	238
Other comprehensive income for the period, net of tax		2	238
Total comprehensive (loss)/income for the period, net of tax		(41,878)	38,726
Basic and diluted (losses)/earnings per share	8	(0.04)	0.03

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

	<i>Note</i>	As at 30 September 2022 <i>RMB'000</i>	As at 31 March 2022 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		1,617,867	1,560,462
Right-of-use assets		100,945	81,185
Intangible assets		23,321	25,569
Contract assets	3	47,327	27,296
Other non-current assets		36,070	31,528
Total non-current assets		<u>1,825,530</u>	<u>1,726,040</u>
Current assets			
Inventories		26,709	33,813
Contract assets	3	292,890	285,144
Trade receivables	9	673,872	582,184
Prepayments and other receivables		105,728	96,232
Financial assets at fair value through other comprehensive income		36,992	25,363
Cash and cash equivalents		151,687	169,858
Total current assets		<u>1,287,878</u>	<u>1,192,594</u>
Total assets		<u>3,113,408</u>	<u>2,918,634</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONTINUED)**

As at 30 September 2022

	<i>Note</i>	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	<i>10</i>	574,182	474,873
Lease liabilities		37,112	34,375
Deferred income tax liabilities		67,740	70,706
Provisions		28,203	28,144
Total non-current liabilities		<u>707,237</u>	<u>608,098</u>
Current liabilities			
Trade and bills payables	<i>11</i>	489,450	431,444
Contract liabilities	<i>3</i>	12,617	15,060
Other payables and accruals		68,865	68,315
Borrowings	<i>10</i>	261,160	167,093
Lease liabilities		34,998	24,353
Provisions		28,038	34,438
Total current liabilities		<u>895,128</u>	<u>740,703</u>
Total liabilities		<u>1,602,365</u>	<u>1,348,801</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	<i>12</i>	593,026	593,026
Reserves	<i>13</i>	503,935	520,845
Retained earnings		414,082	455,962
Total equity		<u>1,511,043</u>	<u>1,569,833</u>
Total equity and liabilities		<u>3,113,408</u>	<u>2,918,634</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2022

	Attributable to owners of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
At 1 April 2021	593,026	256,377	243,605	39,928	(220)	418,213	1,550,929
Profit for the period	—	—	—	—	—	38,488	38,488
Other comprehensive income:							
— Currency translation difference	—	—	—	—	238	—	238
Total comprehensive income	—	—	—	—	238	38,488	38,726
Dividends (Note 7)	—	—	—	—	—	(29,081)	(29,081)
At 30 September 2021	<u>593,026</u>	<u>256,377</u>	<u>243,605</u>	<u>39,928</u>	<u>18</u>	<u>427,620</u>	<u>1,560,574</u>
At 1 April 2022	593,026	198,353	243,605	49,814	29,073	455,962	1,569,833
Loss for the period	—	—	—	—	—	(41,880)	(41,880)
Other comprehensive income:							
— Currency translation difference	—	—	—	—	2	—	2
Total comprehensive loss	—	—	—	—	2	(41,880)	(41,878)
Dividends (Note 7)	—	(16,912)	—	—	—	—	(16,912)
At 30 September 2022	<u>593,026</u>	<u>181,441</u>	<u>243,605</u>	<u>49,814</u>	<u>29,075</u>	<u>414,082</u>	<u>1,511,043</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2022 have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and requirements of the Hong Kong Companies Ordinance Cap. 622. The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are measured at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2022, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total earnings.

(a) New and amended standard adopted by the Group

No new or amended standard has been adopted by the Group for the six months ended 30 September 2022.

(b) Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 March 2022 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 17	Insurance contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

		Effective for annual periods beginning on or after
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	Applied when an entity applies “Classification of Liabilities as Current or Non-current — Amendments to HKAS 1”

The Group is currently assessing the impact of applying these new standards and amendments. At this stage, the Group does not intend to early adopt any of these new standards or expect these new standards and amendments, to have significant impact on the unaudited condensed consolidated financial statements.

3 SEGMENT INFORMATION

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group’s internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The operating segments derive their revenue primarily from the tower crane service.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

3 SEGMENT INFORMATION (CONTINUED)

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
Customer A	<u>53,557</u>	<u>82,295</u>

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at	As at
	30 September	31 March
	2022	2022
	RMB'000	RMB'000
Contract assets		
Non-current	47,576	27,408
Loss allowance	(249)	(112)
	<u>47,327</u>	<u>27,296</u>
Current	294,497	286,319
Loss allowance	(1,607)	(1,175)
	<u>292,890</u>	<u>285,144</u>
Total contract assets	<u>340,217</u>	<u>312,440</u>
	As at	As at
	30 September	31 March
	2022	2022
	RMB'000	RMB'000
Contract liabilities		
— Advances from equipments	11,826	11,521
— Advances from operating lease	791	3,539
	<u>12,617</u>	<u>15,060</u>

3 SEGMENT INFORMATION (CONTINUED)

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Six months ended 30 September	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period	<u>3,267</u>	<u>5,723</u>

(ii) Unsatisfied performance obligations

The following table shows unsatisfied one-stop tower crane solution services and dry lease resulting from long-term contracts which have not been commenced and have been commenced but not yet been completed.

	As at 30 September 2022 <i>RMB'000</i>	As at 31 March 2022 <i>RMB'000</i>
One-stop tower crane solution services	1,062,191	668,331
Dry lease	<u>3,423</u>	<u>3,128</u>
	<u>1,065,614</u>	<u>671,459</u>

The Company expects that unsatisfied one-stop tower crane solution services and dry lease of approximately RMB708,234,000 as of 30 September 2022 will be recognised as revenue within 1 year. The remaining unsatisfied performance obligations of approximately RMB357,380,000 will be recognised as revenue after 1 year but less than 5 years.

4 REVENUE

An analysis of revenue is as follows:

	Six months ended 30 September	
	2022	2021
	RMB'000	RMB'000
Timing of revenue recognition		
— Over the time		
One-stop tower crane solution services:		
— Operating Lease	183,044	192,806
— Hoisting Service	203,054	220,460
Dry lease	1,303	2,333
	<u>387,401</u>	<u>415,599</u>

5 FINANCE COSTS AND INCOME

	Six months ended 30 September	
	2022	2021
	RMB'000	RMB'000
Finance costs:		
Interest expenses on borrowings and loans from a related party	17,132	9,841
Interest expenses on lease liabilities	1,472	1,419
Net exchange losses on foreign currency borrowings and loans from a related party	37,479	1,133
Total finance costs	<u>56,083</u>	<u>12,393</u>
Finance income:		
Interest income	<u>(263)</u>	<u>(433)</u>
Finance costs — net	<u>55,820</u>	<u>11,960</u>

6 INCOME TAX (CREDIT)/EXPENSE

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
Current tax on profits for the period	1,419	10,733
Deferred income tax	(2,966)	1,973
	<u>1,419</u>	<u>1,973</u>
Income tax (credit)/expense	<u>(1,547)</u>	<u>12,706</u>

The Group's subsidiary in Singapore is subject to Singapore corporate income tax at a rate of 17% on estimated assessable profits.

The Group's subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% on estimated assessable profits.

Pursuant to the relevant laws and regulation in the PRC, in November 2021, the Group's subsidiaries, China Nuclear Huaxing Tat Hong Machinery Construction Co., Ltd. ("**Huaxing Tat Hong**") and JiangSu Zhongjian Tat Hong Machinery Construction Co. Ltd. ("**Zhongjian Tat Hong**"), were accredited as high-tech enterprises, and were entitled to the preferential tax rate of 15% for three years effective from 2021. The qualification of high-tech enterprise is subject to renewal for each three years interval.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax.

The estimated average annual tax rate used for the six months ended 30 September 2022 is 3.6% (for the six months ended 30 September 2021: 24.8%).

7 DIVIDENDS

Pursuant to the resolution of the annual general meeting held on 29 September 2021, dividends of HKD35,006,000 (equivalent to RMB29,081,000) were approved by the Company to its shareholders. All dividend has been paid in cash on 5 November 2021.

Pursuant to the Board of Directors' resolution dated 26 November 2021, dividends of RMB29,087,000 were approved by the Company to its shareholders. All dividend has been paid in cash on 8 April 2022.

7 DIVIDENDS (CONTINUED)

Pursuant to the resolution of the annual general meeting held on 28 September 2022, dividends of HKD18,669,940 (equivalent to RMB16,912,000) were approved by the Company to its shareholders. All dividend has been paid in cash on 4 November 2022.

	Six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
Dividend payable at the beginning of the period	29,087	—
Declaration of dividends	16,912	29,081
Dividends paid	(29,087)	—
	<hr/>	<hr/>
Dividend payable at the end of the period	<u>16,912</u>	<u>29,081</u>

The Board does not recommend the payment of any dividend for the six months ended 30 September 2022 (2021: special dividend of HKD3.0 cents per share).

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue or deemed to be in issue during the financial period. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the financial period is the same as the basic earnings per share as there is no dilutive potential share during the financial period.

	Six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
(Losses)/Profit attributable to the ordinary equity holders of the Company	<u>(41,880)</u>	<u>38,488</u>
Weighted average number of ordinary shares in issue ('000)	1,166,871	1,166,871
Basic and diluted (losses)/earnings per share (RMB)	<u>(0.04)</u>	<u>0.03</u>

9 TRADE RECEIVABLES

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
Accounts receivable	690,457	594,066
Less: provision for impairment	(16,585)	(11,882)
	<u>673,872</u>	<u>582,184</u>

The majority of the Group's receivables are with credit term from 30 days to 90 days. At 30 September 2022 and 31 March 2022, the aging analysis of the trade receivables, based on due date, was as follows:

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
Accounts receivable		
Within credit term	137,915	138,083
Less than 180 days past due	258,568	224,863
181 days to 365 days past due	110,116	89,272
1 to 2 years past due	122,860	98,000
More than 2 years past due	60,998	43,848
	<u>690,457</u>	<u>594,066</u>

For the trade receivables, the Group has assessed the expected credit losses by considering historical default rates, existing market conditions and forward-looking information. Based on the assessment, the creation and reversal for impaired receivables have been included in the net impairment losses on financial assets. Amounts charged to allowance account are written off when there is no expectation of receiving the receivables.

As at 30 September 2022, the Group pledged accounts receivables with carrying amount of approximately RMB90,783,000 for the bank borrowings of the Group (Note 10).

9 TRADE RECEIVABLES (CONTINUED)

As at 31 March 2022, the Group pledged accounts receivables with carrying amount of approximately RMB20,337,000 for the bank borrowings of the Group (Note 10).

The Group's trade receivables were denominated in RMB.

10 BORROWINGS

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
Non-current		
Bank borrowings — Secured	<u>574,182</u>	<u>474,873</u>
Current		
Bank borrowings — Secured	221,439	136,864
Bank borrowings — Unsecured	<u>39,721</u>	<u>30,229</u>
	<u>261,160</u>	<u>167,093</u>
Total borrowings	<u><u>835,342</u></u>	<u><u>641,966</u></u>

As at 30 September 2022 and 31 March 2022, the Group's borrowings were repayable as follows:

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
Within 1 year	255,476	167,093
Between 1 and 2 years	117,117	93,184
Between 2 and 5 years	<u>462,749</u>	<u>381,689</u>
	<u><u>835,342</u></u>	<u><u>641,966</u></u>

10 BORROWINGS (CONTINUED)

Analysis of the carrying amounts of the Group's borrowings by currency was as follows:

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
RMB	771,661	330,720
HKD	31,717	28,340
SGD	23,960	28,196
USD	8,004	254,710
	<u>835,342</u>	<u>641,966</u>

The weighted average effective interest rates per annum for the six months ended 30 September 2022 and the year ended 31 March 2022 were as follows:

	Six months ended 30 September 2022	Year ended 31 March 2022
RMB	4.2%	5.1%
HKD	1.7%	1.7%
SGD	4.8%	4.8%
USD	4.0%	2.9%

The fair values of the borrowings of the Group are approximate to their carrying amounts, since either the interest rates of those borrowings are close to current market rates or the borrowings are of a short-term nature.

10 BORROWINGS (CONTINUED)

Secured borrowings are pledged or guaranteed by the followings:

- (i) As at 30 September 2022, the syndicated bank borrowings of RMB233,995,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong, Changzhou Tat Hong Zhaomao Machinery Construction Co., Ltd. (“**Changzhou Tat Hong**”) and the Company, and secured by the pledge of machinery with carrying value of RMB351,476,000.

The syndicated bank borrowings of RMB98,855,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB142,945,000.

The borrowings of RMB97,820,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB144,940,000.

The borrowings of RMB79,220,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong and Changzhou Tat Hong, and secured by the pledge of machinery with carrying value of RMB110,132,000.

The borrowings of RMB66,175,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong, Changzhou Tat Hong and Jiangsu Hengxingmao Financial Leasing Co., Ltd. (“**Hengxingmao**”), and secured by the pledge of machinery with carrying value of RMB97,731,000.

The borrowings of RMB42,000,000 were guaranteed by the Company, and secured by the accounts receivable of third-party with amount of RMB43,697,000.

The borrowings of RMB39,588,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB54,791,000.

The borrowings of RMB33,000,000 were guaranteed by Tat Hong Zhaomao Investment Group Co., Ltd. (“**Tat Hong Zhaomao**”), and secured by the land-use rights with carrying value of RMB12,575,000 and the buildings with carrying value of RMB5,174,000. On 22 April 2022, assessed by Jiangsu Sudihang Land and Real Estate Appraisal Co., Ltd., the carrying value of land-use right increased by 24,540,000, and the carrying value of building increased by 4,938,000.

The borrowings of RMB24,000,000 were guaranteed by the Company, and secured by the accounts receivable of third-party with amount of RMB34,440,000.

10 BORROWINGS (CONTINUED)

(i) continued

The borrowings of RMB23,960,000 were guaranteed the Company and standby letter of credit from Standard Chartered Bank (Singapore) Limited, and secured by the pledge of machinery with carrying value of RMB59,727,000.

The borrowings of RMB20,000,000 were guaranteed by Tat Hong Zhaomao.

The borrowings of RMB13,008,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB24,995,000.

The borrowings of RMB10,000,000 were guaranteed by Tat Hong Zhaomao and one of the senior management. Tat Hong Zhaomao had entered into agreements with the senior management, pursuant to which Tat Hong Zhaomao agreed to compensate them for any loss incurred by them in relation to the guarantee provided.

The borrowings of RMB10,000,000 were guaranteed by the Company, and secured by the accounts receivable of third-party with amount of RMB12,646,000.

The borrowings of RMB3,000,000 were fully guaranteed by Shanghai Administration center of Policy Financing Guarantee Funds for SMEs (government agency) and Huaxing Tat Hong.

The borrowings of RMB1,000,000 were guaranteed by the Company, and secured by the commercial acceptance bill with carrying value of RMB1,429,000.

- (ii) As at 31 March 2022, the syndicated bank borrowings of RMB221,229,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong, Changzhou Tat Hong, Hengxingmao and the Company, and secured by the pledge of machinery with carrying value of RMB252,417,000.

The borrowings of RMB28,196,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB56,992,000.

The borrowings of RMB61,736,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong, Changzhou Tat Hong and Hengxingmao, and secured by the pledge of machinery with carrying value of RMB59,169,000.

10 BORROWINGS (CONTINUED)

The borrowings of RMB88,540,000 were guaranteed by certain subsidiaries, including Huaxing Tat Hong, Zhongjian Tat Hong and Changzhou Tat Hong, and secured by the pledge of machinery with carrying value of RMB110,146,000.

The borrowings of RMB158,356,000 were guaranteed by the Company, and secured by the pledge of machinery with carrying value of RMB194,943,000.

The borrowings of RMB1,480,000 were guaranteed by the Company, and secured by the commercial acceptance bill with carrying value of RMB2,116,000.

The borrowings of RMB3,000,000 were fully guaranteed by Shanghai Administration center of Policy Financing Guarantee Funds for SMEs (government agency) and Huaxing Tat Hong.

The borrowings of RMB5,000,000 were guaranteed by Tat Hong Zhaomao, a wholly owned subsidiary, and secured by the land-use rights with carrying value of RMB12,779,000 and the buildings with carrying value of RMB14,297,000.

The borrowings of RMB20,000,000 were guaranteed by the Company, and secured by the accounts receivable of third-party with amount of RMB20,337,000.

The borrowings of RMB15,000,000 were guaranteed by Tat Hong Zhaomao.

The borrowings of RMB9,200,000 were guaranteed by Tat Hong Zhaomao and one of the senior management. Tat Hong Zhaomao had entered into agreements with the senior management, pursuant to which Tat Hong Zhaomao agreed to compensate them for any loss incurred by them in relation to the guarantee provided.

11 TRADE AND BILLS PAYABLES

	As at 30 September 2022 <i>RMB'000</i>	As at 31 March 2022 <i>RMB'000</i>
Accounts payable	446,338	393,409
Bills payable	43,112	38,035
	<u>489,450</u>	<u>431,444</u>

11 TRADE AND BILLS PAYABLES (CONTINUED)

As at 30 September 2022 and 31 March 2022, the aging analyses of the trade payables (including amounts due to related parties of trading in nature) based on transaction date were as follows:

	As at 30 September 2022 RMB'000	As at 31 March 2022 RMB'000
Within 3 months	195,208	115,836
Between 3 months and 1 year	217,084	267,747
Between 1 year and 2 years	30,601	5,334
Between 2 years and 3 years	1,340	2,429
Between 3 years and 5 years	1,759	1,717
Over 5 years	346	346
	<u>446,338</u>	<u>393,409</u>

The carrying amounts of trade and bills payables approximate their fair values.

12 SHARE CAPITAL

Share capital as at 30 September 2022 and 31 March 2022, represented the share capital of the Group.

	Number of Shares Authorised '000	Number of Shares Issued '000	Share Capital USD'000	Share Capital RMB'000
As at 30 September 2022 and 31 March 2022 (ordinary shares of USD0.08 each)	<u>1,875,000</u>	<u>1,166,871</u>	<u>93,350</u>	<u>593,026</u>

13 RESERVES

Reserves of the Group during the six months ended 30 September 2022 and the year ended 31 March 2022 comprised of share premium, capital reserve, statutory reserve and other reserve.

Share premium of the Company represents the capital contribution premium from shareholders. Where the Company issued shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums over share capital shall be classified as share premium.

Capital reserve comprised of merger reserve arising from the combination of Tat Hong Equipment (China) Pte. Ltd. (“**THEC**”)’s subsidiaries in 2015.

As stipulated by the relevant PRC laws and regulations applicable to the Company’s subsidiaries established and operated in the PRC, the subsidiaries are required to make appropriation from profit after tax (after offsetting prior years’ losses) to statutory reserve. The PRC entities are required to transfer at least 10% of its net profit as determined under the PRC accounting rules and regulations, to their statutory reserve. The appropriations to the statutory reserve are required until the balance reaches 50% of the subsidiaries’ registered capital. The statutory reserve can be utilised to offset prior year losses. The Company’s PRC subsidiaries are restricted in their ability to transfer a portion of their reserve either in the form of dividends, loans or advances.

Other reserves consist of translation reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are the first foreign-owned tower crane service provider established in the People's Republic of China (the “**PRC**”). Since 2007, we have established ourselves as a tower crane service provider for one-stop tower crane solution services which cover consultation, technical design, commissioning, construction to after-sales services primarily to Chinese Special-tier and Tier-1 EPC contractors. We mainly engage in engineering, procurement and construction projects (“**EPC projects**”) in infrastructure, clean energy, traditional energy, general construction, commercial building and residential building mainly in the PRC.

Mr. Yau Kok San, CEO of Tat Hong Equipment Service Co., Ltd. said, “After years of the lingering Pandemic, the market remains sluggish and real estate has been severely impacted. Fortunately, the Group has been optimising its business structure by placing a greater emphasis on the other business segments, reducing the real estate to approximately 30% of total revenue, which will mitigate the negative impact of the industry's downturn. In the meantime, we will shift our focus to the energy, infrastructure and public construction segments.”

During the six months ended 30 September 2022, numerous cities in the PRC adopted anti-pandemic measures such as persistent and intermittent lockdowns to contain the spread of the COVID-19, which resulted in suspension of some projects. From April to June 2022, the economic activities of the Company in eastern China were affected. In the period, against the backdrop of interest rate hike by the United States Federal Reserve (Fed) and global inflation, global economy encountered significant instability and pressure. As the external environment remained volatile, the Group strived to adjust its operational strategy, optimized its management structure, made timely and appropriate decisions to mitigate the risks brought by the pandemic. As at the date of this announcement, we managed a total of 1,168 tower cranes, which were equipped to cater for our customers' specialised range of EPC projects throughout the PRC.

We are well-recognised in the industry and have built a strong reputation in our awareness to workers' safety, service quality and technical strength. We currently possess 113 registered patents for utility models and inventions relating to tower cranes. As we are recognized by most clients for our high-quality service and safety standards, we remain competitive in a market environment with great fluctuations in the unit price for tower cranes rentals.

Operating Results

The Group recorded a net loss of approximately RMB41.9 million for the six months ended 30 September 2022 representing a decrease of approximately 208.8% as compared with the net profit of approximately RMB38.5 million for the six months ended 30 September 2021. Such decrease was mainly due to, among the other factors, (i) the dramatic increase of exchange loss of approximately RMB37.5 million arising from foreign currency loans; (ii) the decrease in revenue due to the ongoing outbreak of the COVID-19 and the corresponding control measures in Eastern China, some projects have been postponed and delayed, thereby affecting the Group's revenue in the Period; and (iii) and the increase of general provision of doubtful debts of approximately RMB5.2 million as a result of economic downturn.

Future Development

The COVID-19 pandemic has been lingering for a few years, presenting the world with unprecedented challenges. Despite the gradual recovery in major economies (including the PRC) and the surge in vaccination and immunity rates, the receding global economy, public health and the livelihood of people have yet to see much improvement.

The severity and reach of the COVID-19 pandemic have put each component of the industry value chain of the Group, such as design management, workforce management, commissioning, construction work, labour health and safety, under considerable pressure. Despite difficult situations, service quality and employee health remain the Group's top priority.

Going forward, the Group will focus on analyzing the impact of the COVID-19 pandemic on each business sector and project, reviewing and modifying strategic plans, and communicating updates with all stakeholders who include suppliers, clients and employees etc. The Group will make good use of the data available in analyzing areas of concern, considering the legal and financial implications, and ensuring that the Group's project management, risk management and governance processes can mitigate the COVID-19 pandemic's adverse impacts on its financial position and operational and compliance risks, capturing business opportunities in the market and ensuring the safety of employees.

The Group will also take advantage of the COVID-19 crisis, by turning it into an opportunity to stimulate and accelerate transformation. The Group has had a good head start — the digital platform “iSmartCon”, a smartphone application for managing contract compliance and safety, equipment maintenance, equipment allocation, equipment selection, supporting services and data analysis. The smartphone application has proven to be extremely beneficial in the current context. The Group will take this as a chance to speed up the adoption and improvement of the smartphone application, so as to further optimize the management of various stages of the production process.

2022 is an extraordinarily tough time, but the Group will continue its efforts on meeting the increasing customer demands for prefabricated construction on medium and large size tower cranes, and to establish a standardized post market service eco-system for tower cranes, with the aim of providing a sustainable foundation for a green, safe and environmental friendly tower crane service industry value chain, while abiding by the proper safety standards and PRC prevention and control policies.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased to RMB387.4 million for the six months ended 30 September 2022, representing approximately 6.8% decrease from that for the six months ended 30 September 2021, primarily due to the postponement and delay of engineering projects as a result of the continuous outbreak of the COVID-19 and the corresponding control measures in Eastern China. Our average monthly service price of tower cranes per tonne metres (TM) in use decreased from RMB281 to RMB257. Our total TM in use increase from 1,479,145 for the six months ended 30 September 2021 to 1,577,983 for the six months ended 30 September 2022.

Cost of Sales

Our cost of sales increased by approximately 5.3% from approximately RMB296.1 million for the six months ended 30 September 2021 to approximately RMB311.9 million for the six months ended 30 September 2022. Such increase was mainly attributable to the increase in the depreciation of property, plant and equipment due to, among other factors, (i) the increasing number of self-owned tower cranes. Our average self-owned number of tower cranes increased from 1,025 for the period ended 30 September 2021 to 1,034 for the period ended 30 September 2022; and (ii) the slightly decrease in our labour subcontracting costs.

Gross Profit and Gross Profit Margin

Our overall gross profit decreased by approximately 36.8% from approximately RMB119.5 million for the six months ended 30 September 2021 to approximately RMB75.5 million for the six months ended 30 September 2022. Our overall gross profit margin decreased from approximately 28.8% for the six months ended 30 September 2021 to approximately 19.5% for the corresponding period in 2022. The decrease was mainly due to the combined effects of the above-mentioned.

Other income

The other income for the six months ended 30 September 2022 was approximately RMB3.5 million, representing a decrease of approximately RMB7.2 million or approximately 67.3% as compared to that of approximately RMB10.7 million for the six months ended 30 September 2021. Our other income mainly comprised of value-add tax refund and government grants. The decrease was mainly due to the decrease in receipt of financial incentives.

Research and development expenses

Our research and development expenses decreased from approximately RMB12.8 million for the six months ended 30 September 2021 to approximately RMB12.2 million for the six months ended 30 September 2022. This was mainly due to the decrease in development work on patents.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 10.2% from approximately RMB8.5 million for the six months ended 30 September 2021 to approximately RMB7.6 million for the six months ended 30 September 2022. Such decrease was mainly due to the adoption of the video conferences by the Group during the pandemic, which led to the reduction of traveling expenses.

General and administrative expenses

Our general and administrative expenses for the six months ended 30 September 2022 amounted to approximately RMB41.3 million, representing a decrease of approximately RMB5.3 million or 11.4% as compared to that of approximately RMB46.7 million for the six months ended 30 September 2021. The general and administrative expenses mainly comprised of professional expenses, salary costs and office expenses. Such decrease was primarily attributable to the decrease in traveling expenses and office expenses as a result of telecommuting.

Finance costs

Our finance costs for the six months ended 30 September 2022 amounted to approximately RMB56.1 million, representing an increase of approximately RMB43.7 million or approximately 352.5% as compared to that of approximately RMB12.4 million for the six months ended 30 September 2021. The increase was mainly due to the recognition of RMB37.5 million net exchange losses which arose from foreign currency borrowings for the period ended 30 September 2022.

Income tax expenses

Our income tax credit for the six months ended 30 September 2022 amounted to approximately RMB1.5 million, as compared to income tax expense of approximately RMB12.7 million for the six months ended 30 September 2021. Such decrease was due to the occurrence of losses for the six months ended 30 September 2022.

Losses for the Period

As a result of the foregoing reason, the Group recorded the losses of RMB41.9 million in the Period as compared to a profit of RMB38.5 million in the corresponding period, representing a decrease of approximately RMB80.4 million or approximately 208.8% as compared with that for the same period in 2021. The decrease was mainly due to the combined effects of the above-mentioned.

Working capital structure

The Group's net current assets amounted to approximately RMB392.8 million as at 30 September 2022, representing a decrease of approximately RMB59.1 million from that as at 31 March 2022, which was mainly due to increase in the current portion of borrowings.

Liquidity and financial management

A substantial amount of capital is required to fund our purchase of tower cranes, working capital requirements and general business expansion. Our operations and growth have primarily been financed by cash generated from our operations.

The Group strives to maintain a healthy financial position and liquidity for its normal operation, development needs and ad-hoc events. As at 30 September 2022, the cash and cash equivalents plus financial assets at fair value through profit or loss were approximately RMB151.7 million, representing a decrease of approximately RMB18.2 million when compared with those as at 31 March 2022.

The Group's current ratio (which represents the total sum of current assets, divided by the total sum of current liabilities) was 1.44 times as at 30 September 2022, as compared to that of 1.61 times as at 31 March 2022. The decrease in current ratio was mainly attributable to the increase in current portion of borrowings.

The gearing ratio of the Group, (which represents the total sum of borrowings and lease liabilities, divided by total equity), was 60.1% as at 30 September 2022, as compared to that of 44.6% as at 31 March 2022. The increase in gearing ratio was mainly attributable to the increase in borrowings, in additions, due to the exchange rate fluctuations, the US dollar has appreciated in 2022, which led to the increase of equivalent RMB loan balance.

Pledge of assets

As at 30 September 2022, the Group pledged machineries with carrying amount of approximately RMB986.7 million for the lease liabilities and bank borrowings of the Group to secure banking facilities granted to the Group.

As at 30 September 2022, the land-use rights with carrying value of approximately RMB12.6 million (31 March 2022: RMB12.8 million) were secured for the bank borrowings of the Group.

Lease Liabilities

The lease liabilities increased by approximately 22.8% from approximately RMB58.7 million as at 31 March 2022 to approximately RMB72.1 million as at 30 September 2022. This was mainly due to the increase of rented tower cranes leading to the increase of right-of-use assets.

CAPITAL COMMITMENT

As at 30 September 2022, the contracted but not delivered property, plant and equipment was approximately RMB18.0 million, representing an increase of approximately RMB3.7 million from that as at 31 March 2022.

CONTINGENT LIABILITIES

Save as disclosed in this announcement, the Group had no contingent liabilities.

FOREIGN EXCHANGE RISK MANAGEMENT

The net exchange loss for the six months ended 30 September 2022 amounted to approximately RMB37.2 million, representing an increase of approximately RMB36.1 million as compared to that of approximately RMB1.1 million for the six months ended 30 September 2021. The Group mainly operates in the PRC with RMB as the functional currency, and the most of foreign currency loans have been converted into the RMB loans. The Board is of the view that the Group's foreign exchange rate risks are not the main risks in the subsequences period. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk during the six months ended 30 September 2022.

SIGNIFICANT INVESTMENT HELD

The Group had no significant investment as at 30 September 2022.

USE OF PROCEEDS FROM THE LISTING

On 13 January 2021, the shares of the Company (the “**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Shares were issued to the public at HKD1.73 per Share, and the Group received net proceeds (the “**Net Proceeds**”) of approximately HKD485.5 million from the global offering of its Shares (the “**Global Offering**”) after deducting of the underwriting fees and commissions and other expenses payable by the Group in connection with the Global Offering. As of 30 September 2022, the amount of Net Proceeds which remain unutilised amounted to approximately HKD98.8 million. Set out below are details of the planned allocation of the Net Proceeds, the utilised and unutilised amount of the Net Proceeds as at 30 September 2022:

Usage	% of Total Net Proceeds	Planned Allocation of the Net Proceeds <i>HKD'000</i>	Utilised Net Proceeds up to 30 September 2022 <i>HKD'000</i>	Unutilised Net Proceeds as at 30 September 2022 <i>HKD'000</i>	Expected Timeline of Full Utilisation of the Net Proceeds
Purchase tower cranes	63.0%	305,865	211,435	94,430	By 31 March 2024
Purchase equipment and to conduct foundation work for our Yangzhou Refurbishment Centre (as defined in the prospectus of the Company dated 30 December 2020 (the “ Prospectus ”))	5.3%	25,732	25,732	—	Fully utilised
Hire additional personnel equipped with special skills to improve our service capacity and competitiveness	3.2%	15,536	11,118	4,418	By 31 March 2023
Repay part of our bank borrowings	18.5%	89,817	89,817	—	Fully utilised
Working capital and other general corporate purposes	10%	48,550	48,550	—	Fully utilised
	<u>100%</u>	<u>485,500</u>	<u>386,652</u>	<u>98,848</u>	

Due to the ongoing outbreak of COVID-19 and the recovery of the domestic economy is remained under pressure and the overall market was still sluggish, the Group’s plan to purchase tower cranes for some projects in Eastern China have been postponed and delayed. The balance of the unutilized net proceeds for purchasing tower cranes is expected to be utilized by 31 March 2024.

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 September 2022 (2021: special dividend of HKD0.03 per share).

The payment of a final dividend of HKD1.6 cents per share for the year ended 31 March 2022, totaling approximately HKD18,669,940, had been approved at the annual general meeting of the Company held on 28 September 2022 and the payment was made on 4 November 2022.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the six months ended 30 September 2022, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures. As at 30 September 2022, the Group did not have any immediate plans for material investments and capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2022, the Group employed a total of 1,328 employees who include the directors of the Company and its subsidiaries (2021: 1,180 employees). The total employee benefits expenses for the six months ended 30 September 2022 was RMB50.2 million, an increase of 2.0 % when compared with that for the six months ended 30 September 2021. Such increase was mainly attributable to the increase in staff headcount.

The Group offers its employees competitive remuneration packages based on their performance, qualifications, competence displayed and market comparable to attract, retain and motivate high quality individuals. Remuneration package typically comprises salary, contribution to pension schemes and discretionary bonuses. The Group also provides trainings to its staff. Remuneration packages are reviewed regularly to reflect the market practice and employees' performance.

Employees of the Group in the PRC are entitled to participate in various government supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material events for disclosure subsequent to 30 September 2022 and up to the date of this announcement.

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

None of the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders. The Board has reviewed the corporate governance practices of the Company and is of the view that the Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its code of conduct regarding the securities transactions by the Directors on the terms no less exacting terms than the required standard set forth in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2022.

REVIEW OF THE INTERIM RESULTS

The Company has set up an audit committee (the “**Audit Committee**”) for the purposes of reviewing and providing supervision over the financial reporting process and internal audit function of the Group, reviewing the internal controls and risk management system of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Ms. Pan I-Shan, Mr. Wan Kum Tho and Dr. Huang Chao-Jen. Ms. Pan I-Shan is the Chairlady of the Audit Committee.

The Audit Committee has reviewed and has no disagreement to the unaudited interim condensed consolidated financial results of the Group for the six months ended 30 September 2022 and the accounting principles and practices adopted by the Group. The Audit Committee considers that the interim financial information of the Company has complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

The interim results announcement of the Company has been published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.tathongchina.com). The interim report of the Company for the six months ended 30 September 2022 containing all the relevant information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange and that of the Company in accordance with the Listing Rules.

By order of the Board
Tat Hong Equipment Service Co., Ltd.
Ng San Tiong
Chairman and Non-executive Director

Hong Kong/the PRC, 25 November 2022

As at the date of this announcement, the Board comprises Mr. Yau Kok San and Mr. Lin Han-wei as Executive Directors; Mr. Ng San Tiong, Mr. Sun Zhaolin and Mr. Liu Xin and Mr. Guo Jinjun as Non-executive Directors; and Ms. Pan I-Shan, Mr. Wan Kum Tho and Dr. Huang Chao-Jen as Independent non-executive Directors.