

Hao Bai International (Cayman) Limited

浩柏國際（開曼）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8431)



FIRST QUARTERLY REPORT

2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the “Directors”) of Hao Bai International (Cayman) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively, the “Group”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



QUARTERLY FINANCIAL RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 30 June 2018 (the “Reporting Period”) as follows. The unaudited condensed consolidated results of the Group for the three months ended 30 June 2018 have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2018

		Three months ended 30 June	
		2018	2017
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	31,549	28,174
Cost of services		(24,576)	(22,819)
Gross Profit		6,973	5,355
Other income		38	3
Administrative expenses		(4,799)	(3,434)
Listing expenses		–	(4,373)
Finance costs		(538)	(256)
Profit (loss) before tax		1,674	(2,705)
Income tax expense	5	(230)	(40)
Profit (loss) and total comprehensive income (expense) for the period	4	1,444	(2,745)
Earnings (loss) per share			
Basic (HK cents)	7	0.11	(0.25)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2018

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the three months ended					
30 June 2018					
As at 1 April 2018 (audited)	13,000	81,096	(16,790)	18,052	95,358
Profit and total comprehensive income for the period	-	-	-	1,444	1,444
As at 30 June 2018 (unaudited)	<u>13,000</u>	<u>81,096</u>	<u>(16,790)</u>	<u>19,496</u>	<u>96,802</u>
For the three months ended					
30 June 2017					
As at 1 April 2017 (audited)	-	37,344	(16,790)	15,069	35,623
Loss and total comprehensive expense for the period	-	-	-	(2,745)	(2,745)
Capitalisation issue of shares	9,750	(9,750)	-	-	-
Issue of shares by public offering	3,250	61,750	-	-	65,000
Share issuance expenses	-	(8,248)	-	-	(8,248)
As at 30 June 2017 (unaudited)	<u>13,000</u>	<u>81,096</u>	<u>(16,790)</u>	<u>12,324</u>	<u>89,630</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 30 JUNE 2018

1. General

Hao Bai International (Cayman) Limited (the “Company”) is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is located at Workshop Unit A, 7/F, Wah Shing Industrial Building, No.18 Cheung Shun Street, Kowloon, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its major subsidiaries are provision of design, procurement and installation services of water circulation systems.

2. Application of Hong Kong Financial Reporting Standards (“HKFRSs”)

The unaudited condensed consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM and by the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Reporting Period are consistent with those used in the audited financial statements of the Group for the year ended 31 March 2018 except as described below.

HKFRS 9 Financial Instruments

Impairment

In general, the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions.

Based on the assessment by the directors of the Company, the accumulated amount of impairment loss to be recognised by Group as at 1 April 2018 would have no significant difference as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other debtors.

2. Application of Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Reporting Period. There have been no significant changes to the accounting policies applied in these financial statements for the Reporting Period presented as a result of these developments.

The unaudited condensed consolidated financial statements for the Reporting Period have not been audited by the Company’s independent auditor, but have been reviewed by the Company’s audit committee.

3. Revenue and Segment Information

Revenue of the Group represents the fair value of amounts received and receivable from management contracting services and the gross proceeds received and receivable from consultancy services and maintenance services.

Information reported to the executive directors of the Company, being the chief operating decision maker, is organised into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group’s reportable and operating segments under HKFRS 8 “Operating Segments” are as follows:

- Management contracting services – provision of design, procurement and installation services of the water circulation systems
- Consultancy services – provision of consultancy services on design of water circulation systems
- Maintenance services – provision of maintenance and repair services for water circulation systems and replacement of parts

	Three months ended	
	30 June	
	2018	2017
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Revenue from management contracting services	30,031	28,156
Revenue from consultancy services	1,500	–
Revenue from maintenance services	18	18
	31,549	28,174

4. Profit (Loss) for the Period

	Three months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging:		
Auditor's remuneration	175	175
Depreciation of property, plant and equipment	149	173
Amortisation of payment for a life insurance policy	3	3
Operating lease rentals	548	448
Staff costs		
Directors' emoluments	1,510	1,020
Other staff costs:		
Salaries, discretionary bonus and other benefits	2,656	2,137
Retirement benefit scheme contributions	117	70
	<hr/>	<hr/>
Total staff costs	4,283	3,227
Less: Amount capitalised in respect of contracts in progress	(2,428)	(1,470)
	<hr/>	<hr/>
	1,855	1,757
	<hr/>	<hr/>
Contract costs recognised as expenses	23,815	22,807
	<hr/>	<hr/>

5. Income Tax Expense

	Three months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	203	40
Macau tax		
Current tax	27	–
	<u>230</u>	<u>40</u>

For the three months ended 30 June 2018, one of the Hong Kong subsidiaries of the Group is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of the assessable profits and 16.5% for the assessable profits over HK\$2 million, the other Hong Kong subsidiaries of the Group are subject to Hong Kong Profits Tax at the rate of 16.5%.

Pursuant to tax incentive approved under Section 20 of Decree Law No. 9/2014, Macau Complementary Tax is levied at a fixed rate of 12% on the taxable income above Macau Pataca (“MOP”) 600,000.

6. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2018 (2017: nil).

7. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share during the period is based on the earnings (loss) for the period, and based on the assumption that the reorganisation and the capitalisation issue of 974,990,000 shares as explained in the sections headed "History, Reorganisation and Corporate Structure" and "Share Capital" respectively in the prospectus of the Company dated 16 May 2017 (the "Prospectus") had been effective on 1 April 2017 and as adjusted for the capital contributions by shareholders during the period.

	Three months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (loss):		
Profit (loss) for the purpose of calculating earnings (loss) per share	1,444	(2,745)
	Number of shares	
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,300,000	1,103,571

No diluted earnings (loss) per share is presented as there was no potential dilutive ordinary share in issue during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group is a Hong Kong-based contractor specialised in design, procurement and installation services of water circulation systems, including swimming pools, water fountains and water curtains, etc. We provide services mainly to developers, main contractors and sub-contractors in various private residential projects and hotel, casino, shopping and recreation complex projects in Hong Kong and Macau. Our services are mainly categorised as (i) management contracting services – design, procurement and installation of water circulation systems, (ii) consultancy services – provision of consultancy services on design of water circulation systems and (iii) maintenance services – provision of maintenance and repair services for water circulation systems.

Looking forward, the Directors consider that the future opportunities and challenges facing by the Group will continue to be affected by the development of the property market in Hong Kong and the recovery of gaming market in Macau as well as the increasing labour costs and material costs. The Directors are of the view that the number of properties and five-star hotels to be built in Hong Kong and Macau remains to be the key driver for the growth of the water-related facility service market.

With the Group's proven track record, experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors, and the Group will continue to pursue the business strategies as set out in the prospectus of the Company dated 16 May 2017 (the "Prospectus").

Financial Review

Revenue

Our total revenue increased by approximately HK\$3.3 million or 12.0% from approximately HK\$28.2 million for the three months ended 30 June 2017 to approximately HK\$31.5 million for the three months ended 30 June 2018. The increase in our revenue was attributable to the combined effect of:

- (i) the increase in the revenue derived from management contracting services by approximately HK\$1.8 million or 6.7%, from approximately HK\$28.2 million for the three months ended 30 June 2017 to approximately HK\$30.0 million for the three months ended 30 June 2018, such increase was primarily derived from increase in revenue from projects located at Tseung Kwan O and Tai Po of approximately HK\$9.6 million, and such increase was partially offset by the decrease in revenue from projects located at Western District and Mid-Levels of approximately HK\$8.0 million for the three months ended 30 June 2018 when compared with the corresponding period in 2017; and
- (ii) the increase in the revenue derived from consultancy services by approximately HK\$1.5 million resulting from the absence of revenue from such segment for the corresponding period in 2017.

Cost of services

The Group's cost of services mainly consists of (i) consumables; (ii) sub-contracting fees; (iii) staff costs; (iv) consulting fees; (v) labour cost; and (vi) other expenses.

Our cost of services increased by approximately HK\$1.8 million or 7.7% from approximately HK\$22.8 million for the three months ended 30 June 2017 to approximately HK\$24.6 million for the three months ended 30 June 2018, such increase was primarily driven by the increase in cost of consumables of approximately HK\$0.9 million and sub-contracting fees of approximately HK\$0.5 million, which is due to the increase in number of projects undertaken by the Group during the three months ended 30 June 2018.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$1.6 million or 30.2% from approximately HK\$5.4 million for the three months ended 30 June 2017 to approximately HK\$7.0 million for the three months ended 30 June 2018. Such increase was primarily attributable to the increase in gross profit for management contracting services of approximately HK\$0.8 million and the increase in gross profit for consultancy services of approximately HK\$0.8 million.

Our gross profit margin increased from approximately 19.0% for the three months ended 30 June 2017 to approximately 22.1% for the three months ended 30 June 2018. Such increase was mainly due to the high gross profit margin contributed by the consultancy services segment during the three months ended 30 June 2018 while there was no revenue from such segment for the corresponding period in 2017.

Other income

Our other income increased from approximately HK\$3,000 for the three months ended 30 June 2017 to approximately HK\$38,000 for the three months ended 30 June 2018, primarily due to the increase in bank interest income from time deposits.

Administrative expenses

Our administrative expenses increased by approximately HK\$1.4 million or 39.7% from approximately HK\$3.4 million for the three months ended 30 June 2017 to approximately HK\$4.8 million for the three months ended 30 June 2018. Such increase was primarily due to the increase in i) post listing expenses such as Directors' fee and the legal and professional fee for compliance purpose following the listing of shares of the Company (the "Shares") on GEM (the "Listing") in May 2017; and ii) the bank handling charge for the renewal of banking facility.

Listing expenses

During the three months ended 30 June 2017, our Group recognised non-recurring listing expenses of approximately HK\$4.4 million as expenses in connection with the Listing.

Finance costs

Our finance costs increased by approximately HK\$282,000 or 110.2% from approximately HK\$256,000 for the three months ended 30 June 2017 to approximately HK\$538,000 for the three months ended 30 June 2018, primarily due to the increase in the level of bank borrowings.

Income tax expense

Our income tax expenses amounted to approximately HK\$40,000 for the three months ended 30 June 2017 and approximately HK\$230,000 for the three months ended 30 June 2018.

The net tax provision provided for Macau profits tax was approximately HK\$27,000 for the three months ended 30 June 2018.

The net tax provision provided for Hong Kong Profits Tax was approximately HK\$203,000 for the three months ended 30 June 2018.

Net profit (loss)

As a result of the foregoing, our Group recognised a profit of approximately of HK\$1.4 million for the three months ended 30 June 2018 as compared with a loss of approximately HK\$2.7 million for the corresponding period in 2017.

Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2018 (2017: nil).

Event after the Reporting Period

There is no significant event subsequent to 30 June 2018 which would materially affect the Group's operating and financial performance.

DISCLOSURE OF INTERESTS

(i) Directors' and Chief Executives' Interest and Short Position in the Shares, Underlying Shares or Debentures

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities of Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by Directors referred in Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Shareholder	Capacity/ Nature of Interest	Number of the Shares held/ interested in	Long/short position	Percentage of Shareholding
Mr. Nam Ho Kwan (Note)	Interest in controlled corporation	731,250,000	Long position	56.25%

Note: Mr. Nam owns the entire issued share capital of Harmony Asia International Limited ("Harmony Asia International") and is deemed, or taken to be, interested in the same number of the Shares held by Harmony Asia International for the purpose of the SFO. Mr. Nam is the Chairman of the Board, Chief Executive Officer and one of the controlling shareholders of the Company.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company has registered an interests and short positions in shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

(ii) **Substantial Shareholders' and Other Persons' Interest and Short Positions in Shares or Underlying Shares or Debentures**

As at 30 June 2018, the following persons/entity had or deemed to have an interest or short position in the Shares or underlying Shares which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of Shareholder	Capacity/ Nature of Interest	Number of the Shares held/ interested in	Long/short position	Percentage of Shareholding
Harmony Asia International	Beneficial owner	731,250,000	Long position	56.25%
Mr. Nam Ho Kwan	Interest in controlled corporation (Note 1)	731,250,000	Long position	56.25%
Mr. Zhang Wei	Beneficial owner/ Interest in controlled corporation	243,750,000 (Note 2)	Long position	18.75%
Morgan Star Investment Limited	Beneficial owner	109,590,000	Long position	8.43%

Notes:

- (1) Harmony Asia International is a company incorporated in Samoa which is wholly-owned by Mr. Nam. Therefore, Mr. Nam is deemed to be interested in all Shares held by Harmony Asia International.
- (2) Morgan Star Investment Limited is company incorporated in the British Virgin Islands which is wholly-owned by Mr. Zhang. Therefore, Mr. Zhang is deemed to be interested in all Shares held by Morgan Star Investment Limited.

Save as disclosed above, as at 30 June 2018, no person had notified the Company of an interest or short position in the Shares, underlying Shares or debenture of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

During the three months ended 30 June 2018, no share option was granted, exercised, expired or lapsed under the share option scheme adopted by the Company on 12 May 2017 (the “Share Option Scheme”).

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Apart from the Share Option Scheme, at no time during the three months ended 30 June 2018 was the Company or any of its associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares in, or debentures of, the Company, or had exercised any such rights.

USE OF PROCEEDS

The Shares were listed on GEM on 26 May 2017 pursuant to the initial public offering of the Company. The net proceeds from the Listing (after deducting the underwriting fees and expenses related to the Listing) of a total of approximately HK\$38.0 million would be used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

As at 30 June 2018, the net proceeds had been utilised as follows:

	Actual net proceeds <i>HK\$ million</i>	Amount utilised as at 30 June 2018 <i>HK\$ million</i>	Balance <i>HK\$ million</i>
Strengthening of the Group’s industry position and expansion of business	19.4	0.4	19.0
Repayment of bank loans	7.6	7.6	–
Strengthening of the Group’s technical and project management capabilities	3.6	3.0	0.6
Establishment of a Macau office/warehouse	2.5	–	2.5
Purchase of tools and equipment	1.6	–	1.6
General working capital	3.3	3.3	–
	<u>38.0</u>	<u>14.3</u>	<u>23.7</u>

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the three months ended 30 June 2018.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the three months ended 30 June 2018.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 June 2018, except for (i) the participation of CLC International Limited ("CLC") as the sponsor in relation to the Listing; (ii) the compliance adviser agreement entered into between the Company and CLC dated 26 January 2017; and (iii) the supplemental agreement to the compliance adviser agreement entered into between the Company and CLC dated 23 May 2017, neither CLC nor any of its directors, employees or close associates had any interests in relation to the Group which requires to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

During the three months ended 30 June 2018, the Company has adopted and complied with, where applicable, the Corporate Governance Code ("CG Code") set out in Appendix 15 of the GEM Listing Rules to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner, except for code provision A.2.1 of the CG Code.

Pursuant to the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Nam Ho Kwan is currently the Chairman of the Board and the Chief Executive Officer, responsible for formulating the overall business development strategy and planning of the Group. In view of that, Mr. Nam has been responsible for the overall management of the Group since its inception, the Board believes that it is in the best interest of the Group to have Mr. Nam taking up both roles for effective management and business development.

Save as disclosed above, the Board is pleased to report compliance with all applicable code provisions of the CG Code during the three months ended 30 June 2018.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the three months ended 30 June 2018.

AUDIT COMMITTEE

The Group has established the Audit Committee pursuant to a resolution of the Board passed on 19 January 2017 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to make recommendations to the Board on appointment or re-appointment and removal of external auditor; review financial statements of the Company and judgments in respect of financial reporting; and oversee the effectiveness of the risk management and internal control procedures of the Group.

The Audit Committee currently consists of three members, namely Mr. Wu Kam On Keith, Mr. Lau Wai Hung and Mr. Chen Lei. Mr. Wu Kam On Keith is the chairman of the Audit Committee, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The unaudited condensed consolidated results of the Group for the three months ended 30 June 2018 had been reviewed by the Audit Committee, which was of the opinion that the unaudited condensed consolidated results have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

By order of the Board

Hao Bai International (Cayman) Limited
Nam Ho Kwan

Chairman and Chief Executive Officer

Hong Kong, 9 August 2018

As at the date of this report, the executive Directors are Mr. Nam Ho Kwan, Mr. Ng Wan Lok and Ms. Wong Wing Hung; the non-executive Director is Ms. Wang Rui; and the independent non-executive Directors are Mr. Wu Kam On Keith, Mr. Lau Wai Hung and Mr. Chen Lei.