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Unity Enterprise Holdings Limited

盈滙企業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2195)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021 AND PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

ANNUAL RESULTS HIGHLIGHTS

- Revenue decreased by approximately 20.6% to approximately HK\$249.6 million for the year ended 31 December 2021 (2020: approximately HK\$314.2 million).
- Gross profit decreased by approximately 23.6% to approximately HK\$44.8 million for the year ended 31 December 2021 (2020: approximately HK\$58.7 million).
- The Group recorded a profit attributable to owners of the Company of approximately HK\$26.3 million for the year ended 31 December 2021 (2020: approximately HK\$37.7 million).
- Basic earnings per share was approximately HK2.80 cents for the year ended 31 December 2021 (2020: approximately HK5.03 cents).
- Prior to the Listing, the Company declared interim dividends of HK\$288,000 per ordinary share amounting to HK\$28.8 million to its then shareholder. No other dividend has been paid or declared for the year ended 31 December 2021.
- The Board recommended not to declare a final dividend for the year ended 31 December 2021.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Unity Enterprise Holdings Limited (the “**Company**”) is pleased to present the consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020.

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

Year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Revenue	6	249,625	314,214
Cost of services		(204,784)	(255,550)
Gross profit		44,841	58,664
Other income and gain	7	996	1,168
Administrative expenses		(9,826)	(6,513)
Loss allowances on trade receivables and contract assets		(2,025)	(2,009)
Listing expenses		(2,186)	(4,593)
Finance costs	8	(199)	(249)
Profit before income tax	9	31,601	46,468
Income tax expense	10	(5,319)	(8,731)
Profit and total comprehensive income for the year		26,282	37,737
Profit attributable to owners of the Company		26,282	37,737
Earnings per share attributable to owners of the Company			
Basic and diluted	12	HK2.80 cents	HK5.03 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	1,302	130
Deferred tax assets		1,129	648
Total non-current assets		2,431	778
Current assets			
Trade receivables	14	165,517	152,073
Contract assets	15	30,719	33,585
Deposits, prepayments and other receivables	16	4,109	8,700
Amount due from a director		–	28,899
Tax recoverable		2,250	600
Time deposit		50,000	–
Cash and bank balances		23,420	15,604
Total current assets		276,015	239,461
Current liabilities			
Trade payables	17	59,885	108,859
Accrued liabilities and other payables	18	31,713	47,653
Lease liabilities		139	72
Tax payable		24,007	18,207
Bank borrowings	19	–	8,463
Total current liabilities		115,744	183,254
Net current assets		160,271	56,207
Total assets less current liabilities		162,702	56,985
Non-current liabilities			
Bank borrowings	19	–	2,870
NET ASSETS		162,702	54,115
EQUITY			
Equity attributable to owners of the Company			
Share capital		10,000	–
Reserves		152,702	54,115
TOTAL EQUITY		162,702	54,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL

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

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

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

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

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosures required by the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

Items included in the financial information of each entity within the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“the **functional currency**”). The functional currency of the Company is Hong Kong dollars (“**HK\$**”). The companies comprising the Group are operating in Hong Kong and their functional currencies are HK\$. HK\$ is used as the presentation currency of the Group.

The financial statements have been prepared on the historical cost basis and are presented in HK\$ and all values are rounded to the nearest thousand except when otherwise indicated.

3. ADOPTION OF HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendment to HKFRS 16	Covid-19 Related Rent Concession
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

These new or amended HKFRSs do not have a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

4. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018–2020 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁴

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

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

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

⁴ Effective for annual periods beginning on or after 1 April 2021

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

5. OPERATING SEGMENT INFORMATION

Geographical Information

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

Information about Major Customers

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	61,554	57,309
Customer B	54,913	130,503
Customer C	45,998	38,592

6. REVENUE

Revenue represents transaction price received and receivable for the provision of RMAA works provided by the Group to customers.

Disaggregation of Revenue

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Type of contract nature		
Project-based		
— Subcontractor	187,348	266,476
— Main contractor	32,288	16,881
Term-contract based	29,989	30,857
	<u>249,625</u>	<u>314,214</u>
Type of developments		
Residential	158,542	179,866
Commercial and industrial	81,083	134,348
Institutional organisation	10,000	—
	<u>249,625</u>	<u>314,214</u>

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

7. OTHER INCOME AND GAIN

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gain on disposal of property, plant and equipment	435	—
Government subsidies (<i>note 1</i>)	—	1,168
Reimbursement of litigation costs and disbursement (<i>note 2</i>)	380	—
Bank interest income	181	—
	<u>996</u>	<u>1,168</u>

Notes:

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

8. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank borrowings	186	233
Interest on lease liabilities	13	16
	<u>199</u>	<u>249</u>

9. PROFIT BEFORE INCOME TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Employee benefit expenses (including directors' remuneration):		
— Directors' fees	360	—
— Salaries, allowances and other benefits	8,355	6,988
— Contributions to retirement benefits schemes	275	270
	<u>8,990</u>	<u>7,258</u>
Total employee benefit expenses		
	<u>8,990</u>	<u>7,258</u>
Auditor's remuneration	700	700
Depreciation of property, plant and equipment	648	856
	<u>648</u>	<u>856</u>

The employee benefit expenses included in cost of services were approximately HK\$4,434,000 (2020: approximately HK\$4,175,000) for the year.

10. INCOME TAX EXPENSE

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.

Under the two-tiered profits tax rates regime, Hong Kong Profits Tax of a qualified entity in the Group was provided at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for the years ended 31 December 2020 and 2021. The profits of the other Hong Kong subsidiary were taxed at a flat rate of 16.5%.

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

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

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

In December 2021, the IRD issued additional assessments demanding additional profits tax of HK\$1,650,000 for the year of assessment 2015/16 to HDC and HK\$82,500 for the year of assessment 2015/16 to HDE. The Group filed objections to the IRD in respect of the aforesaid assessments on 3 January 2022 for these subsidiaries. In relation to HDE, an unconditional holdover of an amount of HK\$82,500 was granted by the IRD on 19 January 2022. In relation to HDC, based on the letter issued by the IRD on 19 January 2022, the objection is still being considered by the IRD. As no part of the tax has been held over by the IRD, the Group has made a payment of HK\$1,650,000 to the IRD on 26 January 2022 in respect of the additional assessments for HDC.

In January 2022, the IRD issued an enquiry letter to HDC requesting for accounting records of HDC for the year of assessment 2016/17 and a list of personal assets of the directors and shareholders of HDC. As it takes time to collate relevant information, the Group filed an extension letter on 24 February 2022. Up to the date of approval of these financial statements, the Group has not yet received any reply from the IRD.

Having taken the opinion of tax advisers and based on the information available to the Group, the directors of the Company are of the view that HDC and HDE have sufficient grounds to substantiate the deduction claims for cost of construction work executed for the years of assessment 2012/13, 2013/14, 2014/15 and 2015/16. Accordingly, no provision in respect of these additional assessments has been made in the financial statements.

A deed of indemnity dated 18 March 2021 executed by the controlling shareholders in connection with the Listing, pursuant to which the controlling shareholders have undertaken in favour of the Group to indemnify all outstanding taxes incurred prior to the Listing and all reasonable costs, expenses or other liabilities which any member of the Group may incur in connection with the investigation, assessment, settlement or contesting of any taxation claim.

11. DIVIDENDS

On 29 March 2021, the Company declared interim dividends of HK\$288,000 (2020: HK\$150,000) per ordinary share amounting to HK\$28,800,000 (2020: HK\$15,000,000) to Harvest Land, being the then shareholder of the Company, in which a director of the Company holds 100% of its beneficial interests. Other than the above, no dividend has been paid or declared by other companies comprising the Group for the years ended 31 December 2020 and 2021.

The directors do not recommend payment of final dividend for the year ended 31 December 2021.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately HK\$26,282,000 (2020: approximately HK\$37,737,000), and the weighted average number of ordinary shares of 939,041,096 (2020: 750,000,000) in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired items of plant and equipment with a cost of approximately HK\$1.8 million (2020: HK\$27,000). A motor vehicle with zero net book value was disposed of during the year, resulting in a gain on disposal of approximately HK\$0.4 million (2020: Nil).

14. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables, gross	172,641	157,108
Less: Loss allowances recognised	(7,124)	(5,035)
	<u>165,517</u>	<u>152,073</u>

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

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one month	35,739	28,307
One to three months	30,991	68,893
More than three months but within one year	65,165	50,246
More than one year	33,622	4,627
	<u>165,517</u>	<u>152,073</u>

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

15. CONTRACT ASSETS

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contract assets		
— Retention receivables	31,854	34,784
Less: Loss allowances recognised	(1,135)	(1,199)
	<u>30,719</u>	<u>33,585</u>

As at 31 December 2021, the amounts of contract assets that are expected to be recovered after one year are approximately HK\$30,066,000 (31 December 2020: approximately HK\$19,568,000).

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Rental, utilities and sundry deposits	2,508	2,511
Tax reserve certificate	1,320	1,320
Deferred listing expenses	–	4,840
Other prepayments	216	29
Other receivables	65	–
	<u>4,109</u>	<u>8,700</u>

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

17. TRADE PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	<u>59,885</u>	<u>108,859</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one month	13,459	26,334
One to three months	10,486	55,446
More than three months	35,940	27,079
	<u>59,885</u>	<u>108,859</u>

18. ACCRUED LIABILITIES AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Retention payables	17,045	11,063
Other payables and accruals	1,275	1,333
Accrued contract costs	13,393	24,831
Accrued listing expenses	–	10,426
	<u>31,713</u>	<u>47,653</u>

As at 31 December 2021, the retention payables that are expected to be settled after one year are approximately HK\$16,395,000 (31 December 2020: approximately HK\$10,561,000).

19. BANK BORROWINGS

	2021 HK\$'000	2020 <i>HK\$'000</i>
Bank loans:		
Current		
Repayable within one year	—	8,463
Non-current		
Repayable after one year but not exceeding two years	—	1,900
Repayable after two years but not exceeding five years	—	970
	—	2,870
	—	11,333

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

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

BUSINESS REVIEW

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

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

During the year ended 31 December 2021, the revenue decreased by approximately 20.6% to approximately HK\$249.6 million (2020: approximately HK\$314.2 million). Such decrease of the revenue was mainly due to the following:

- (a) the delay in progress of a project at the site of Beverly Hill, 6 Broadwood Road, Happy Valley due to the occurrence of a fatal accident, which has been disclosed in the announcement of the Company dated 21 October 2021. The Labour Department had issued suspension notice to the main contractor for suspending works at the site shortly after the accident and had revoked the suspension notice on 3 March 2022. The executive Directors originally expected that an estimated revenue of approximately HK\$29.1 million could be derived from October to December 2021 for such project;
- (b) the delay in progress of a project at the site of Telford Gardens, No.33 Wai Yip Street, Kowloon Bay due to an unexpectedly lengthy discussion between the property management company and the residents for the paint shades of external wall. The executive Directors originally expected that substantial works could be commenced in April 2021. However, the paint shades was agreed by the property management company and the residents in August 2021 and the substantial works could be conducted in September 2021. Such delay of works resulted in a substantial decrease in our revenue of approximately HK\$42.5 million to be derived for the year ended 31 December 2021 as originally estimated by the executive Directors; and
- (c) newly awarded projects with contract sum of approximately HK\$122.5 million during the year ended 31 December 2021, which partially offset the negative impact brought by factors (a) and (b) discussed above.

The Directors confirmed that the issues of the abovementioned two projects have been solved and are not aware of any material change in the contract sum of such projects. However, progress of such projects has recently been affected by the fifth wave of COVID-19 infection.

Despite the occurrence of the above unexpected events in the year ended 31 December 2021, the Group put more efforts and keeps a closer look out for profitable tenders. Through the “Smart Tender”, an E-tendering platform administrated by Urban Renewal Authority, the Group can source more potential tenders. The established presence of the Group in the industry also make the Group to be the approved sub-contractor of some sizeable property management companies. These achievements provide more business opportunities to the Company and help the Company capture the growth in the RMAA industry.

As at 31 December 2021, the Group has 15 projects (2020: 15 projects) on hand with an aggregate original contract sum of approximately HK\$636.2 million (2020: approximately HK\$610.4 million), which includes projects in progress and projects that have been awarded to the Group but not yet commenced.

PROSPECTS

Since the number of buildings in Hong Kong aged over 30 year will be continuously increase in the coming years, the Directors consider that the demand for RMAA works will be increase in the coming future. With over 15 years of operating history in the RMAA industry in Hong Kong, the Group is able to attract potential tender invitations and the potential customers. The Group is confident to maintain its principal business objectives to strengthen its market position, increase its market share and capture the growth in RMAA industry. Alongside with the business target to capture the growth in RMAA industry, the quality RMAA works is another key to the Group’s success. The Group will continue to upgrade its construction equipment, enhance its safety measures, recruit more skilled and experienced project management team and assist the staff to continue their education. Through the wise use of its available resources, the Group can enhance its competitiveness in the RMAA industry.

However, 2022 may be a challenging year for the Group. Despite the increasing public health awareness, vaccination programme and enhanced social distancing measures, Hong Kong has recorded the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant since early-February 2022. The daily number of confirmed cases reached over 50,000 in early-March 2022. In early-February 2022, the Government announced that aside from staff providing emergency and essential public services, all government employees would be arranged to work from home (“**WFH Policy**”). The Directors consider that the WFH Policy impeded the approval of billing process of construction industry. Further, a significant number of construction workers had contracted COVID-19 or were required to be quarantined, resulting in short term labour shortage. Such short term labour shortage has given rise to widespread delay in project schedule. Moreover, in light of tightening of the cross-border quarantine requirements and increasing number of truck drivers being tested positive for COVID-19, contractors have experienced disruption in supply of raw materials. There has been a reduction in supply of raw materials, resulting in a short term surge in prices of raw materials in the first quarter of 2022.

As such, the Directors consider that projects' progress or tendering process has been hampered by the pandemic. The Group's business operation has also been impeded by the fifth wave of outbreak of COVID-19. In particular, some of our subcontractors' workers have been tested positive for COVID-19 in the first quarter of 2022 and there have been occasions where the operation of the relevant sites had to be suspended temporarily for disinfection, which resulted in certain disruptions to the project schedule. The Group has prepared for more challenging times in 2022. It is generally expected that the fifth wave of outbreak will continue at least until the second quarter of 2022 and the business condition will gradually improve. Under an improved economic condition, the Group believes that a recovery in economic activities, together with favourable government policies, should ramp up the demand of RMAA works and offer plenty of opportunities for the Group to capture. Given the foregoing reasons, the Directors are cautious on the Group's business outlook in 2022.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group's revenue amounted to approximately HK\$249.6 million (2020: approximately HK\$314.2 million). The decrease in revenue of approximately 20.6% was mainly attributable to (a) the delay in progress of a project at the site of Beverly Hill, 6 Broadwood Road, Happy Valley due to the occurrence of a fatal accident; and (b) the delay in progress of a project at the site of Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay due to an unexpectedly lengthy discussion between the property management company and the residents for the paint shades of external wall; the negative impact of which is partially offset by the newly awarded projects with contract sum of approximately HK\$122.5 million during the year ended 31 December 2021.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2021, the gross profit amounted to approximately HK\$44.8 million (2020: approximately HK\$58.7 million), while the gross profit margin was approximately 18.0% (2020: approximately 18.7%). The decrease in gross profit of approximately 23.6% was primarily attributable to the decrease in revenue as discussed above.

The slight drop in the gross profit margin was mainly driven by the completion of certain projects on hand in 2020 which had a relatively higher gross profit margin. The Directors consider that, the gross profit margin has been maintained at a stable level during the year ended 31 December 2021.

Other Income and Gain

For the year ended 31 December 2021, the other income and gain amounted to approximately HK\$1.0 million, which was contributed by the disposal of a motor vehicle with a gain of approximately HK\$0.4 million, the reimbursement of litigation costs and disbursements of approximately HK\$0.4 million, and the interest income derived from the time deposits of approximately HK\$0.2 million placed during the year ended 31 December 2021.

For the year ended 31 December 2020, the other income and gain amounted to approximately HK\$1.2 million, which comprised the government subsidies received by the Group due to the outbreak of COVID-19, including the anti-epidemic fund received from the Government under the Employment Support Scheme and from the Construction Industry Council.

Administrative Expenses

Administrative expenses primarily comprise staff costs, depreciation, office expenses, audit fee and professional fees. The administrative expenses increased from approximately HK\$6.5 million for the year ended 31 December 2020 to approximately HK\$9.8 million for the year ended 31 December 2021, representing an increase of approximately HK\$3.3 million or 50.9%. Such increase was mainly attributable to the increase in legal and professional fees, including the post-listing expenses and the increase in staff costs.

Finance Costs

The Group's finance costs remained stable at approximately HK\$0.2 million for the years ended 31 December 2021 and 2020, respectively.

Income Tax Expense

The income tax expense decreased from approximately HK\$8.7 million for the year ended 31 December 2020 to approximately HK\$5.3 million for the year ended 31 December 2021, representing a decrease of approximately 39.1%. Such decrease was mainly attributable to the decrease in profit before tax as a result of the aforesaid reasons for the year ended 31 December 2021.

Profit and Total Comprehensive Income for the Year

Profit and total comprehensive income for the year decreased by approximately 30.4% from approximately HK\$37.7 million for the year ended 31 December 2020 to approximately HK\$26.3 million for the year ended 31 December 2021. Such decrease was mainly contributed by the decrease in revenue and the increase in administrative expenses. The net profit margin is approximately 10.5% for the year ended 31 December 2021 as compared to that of approximately 12.0% for the year ended 31 December 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The liquidity requirements are primarily attributable to the working capital for the business operations. The principal sources of liquidity are cash generated from the operations, borrowings and the proceeds from the Listing. As at 31 December 2021, the Group maintained a healthy liquidity position with net current assets balance, a time deposit and cash and bank balances of approximately HK\$160.3 million (31 December 2020: approximately HK\$56.2 million), HK\$50 million (31 December 2020: Nil) and approximately HK\$23.4 million (31 December 2020: approximately HK\$15.6 million) respectively. The time deposit and cash and bank balances were denominated in Hong Kong dollars. The Shares of the Company were listed on Main Board of the Stock Exchange on 31 March 2021. There has been no change in the capital structure of the Company since the Listing. As at the date of this announcement, the capital structure of the Company comprised mainly net debt, which includes cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves.

Bank Borrowings

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

Gearing Ratio

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

Net Debt to Equity Ratio

The Group recorded net cash position as at 31 December 2021 and 31 December 2020.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy with an aim of preserving the assets of the Group. No investment assets were held by the Group other than a time deposit, cash and bank deposits as at 31 December 2021. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

Capital Commitments

As at 31 December 2021, the Group had no material capital commitments.

Pledge of Assets

The bank loans of approximately HK\$7.5 million as at 31 December 2020 are secured by a deed of assignment over the proceeds from a specific contract with a customer and trade receivables of approximately HK\$7.3 million of the Group were subject to the aforesaid assignment and charge arrangement. As at 31 December 2021 and the date of this announcement, all of the personal guarantees and securities for the Group's bank borrowings had been released.

Capital Expenditures

For the year ended 31 December 2021, the Group incurred capital expenditures of approximately HK\$1.8 million, primarily due to the purchase of a motor vehicle and the renewal of the tenancy agreement.

CONTINGENT LIABILITIES

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

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Performance bonds for guarantee of completion of projects issued by insurance companies	<u>6,613</u>	<u>6,613</u>

Save as disclosed above, the Group had no other material contingent liabilities as at 31 December 2021.

FOREIGN EXCHANGE EXPOSURE

The Group has a minimal exposure to foreign currency risk as most of the business transactions and assets and liabilities of the Group are principally denominated in Hong Kong dollars. As such, the Directors consider the Group's risk in foreign exchange is insignificant and no foreign exchange hedging was conducted by the Group or no hedging instrument transaction was entered into during the year ended 31 December 2021.

SUBSEQUENT EVENTS AND EFFECT OF COVID-19

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

Based on the currently available information and as disclosed above, the progress of certain projects has recently been affected by the fifth wave of COVID-19 infection. Given the inherent unpredictable nature and rapid development relating to COVID-19 pandemic, the Group's business might be affected should the situations in Hong Kong deteriorates and the management of the Group will continue to closely monitor in this regard.

Save as disclosed above, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the year ended 31 December 2021 and up to the date of this announcement.

SIGNIFICANT INVESTMENT HELD

During the year ended 31 December 2021 and up to the date of this announcement, the Group did not hold any significant investments.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2021 and up to the date of this announcement, the Group did not have any material acquisitions nor disposals of subsidiaries and associated companies.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 27 employees (31 December 2020: 25 employees) who were directly employed by the Group and based in Hong Kong. The Group offers remuneration package to the employees which includes salary, bonuses and options which may be granted under the share option scheme adopted by the Company. Generally, the Group considers employees' salaries based on each of their performance, qualifications, position and seniority. Our Company has an annual review system to appraise the performance of the employees, which constitutes the grounds of our decision as to the salary raises, bonuses and promotions. The Group also arranges induction training for newly joined employees and continuous trainings to existing employees regularly. The remuneration of the Directors and members of the senior management is decided by the Board upon the recommendation from the remuneration committee of the Company having regard to the Group's operating results, individual performance and comparable market statistics.

DIVIDEND

Prior to the Listing, the Company declared interim dividends of HK\$288,000 (2020: HK\$150,000) per ordinary share amounting to HK\$28.8 million to its then shareholder which were settled through the current account with a Director. Save as disclosed above, no dividend has been paid or declared during the year ended 31 December 2021.

The Board recommended not to declare a final dividend for the year ended 31 December 2021.

USE OF PROCEEDS

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

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

Purposes	Intended use of Net Proceeds <i>HK\$ million</i>	Utilised amount since the date of Listing and up to 31 December 2021 <i>HK\$ million</i>	Unutilised amount as at 31 December 2021 <i>HK\$ million</i>	Expected timeline for utilising the unutilised Net Proceeds
Upgrading the construction equipment and enhancing the safety measures through the provision of metal scaffolding system (“ Plan 1 ”)	57.5	–	57.5	By December 2022
Meeting working capital requirement and paying certain upfront costs and expenses (“ Plan 2 ”)	25.7	19.8	5.9	By December 2022
Further strengthening our manpower (“ Plan 3 ”)	7.5	1.0	6.5	By December 2022
Total	<u>90.7</u>	<u>20.8</u>	<u>69.9</u>	

Up to 31 December 2021, the actual use of Plan 1 was delayed as the Company has been through several rounds of negotiation with the suppliers of metal scaffolding on the relevant price and terms, in order to ensure a better finalised price and terms. The actual use of Plan 2 and Plan 3 were delayed due to the extension of tendering procedures of potential projects.

As at the date of this announcement, there was no change for the intended use of Net Proceeds as disclosed in the Prospectus. It is expected that the unutilised portion of the Net Proceeds will be fully utilised by 31 December 2022.

CORPORATE GOVERNANCE CODE

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

SHARE OPTION SCHEME

Written resolutions were passed on 15 March 2021 to adopt the share option scheme (the “**Scheme**”). The principal terms of the Scheme are summarised in the paragraph headed “D. Share Option Scheme” in Appendix V of the Prospectus. No share options have been granted, exercised, cancelled or lapsed under the Scheme since its adoption date and up to the date of this announcement. The Scheme will remain in force for a period of 10 years after the date of adoption.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Ms. Chan Mei Wah, Mr. Mak Alexander and Mr. Wu Hak Ping and one Non-executive Director namely Mr. Li Fat Chung. Ms. Chan Mei Wah is the chairperson of the Audit Committee. The Audit Committee had reviewed the Group’s annual results for the financial year ended 31 December 2021 and confirmed that they were prepared in accordance with applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

COMPETING INTERESTS

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

SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Company’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

COMPLIANCE ADVISER’S INTERESTS

As informed by the Company’s compliance adviser, Grande Capital Limited (“**Grande**”), as at 31 December 2021, except for the compliance adviser agreement entered into between the Company and Grande dated 12 April 2019, neither Grande nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient level of public float for its shares as required under the Listing Rules during the year ended 31 December 2021 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming Annual General Meeting (“**2022 AGM**”) of the Company will be held on 22 June 2022 and the notice of the 2022 AGM will be published and despatched to the shareholders of the Company (the “**Shareholders**”) in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the Shareholders who will be entitled to attend and vote at the 2022 AGM, the Register of Members will be closed from Friday, 17 June 2022 to Wednesday, 22 June 2022, both dates inclusive, the period during which no transfer of shares will be effected. In order to be eligible to attend and vote at the 2022 AGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at its office at Shops 1712–1716 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 June 2022.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.hongdau.com.hk and the Stock Exchange's website at www.hkexnews.hk. The annual report of the Company for the year ended 31 December 2021 will be despatched to its shareholders and will also be published on the websites of both the Stock Exchange and the Company in due course in the manner as required by the Listing Rules in April 2022.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposes to amend the existing articles of association of the Company ("**Articles**") in order to bring the Articles in line with the latest legal and regulatory requirements, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022.

The proposed amendments to the Articles ("**Proposed Amendments**") are summarised below:

1. to specify that the Company shall hold an annual general meeting within six months after the end of the Company's financial year;
2. to provide that all Shareholders shall have the right to (i) speak at a general meeting of the Company; and (ii) vote at a general meeting of the Company, except where a Shareholder is required, by the Listing Rules, or the rules, codes or regulations of any competent regulatory authority, to abstain from voting to approve the matter under consideration;
3. to provide that in addition to the right to convene an extraordinary general meeting on the requisition of one or more Shareholders holding not less than one tenth (1/10th) of the paid up capital of the Company having the right of voting at general meetings, such Shareholder(s) shall also have the right to add resolutions to the meeting agenda of a general meeting;
4. to provide that the branch register of Shareholders in Hong Kong may be closed on terms equivalent to section 632 of the Companies Ordinance (Chapter 622 of the Laws in Hong Kong); and

5. to make other necessary amendments for updating the Articles and better aligning with the wording in the applicable laws of Cayman Islands and the Listing Rules.

The Proposed Amendments are subject to consideration and approval by the Shareholders by way of a special resolution at the 2022 AGM. A circular containing, among other things, particulars relating to Proposed Amendments together with a notice convening the 2022 AGM will be despatched to the Shareholders according to the applicable law, the Articles and the Listing Rules.

On behalf of the Board
Yeung Wing Sun
Chairman and Executive Director

Hong Kong, 25 March 2022

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