

# CHINA ALL NATION INTERNATIONAL HOLDINGS GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8170



## 2020/21

● ● ● ● THIRD QUARTERLY REPORT ● ● ● ●

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

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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.

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This report, for which the directors (the “**Directors**”) of China All Nation International Holdings Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules (the “**GEM Listing Rules**”) Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. 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.



## FINANCIAL HIGHLIGHTS

### FINANCIAL HIGHLIGHTS FOR THE NINE MONTHS ENDED 30 APRIL 2021

- The Group's revenue amounted to approximately HK\$127.0 million for the nine months ended 30 April 2021 (the "Relevant Period"), representing an increase of approximately HK\$18.8 million or approximately 17.4% as compared to the nine months ended 30 April 2020.
- The profit attributable to owners of the Company is approximately HK\$9.0 million for the Relevant Period, representing a significant increase of approximately HK\$7.0 million or approximately 351.8% as compared to the nine months ended 30 April 2020, which is mainly due to the increase in revenue derived from the sub-leasing as well as interior design services and decoration businesses of the Group during the Relevant Period.
- The Board does not recommend the payment of dividend for the Relevant Period.

The board of Directors (the “Board”) of China All Nation International Holdings Group Limited is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 April 2021 (the “Relevant Period”), together with the audited comparative figures for the corresponding period in 2020, as follows:

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 April 2021

|   | Notes | Three months<br>ended 30 April  |                                 | Nine months<br>ended 30 April   |                               |
|---|-------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
|   |       | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| Revenue   | 3     | 38,802                          | 28,186                          | 127,060                         | 108,266                       |
| Cost of services  |       | (25,705)                        | (18,007)                        | (89,429)                        | (70,725)                      |
| <b>Gross profit</b>   |       | <b>13,097</b>                   | <b>10,179</b>                   | <b>37,631</b>                   | <b>37,541</b>                 |
| Other income and gains  | 4     | 628                             | 1,738                           | 3,428                           | 3,020                         |
| Administrative and other operating expenses   |       | (4,285)                         | (5,152)                         | (14,050)                        | (16,041)                      |
| Impairment loss allowance on trade receivables and,<br>contract assets and finance lease receivables, net                           |       | —                               | 15                              | (749)                           | (795)                         |
| Finance costs   | 5     | (3,881)                         | (8,090)                         | (12,526)                        | (16,173)                      |
| <b>Profit/(loss) before income tax</b>  | 6     | <b>5,559</b>                    | <b>(1,310)</b>                  | <b>13,734</b>                   | <b>7,552</b>                  |
| Income tax expense  | 7     | (1,691)                         | (1,310)                         | (4,712)                         | (5,455)                       |
| <b>Profit/(loss) for the period</b>   |       | <b>3,868</b>                    | <b>(2,620)</b>                  | <b>9,022</b>                    | <b>2,097</b>                  |
| <b>Other comprehensive income/(loss) for the period</b><br><i>Item that may be reclassified subsequently to<br/>profit or loss:</i> |       |                                 |                                 |                                 |                               |
| Exchange differences on translation of financial<br>statements of foreign operations  |       | 892                             | (152)                           | 7,518                           | (910)                         |
| <b>Total comprehensive income/(loss) for the period,<br/>net of income tax</b>  |       | <b>4,760</b>                    | <b>(2,772)</b>                  | <b>16,540</b>                   | <b>1,187</b>                  |
| <b>Profit/(loss) for the period attributable to:</b>  |       |                                 |                                 |                                 |                               |
| Owners of the Company   |       | 3,868                           | (2,506)                         | 9,027                           | 1,998                         |
| Non-controlling interests   |       | —                               | (114)                           | (5)                             | 99                            |
|   |       | <b>3,868</b>                    | <b>(2,620)</b>                  | <b>9,022</b>                    | <b>2,097</b>                  |
| <b>Total comprehensive income/(loss)<br/>for the period attributable to:</b>  |       |                                 |                                 |                                 |                               |
| Owners of the Company   |       | 4,760                           | (2,658)                         | 16,545                          | 1,088                         |
| Non-controlling interests   |       | —                               | (114)                           | (5)                             | 99                            |
|   |       | <b>4,760</b>                    | <b>(2,772)</b>                  | <b>16,540</b>                   | <b>1,187</b>                  |
| <b>Earnings/(loss) per share attributable<br/>to the owners of the Company</b>  |       |                                 |                                 |                                 |                               |
| Basic and diluted earnings/(loss) per share (HK cents)  | 9     | 0.94                            | (0.61)                          | 2.20                            | 0.49                          |

Details of dividends are disclosed in Note 8 to the condensed consolidated financial statements of the Company.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 April 2021

|   | Attributable to owners of the Company |                           |                            |                       | Non-controlling interests<br>HK\$'000 | Total equity<br>HK\$'000 |
|---|---------------------------------------|---------------------------|----------------------------|-----------------------|---------------------------------------|--------------------------|
|   | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Other reserves<br>HK\$'000 | Sub-total<br>HK\$'000 |                                       |                          |
| <b>Balance as at 1 August 2019 (audited)</b>  | 4,112                                 | 24,394                    | 52,643                     | 81,149                | (863)                                 | 80,286                   |
| Profit for the period   | —                                     | —                         | 1,998                      | 1,998                 | 99                                    | 2,097                    |
| Other comprehensive income for the period   |                                       |                           |                            |                       |                                       |                          |
| Exchange differences on translation of financial statements of foreign operations     | —                                     | —                         | (910)                      | (910)                 | —                                     | (910)                    |
| <b>Total comprehensive income for the period</b>                                      | —                                     | —                         | 1,088                      | 1,088                 | 99                                    | 1,187                    |
| Deemed capital contribution arising from non-current interest-free shareholder's loan | —                                     | —                         | 6,565                      | 6,565                 | —                                     | 6,565                    |
| <b>As at 30 April 2020 (audited)</b>  | <u>4,112</u>                          | <u>24,394</u>             | <u>60,296</u>              | <u>88,802</u>         | <u>(764)</u>                          | <u>88,038</u>            |
| <b>Balance as at 1 August 2020 (audited)</b>  | 4,112                                 | 24,394                    | 70,127                     | 98,633                | (750)                                 | 97,883                   |
| Profit/(loss) for the period  | —                                     | —                         | 9,027                      | 9,027                 | (5)                                   | 9,022                    |
| Other comprehensive income for the period   |                                       |                           |                            |                       |                                       |                          |
| Exchange differences on translation of financial statements of foreign operations     | —                                     | —                         | 7,518                      | 7,518                 | —                                     | 7,518                    |
| <b>Total comprehensive income/(loss) for the period</b>                               | —                                     | —                         | 16,545                     | 16,545                | (5)                                   | 16,540                   |
| Disposal of a subsidiary  | —                                     | —                         | —                          | —                     | 755                                   | 755                      |
| <b>As at 30 April 2021 (unaudited)</b>  | <u>4,112</u>                          | <u>24,394</u>             | <u>86,672</u>              | <u>115,178</u>        | <u>—</u>                              | <u>115,178</u>           |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

## 1. GENERAL INFORMATION

China All Nation International Holdings Group Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. The issued shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). With effect from 17 November 2020, trading in shares of the Company on Stock Exchange has been resumed.

The registered office address of the Company is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands with effect from 16 December 2020. The address of the Company’s principal place of business in Hong Kong is Unit 2918, 29/F., Shui On Centre, No. 6–8 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the provision of civil engineering consulting and contracting services in Hong Kong, property sub-leasing and management business in the People’s Republic of China (the “**PRC**”) and interior design services and decoration works in both Hong Kong and the PRC.

## 2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the Relevant Period have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the applicable disclosure required by the Rule Governing the Listing of Securities on GEM on Stock Exchange. The unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Group for the year end 31 July 2020. The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements for the nine months ended 30 April 2021 (the “**Relevant Period**”) are consistent with those adopted in the Group’s annual consolidated financial statements for the year ended 31 July 2020.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group. The adoption of these new and revised HKFRSs has no material effect on the unaudited condensed consolidated financial statements.

The Group has not adopted early any new and revised HKFRSs that are relevant to the Group have been issued but are not yet effective for the current accounting period.

The unaudited condensed consolidated financial statements for the Relevant Period have not been audited nor reviewed by the Company’s independent auditor, but have been reviewed by the audit committee of the Company.

The unaudited condensed consolidated financial statements for the Relevant Period are presented in Hong Kong dollars (“**HK\$**”) and all value are rounded to the nearest thousand except when otherwise indicated, which is the functional currency of the Company.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 3. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents revenue from provision of contracting, interior design services and decoration works, and property sub-leasing and management service in the ordinary course of business. Revenue recognised during the nine months ended 30 April 2021 are as follows:

|  | Nine months ended 30 April      |                               |
|--|---------------------------------|-------------------------------|
|  | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| <b>Revenue from property sub-leasing:</b>  |                                 |                               |
| Gross rental income  | 50,316                          | 40,848                        |
| Finance income on finance lease receivables  | 5,886                           | 6,048                         |
| Net income from sub-leasing right-of-use assets  | 5,559                           | 9,293                         |
| <b>Revenue from contracts with customers within the scope of HKFRS 15, types of goods or services:</b> |                                 |                               |
| Contracting  | 7,200                           | 5,903                         |
| Interior design and decoration works   | 48,676                          | 39,860                        |
| Property management fee income and value-adding services   | 8,775                           | 6,314                         |
| Others   | 648                             | —                             |
|  | <u>127,060</u>                  | <u>108,266</u>                |

The management of the Company has determined the operating segments based on the reports reviewed by the directors of the Company (the "Directors"), the chief operating decision-maker, that are used to make strategic decisions. The Directors consider the business from a product/service perspective.

*The Group's operating and reportable segments are analysed as follows:*

Contracting: Provision of undertaking general building works as contractor in Hong Kong.

Interior design and decoration works: Provision of interior design services and decoration works in Hong Kong and the PRC.

Property sub-leasing and management service: The sub-leasing of properties and provision of property management and value-adding services in the PRC.

Others: Metal commodities trading business in the PRC.

No operating segments have been aggregated to form the above reportable segments.

Segment revenue is measured in a manner consistent with that in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 4. OTHER INCOME AND GAINS

|  | Nine months ended 30 April      |                               |
|--|---------------------------------|-------------------------------|
|  | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| Bank interest income   | 1,052                           | 375                           |
| Gain on derecognition upon termination of leases of investment properties and lease liabilities, net | —                               | 107                           |
| Gain on disposal of a subsidiary (Note 10)   | 1,296                           | —                             |
| Gain on disposal of property, plant and equipment  | —                               | 98                            |
| Government grants  | 432                             | —                             |
| Management fee income  | —                               | 570                           |
| Rent concessions*  | —                               | 1,218                         |
| Others   | 648                             | 652                           |
|  | <u>3,428</u>                    | <u>3,020</u>                  |

\* The amount represents concession rental from the landlords in relation to the compensation of lockdown of the PRC cities due to the Covid-19 pandemic in the third quarter for the nine months ended 30 April 2020. The concession does not constitute to the lease modification by applying practical expedient that meets the conditions in paragraph 46B of HKFRS 16.

### 5. FINANCE COSTS

An analysis of finance costs is as follows:

|  | Nine months ended 30 April      |                               |
|--|---------------------------------|-------------------------------|
|  | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| Interest on lease liabilities                            | 11,541                          | 11,835                        |
| Loss on modification of shareholder's loan               | —                               | 2,844                         |
| Unwinding of imputed interest on loan from a shareholder | 985                             | 1,494                         |
|  | <u>12,526</u>                   | <u>16,173</u>                 |



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

|   | Nine months ended 30 April      |                               |
|---|---------------------------------|-------------------------------|
|   | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| Sub-contracting costs recognised as an expense  | 42,662                          | 30,183                        |
| Depreciation of investment properties   | 34,257                          | 27,246                        |
| Depreciation of property, plant and equipment   | 605                             | 1,224                         |
| Depreciation of right-of-use assets   | 680                             | 629                           |
| Loss on derecognition upon termination of leases of<br>finance lease receivables and lease liabilities, net | 1,898                           | 51                            |
| Expenses relating to short-term leases  | 3,469                           | 2,185                         |
| Employee benefits expense<br>(including directors' emoluments)*:  |                                 |                               |
| — Salaries and allowances   | 7,120                           | 8,803                         |
| — Retirement benefit scheme contributions<br>(defined contribution scheme)                                  | 458                             | 399                           |
| Other expenses**  | 419                             | 1,752                         |

\* Employee benefit expense (including directors' emolument) of approximately HK\$798,000 (nine months ended 30 April 2020: HK\$1,950,000) and approximately HK\$6,780,000 (nine months ended 30 April 2020: HK\$7,252,000) has been included in cost of services and administrative and other operating expenses respectively.

\*\* Other expenses relate to expenses of the Group not incurred in the ordinary and usual course of business of the Group which include professional fees incurred by the Group in attending to the queries of the Stock Exchange on maintaining the listing status of the Company. With effect from 17 November 2020, trading in shares of the Company on Stock Exchange has been resumed.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 7. INCOME TAX EXPENSE

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

The Group’s operations in Hong Kong is subject to Hong Kong profits tax at a rate of 8.25% or 16.5% (for the nine months ended 30 April 2020: 8.25% or 16.5%) on the estimated assessable profits for the Relevant Period after deducting accumulated tax losses brought forward, if any.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No Hong Kong profits tax has been provided for the Relevant Period in the unaudited condensed consolidated financial statements as the Group has tax losses brought forward from previous years (nine months ended 30 April 2020: Nil).

The PRC Enterprise Income Tax (the “EIT”) is calculated at the rate of 25% prevailing in the PRC jurisdiction for the Relevant Period (nine months ended 30 April 2020: 25%).

|                           | Nine months ended 30 April      |                               |
|---------------------------|---------------------------------|-------------------------------|
|                           | 2021<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Audited) |
| <b>Current – PRC</b>      |                                 |                               |
| Charge for the period     | 5,859                           | 5,317                         |
| <b>Deferred tax</b>       | <u>(1,147)</u>                  | <u>138</u>                    |
| <b>Income tax expense</b> | <u><u>4,712</u></u>             | <u><u>5,455</u></u>           |

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 8. DIVIDENDS

The Board did not recommend the payment of dividend for the Relevant Period (nine months ended 30 April 2020: Nil).

### 9. EARNINGS PER SHARE

The calculations of basic earnings per share for the nine months ended 30 April 2021 and 2020 are based on the followings:

|   | Nine months ended 30 April  |                             |
|---|-----------------------------|-----------------------------|
|   | 2021                        | 2020                        |
|   | HK\$'000                    | HK\$'000                    |
|   | (Unaudited)                 | (Audited)                   |
| Profit attributable to owners of the Company for the purpose of basic and diluted earnings per share        | <u>9,027</u>                | <u>1,998</u>                |
|   | Number of<br>shares<br>'000 | Number of<br>shares<br>'000 |
| Weighted average number of ordinary shares in issue for the purpose of basic and diluted earnings per share | <u>411,200</u>              | <u>411,200</u>              |

No diluted earnings per share was presented as there was no potential ordinary shares in issue during the Relevant Period (nine months ended 30 April 2020: Nil).

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 10. DISPOSAL OF A SUBSIDIARY

On 30 December 2020, the Group entered into the Sale and Purchase Agreement to dispose of its entire equity interest in New Brio Engineering Limited, a 51% indirectly owned subsidiary, at a consideration of HK\$510,000 to an independent third party (the “Buyer”). The disposal was completed on 30 December 2020, since then, the Group has no equity interest in and control over New Brio Engineering Limited. The net carrying amounts of asset/(liabilities) of New Brio Engineering Limited as at the completion date of the disposal are as follows:

|  | HK\$'000    |
|--|-------------|
| Trade receivables  | 496         |
| Prepayments and other receivables  | 7,977       |
| Contract assets  | 1,204       |
| Cash and cash equivalents  | 5           |
| Amount due to immediate holding company  | (5,465)     |
| Trade payables and other payables  | (5,064)     |
| Contract liabilities   | (430)       |
| Tax payable  | (264)       |
|  | <hr/>       |
| Net liabilities disposed of  | (1,541)     |
| Non-controlling interests at the date of disposal  | 755         |
| Gain on disposal of a subsidiary (Note 4)  | 1,296       |
|  | <hr/>       |
| Total consideration satisfied by cash  | 510         |
| Assignment of amount due to immediate holding company to the Buyer                       | 5,465       |
|  | <hr/>       |
|  | 5,975       |
|  | <hr/> <hr/> |
| Cash flow movement in relation to the disposal during the period ended<br>30 April 2021: |             |
| Cash consideration received  | 510         |
| Cash and cash equivalents disposed of  | (5)         |
|  | <hr/>       |
| Net cash inflow  | 505         |
|  | <hr/> <hr/> |

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 April 2021

### 11. CONTINGENT LIABILITIES

As at 30 April 2021, the outstanding arbitration commenced by two sub-contractors (“**Sub-Contractors**”) against a subsidiary of the Group in the PRC (the “**Subsidiary**”) in relation to the claim of contract sum for the construction works has been settled by the entering into of a settlement agreement (the “**Settlement Agreement**”) between the Sub-Contractors, the Subsidiary and the customer of the Subsidiary (the “**Customer**”). Pursuant to the Settlement Agreement, the Customer agreed to pay the contract sum for the construction works in the amount of RMB3,445,000 and the Subsidiary agreed to apply to release the judicial freeze of the bank account of the Subsidiary after the entering into of the Settlement Agreement.

On 1 June 2020, the Subsidiary has entered into a supplemental agreement with the Customer (the “**Supplemental Agreement**”). Upon which, the Customer irrevocably and unconditionally agreed and undertook to fully indemnify the Subsidiary for all possible losses and responsibilities that may be incurred or suffered by the Subsidiary under the Arbitration. As at 30 April 2021, the Customer has deposited the amount of RMB2,600,000 (equivalent to approximately HK\$3,125,000) (31 July 2020: RMB2,600,000 (equivalent to approximately HK\$2,876,000)) to the Group as the guarantee on the indemnity. The Company is advised by its PRC legal adviser that (i) the Supplemental Agreement is legal, valid, binding to the parties thereto and not in contravention of the laws of the PRC; (ii) the Customer should bear all the responsibilities under the Arbitration; and (iii) upon the Customer having fulfilled all its obligations and responsibilities resulting from the Arbitration, the Subsidiary can apply to release the assets in its frozen bank account.

In addition, the Subsidiary has already received from the Customer the total contract sum for construction works in the amount of RMB9,774,000, of which part of the contract sum in the amount of RMB3,151,200 (the “**Advanced Contract Sum**”) should be payable by the Subsidiary back to the Sub-Contractors. As the Customer agreed to pay the Sub-Contractors the contract sum for construction works in the amount of RMB3,445,000, of which part of the contract sum in the amount of RMB3,151,200 (i.e. the Advanced Contract Sum) should be payable by the Subsidiary back to the Sub-Contractors, the Customer and the Subsidiary entered into a further supplemental agreement pursuant to which the Subsidiary agreed to refund the Deposit and the Advanced Contract Sum back to the Customer within one month after the Customer has fulfilled its obligation under the Settlement Agreement. For detailed information of the Arbitration, please refer to the announcements of the Company dated 10 June 2020 and 31 May 2021.

As at the date of this report, the Settlement Agreement has been fulfilled and the judicial freeze of the bank account of the Subsidiary has been released. In addition, the Subsidiary has refunded the deposit together with the Advanced Contract Sum to the Customer.

### 12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation of the current period.

### BUSINESS REVIEW AND OUTLOOK

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of civil engineering consulting and contracting services in Hong Kong, property sub-leasing and management business in the PRC and interior design services and decoration works in both Hong Kong and the PRC.

The Board completed its review of the Group's business operation in early 2019. At the board meeting held in February 2019 which discussed, among others, the business development direction of the Group, it was resolved that the Group should continue its original businesses of provision of contracting, project management and civil engineering consulting businesses ("Original Businesses"). In view of the high demand of small size office in grade A office building and the entry barrier for small scale or start-up companies, the Board appreciated the relevant business potential, and also resolved to leverage on the experience and existing business of Shenzhen Zhongshengtu Assets Management Co., Ltd\* (深圳中深國投資產管理有限公司) ("ZSGT"), a wholly-owned subsidiary of the Company in the PRC, to develop the sub-leasing business as well as establishing the interior design and decoration team focusing on interior design and decoration business arising from the sub-leasing business in order to secure an additional stable source of revenue for the Group.

#### 1. Sub-leasing business segment

To expand the Group's business to the PRC and to secure an additional stable source of revenue, the Group completed its acquisition of 100% equity interest in ZSGT, a company established in the PRC with limited liability, on 8 November 2018.

The principal business of ZSGT is sub-leasing of office premises, which can be further sub-categorised into 3 types, targeting at different clientele:

- sub-leasing of premises;
- sub-leasing management; and
- co-work space.

##### (a) *Sub-leasing of premises*

###### *Overview*

In view of (i) the growing number of start-up and small-to-medium business in the PRC; (ii) the demand for a proper office premise, preferably at a grade-A commercial building, to gain creditability for such start-up and small-to-medium business; and (iii) the entry barrier of grade-A commercial building generally leased out floor by floor and may not be affordable to start-up and small-to-medium business, and generally leased to established company with proven track record or recognition, the management of the Group considered there are ample business opportunities in such regard.

\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

Taking advantage of its listing status, the Group, after performing detailed study including demographic and geographic information of the surrounding of the commercial buildings to confirm that the commercial buildings are considered to be able to fulfill the need of the target customers of the Group, entered into long term head leases with fixed leasing fee with the landlords of grade A commercial buildings.

The Group then offers and leases properties to its sub-tenants after optimising and categorising the use of space at the properties that it has leased. The Group's sub-leasing of premises generally focuses on office premises and involves provision of small scale (ranging from 100 sq.m. to 500 sq.m.) subdivided or partitioned office premises at grade A commercial buildings with stylish decoration at affordable price embedding co-use/sharing concept. The Group leases properties from the landlords and carries out the necessary sub-lease design, planning, renovation and refurbishment works. In order to cater the Group's leased properties for sub-leasing to its sub-tenants, the Group partitions the leased commercial properties equipped with centralised medium to large scale conference rooms housing 20 to 180 participants, for the co-use of sub-tenants. The target sub-tenants of the Group's sub-leased properties are entrepreneurs, start-up business and small-to-medium enterprises, which generally requires optimised office premises with flexible working environment.

After entering into the head lease and sub-leasing agreements, the Group will delegate a property management team to provide instant support and services including but not limited to (i) services generally provided by property management agency, such as security service and reception service, which may be sometimes outsourced by the Group to other service providers; (ii) repair and maintenance services and tailor design and renovation and refurbishment services, leveraging the Group's resource of its Interior Design and Decoration Business; (iii) consultation and execution on the regulatory requirement of fire control; (iv) human resources planning and manpower recruitment; (v) provision of platform on the Group's mobile application for promotional activities; and (vi) general consultation and assistance on corporate registration tax and employment benefits matters.

The sub-leasing of office premise in the PRC has expanded significantly in the recent years, and the growing trend is expected to continue.

As at the 30 April 2021, the Group leased 9 large scale properties in the PRC, of which 10 properties are situated at Futian (福田), Nanshan (南山), Baoan (寶安) and Lo Wu (羅湖) districts of Shenzhen; one property is located in Beijing, with total floor area of approximately 35,053 square meters ("sq.m.") for its operation of sub-leasing to sub-tenants. The occupancy rate of the Group's sub-leased properties reached over 92% as at 30 April 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business flow*

The following flow chart illustrates each stage of business operation for the Group's business relating to sub-leasing of premises:



#### Step 1: Sourcing of property

In order to carry out the sub-leasing business, the Group is required to lease the commercial properties from the landlords. As the Group generally targets to lease properties with relatively long lease terms and leveraging its listing status and cash-rich position, the Group believes that it fulfills the requirements of a good tenant for landlords of grade A commercial building, and has bargaining power to request the landlords to offer discount on rent, which were in turn beneficial to the Group's operations. Majority of the Group's existing leased properties for the sub-leasing business are with relatively longer terms, ranging from 3 years to 5 years.

The Group's marketing department performs market analysis for the latest leasing trends and developments and possesses crucial user-lead information through their day-to-day interactions with the sub-tenants and landlords. In sourcing potential properties for sub-leasing, the Group will conduct feasibility study, which takes into account a number of factors including but not limited to (i) commercial development of the proposed district; (ii) availability of favorable government policies in support of commercial development; (iii) portfolio of the enterprises in the proximity; (iv) expected rental yield; (v) lease term of the property; (vi) location of the property, including accessibility of railways, surrounding environment and neighborhood; (vii) usage and physical condition of the property such as the building and facilities specifications; and (viii) estimated costs required for the renovation and/or refurbishment works.

Once a potential property is identified, the senior management of the Group will review the feasibility study. For properties which the Group's senior management have approved the feasibility study, the Group will then commence lease negotiation with the relevant landlords. The Group will commence inspection of the property and to prepare the sub-leasing proposal for the relevant landlord's consideration, which will generally take around a month. The sub-leasing proposal lays out the general terms of lease from the relevant landlords, such as the rental level, rent-free period and lease terms, and intended use of the properties for the Group's operations of its sub-leasing business. In view of the necessary renovation and refurbishment of the properties for partitioning, the Group will generally request the landlords to offer rent-free periods, which ranged from two months to seven months for its leased properties. Once the proposal is accepted by the relevant landlord, it will generally take another two to three weeks to conclude the negotiation and to execute the head lease agreement.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Step 2: Sub-leasing planning and renovation

While assessing the potential property, the Group will at the same time conduct market research on the targeted sub-tenants for sub-leasing such property based on the analysis of the geographic location and the other tenants in the proximity of the property. This can help ensure that the potential property is in line with the Group's sub-leasing strategy focusing on entrepreneurs, start-up business and small-to-medium enterprises.

In order to take over the property, convert the property and offer the property for sub-leasing, the steps involved will include space planning and budgeting, marketing and leasing the units, engaging contractors, renovating and refurbishing the property.

Once the Group has concluded the head lease agreement, it will start to study the property in greater details to market the property and re-design and plan the space to optimise and categorise its usable area, thus increasing the potential rental yield of sub-leasing the property. The project management team will work with the in-house design team to develop and refine the proposed design for the property. The in-house design team will also undertake detailed design development, which include drawing up of the relevant proposals and plans according to budgeted refurbishment costs for sub-dividing the property as well as the requirements of prospective sub-tenants. The Group will then draw up a detailed budget, involving quotes from multiple contractors for undertaking the renovation works.

The properties require renovation and refurbishment prior to sub-leasing out. This ensures the consistent aesthetic appeal and the overall value of the property. Based on the Group's experiences on sub-leasing of premises, it has built a network of pre-approved contractors for the execution of additions and alteration works such as partition works, tiling works and ceiling works. This helps the Group save time and costs in evaluating and selecting the contractors, which in turn shortens the time required for undertaking the renovation and refurbishment and thus enhances the Group's value for sub-leasing.

Interior design and decoration team of the Group, with the assistance of external contractors, will renovate the property, subdivide the property into smaller units with centralised conference room for sub-leasing. Given the diversified requirements from the sub-tenants, the Group also offers additional renovation services with reasonable charge to the sub-tenants through its Interior Design and Decoration Business segment to satisfy their design and decoration preferences. The Group is capable of providing one-stop renovation services to sub-tenants, including design and decoration, arrangements with external contractors and monitoring the renovation process. The Group's customer services department will also carry out regular site inspections to ensure that the works are carried out in accordance with the quality procedures and that all safety procedures are adhered to.

## MANAGEMENT DISCUSSION AND ANALYSIS

While carrying out the renovation or refurbishment work, the Group will simultaneously conduct marketing activities and delivery the relevant details of its properties to potential sub-tenants. Once the renovation or refurbishment work is completed, the Group will liaise with and handover the relevant units to its sub-tenants upon confirmation of these sub-tenants by the customer services department. The Group considers that its comprehensive renovation services will assist the sub-tenants in securing a satisfactory office unit and reduce their time and costs for such renovation process.

### Step 3: Sourcing of sub-tenants

After taking over the property, the marketing department will begin marketing the units available for leasing out to potential sub-tenants to garner awareness of the new property and identify interested sub-tenants. The Group will conduct marketing activities under its brand SNSPACE (深南空間) and source sub-tenants by advertising the property at its self-operated online platforms (e.g. website and WeChat) and third-party websites specialising in property advertising (e.g. qfang.com (Q房網), 58.com (58同城)). The Group will also market available units of the properties from its database of past and existing sub-tenants, as well as seek recommendations and referrals from the business associates and property agents.

Once a prospective sub-tenant is identified, the Group will arrange viewing of the unit and negotiate the rental rate with the sub-tenant. The rental rate is determined with reference to the size of the unit, location and facilities of the property and physical conditions of the unit. The Group normally requests longer lease terms from the sub-tenants with a view to securing a stable income source. The lease terms of majority of the existing sub-tenants are generally one to three year(s), while the Group also accepts shorter lease terms of one year if the sub-tenant is willing to pay a higher rent.

The Group seeks to maintain long-term relationships with sub-tenants. In assessing new sub-tenants, the Group takes into consideration factors including the business nature of sub-tenants, brand attractiveness, rental affordability and the effect on the sub-tenant mix of the particular property as a whole. The Directors of the Company believe that the Group's sub-tenant selection criteria and sub-tenant relationship management have been one of the factors for retaining sub-tenants and sustaining satisfactory occupancy rates, thereby generating stable rental income base.

The Group generally takes one months for the process from the entering into the head lease agreement with the landlord to its sub-leasing to the first sub-tenant of the leased property.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Step 4: Value-adding services

The Group will continuously provide value-adding service as detailed in the section headed “Scope of services” below.

As most of the target sub-tenants are primarily start-up and small-to-medium enterprises which might not have sufficient manpower in handling property management matters, each sub-tenant has been assigned with a designated customer service officer to take care of its needs. The Group will provide prompt and reliable assistance in response to the enquiries, feedback and issues of the sub-tenants in relation to each property. Moreover, services such as building maintenance, security and cleaning will be carried out according to scheduled timelines, or on an ad-hoc basis as requested by the sub-tenants. The customer service officer is supported by other team members as well as the in-house administrative and finance department of the Group in handling sub-tenants’ requests so that the Group can achieve overall cost-savings.

#### *Scope of service*

For each of the head leased project, the Group will delegate a property management team to provide instant support and services. The team generally comprises:

| <b>Role</b>                 | <b>Duties</b>   |
|-----------------------------|---|
| Project manager             | Overall supervision of the management and services to the sub-tenants   |
| Customer service executive  | Overall supervision of all customer service   |
| Security executive          | Responsible for the fire safety and security service  |
| General manager             | Responsible for managing the use of co-use facilities, company secretarial services, general consultation and assistance on corporate registration tax and employment benefits matters, and other general enquiries                                   |
| Environmental administrator | Responsible for greening and cleaning outsourcer management and Internet service set-up and maintenance   |
| Receptionist                | Responsible for reception service, provision of human resources planning and manpower recruitment services, provision of promotional activities and general consultation and assistance on corporate registration tax and employment benefits matters |
| Customer service officer    | Supporting other team members   |

## MANAGEMENT DISCUSSION AND ANALYSIS

The key features of the Group's sub-leasing of premises generally comprise:

- **Products** Provision of small scale (between 100 sq.m. to 500 sq.m.) partitioned office premises at grade A commercial buildings with stylish decoration.
- **Co-use facilities**

*Centralised conference room* – Majority of the partitioned office premises are equipped with centralised medium to large scale conference rooms housing 20 to 180 participants. Each floor of the Group's sub-leased properties with total gross floor area of 2,000 sq.m. above is equipped with one conference room and sub-tenants have access to and are eligible to use all the conference rooms managed by the Group with pre-appointment.

*Pantry* – The sub-tenants shared a common pantry equipped with refrigerator, oven, and basic kitchenware and facilities.

*Reception* – The Group arranges a receptionist in each of its partitioned office premises to greet the guests of sub-tenants and provide necessary assistants for welcoming guests.
- **Repair and maintenance services**

The Group offers repair and maintenance services for power supply, water supply and drainage systems, fire extinguishing systems and other co-shared facilities and equipments of the Group's sub-leased properties.

The Group also offers continuous tailor-made repair and maintenance services based on the needs of sub-tenants at reasonable charge, such as maintenance of electrical appliances, doors and windows.
- **Renovation and refurbishment services**

The Group has its in-house interior design and decoration team, which will provide interior design, decorating and furnishing services at the request of sub-tenants with reasonable charge. The Group will also arrange and engage contractors for execution of renovation and refurbishment works. For further details of the interior design and decoration business of the Group (the “**Interior Design and Decoration Business**”), please refer to the section headed “2. Interior Design and Decoration Business Segment” in this report.

As majority of the sub-tenants is start-up and small-to-medium enterprises, they may have limited business networks in setting up an office premise. Hence, the integrated services from the Group facilitates sub-tenants to have a “ready-to-use” office premise can reduce potential time and costs in negotiating and dealing with various parties.

## MANAGEMENT DISCUSSION AND ANALYSIS

- Consultation and execution on the regulatory requirement of fire control  
The Group will leverage its experiences and liaise with the landlords and the relevant regulatory bodies for the fulfilment of fire control regulatory requirements, which is crucial and normally time-consuming before the sub-tenants is able to move into the premises.
- Security  
The Group provides security and reception service, including 24/7 CCTV monitoring in the Group's sub-leased properties.
- Company secretarial services  
The Group provides general company secretarial services to its sub-tenants, including (i) assistance on compiling regulatory filings; and (ii) book-keeping of all relevant filings and company seal. In view of the targeted sub-tenants being start-up business and small-to-medium enterprises, such services were overwhelmingly accepted by the sub-tenants because this can reduce costs and foster the business development of sub-tenants.
- General consultation and assistance on corporate registration tax and employment benefits matters  
The Group provides consultation services and administrative assistance to its sub-tenants, who are primarily start-ups and small-to-medium businesses, on general taxation and employment benefits matters. The Group has assigned a customer service officer to each of the sub-tenants, who is responsible for the provision of personalised consultation. Sub-tenants are benefited from a reduction of labour costs by leveraging on the Group's services.
- Liaison on administrative matters  
The Group will liaise with the landlords on behalf of the sub-tenants, the administrative matters relating to communication with landlords and compliance with requirements and regulations for leasing have been dealt with by the Group. Accordingly, sub-tenants are able to save manpower and resources and focus on business operations.

### (b) *Sub-leasing management*

#### *Overview*

Sub-leasing management is a demand driven service which targets at enterprises requiring national presence, including but not limited to asset management companies, insurance companies, finance companies and other companies which operate a number of branches across the PRC.

Typically, such nationwide enterprises maintained an in-house leasing department to (i) search for premises in different provinces and cities; (ii) negotiate and enter into agreements with different landlords all over PRC; (iii) source renovation service in different provinces and cities to provide standardised renovation to demonstrate unified corporate image; and (iv) handle all regulatory and leasing related compliance issue subsequent to the entering of the leasing agreements.

The Group will first approach target customers within the business network of the Group's Directors and management, and understand their needs, and then leveraging the resource and research of the Group's sub-leasing of premises business and Interior Design and Decoration Business, the Group will be able to suggest potential premises meeting the customer's specifications speedily, and provide all of the above service typically provided by in-house leasing department with lower cost as comparing to the maintenance cost for an in-house leasing department. Further, the customers will only need to communicate their needs to the Group in contrast to negotiating with different landlord all over PRC one by one, and thus the Group's sub-leasing management service will be able to minimize the customers' effort, resource and cost spent on leasing which can then put such effort, resource and cost on their core revenue generating operation.

Given that the sub-leasing management service is demand-driven, the Group will generally enter into rental agreement with landlords back to back with the sub-leasing agreement with the customers, and as such, the Group generally does not expose itself to any risk of being unable to lease the premises out, and there is no vacancy for premises leased under the sub-leasing management service.

Going forward, the market size of sub-leasing management in the PRC is expected to rise.

As at 30 April 2021, the Group's sub-leasing management services cover 4 cities, namely Shenzhen, Shanghai, Chongqing, Tianjin and 19 other provinces of the PRC, namely Guangdong, Guangxi, Jiangxi, Hunan, Hubei, Hainan, Hebei, Fujian, Jilin, Shandong, Sichuan, Ningxia, Inner Mongolia, Anhui, Henan, Gansu, Shaanxi, Jiangsu and Zhejiang with total floor areas of approximately 66,078 sq.m..

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business flow*

The following flow chart illustrates each stage of business operation for the Group's sub-leasing management business:



#### Step 1: Identification of customers and their needs

In view of the growing economy in the PRC in the recent years, many sizable companies propose to establish multiple offices or branches in different cities in the PRC to capture the potentials in the relevant cities. However, establishing offices or branches in different cities incurs management costs to companies as they may need to recruit additional local staff to manage the leasing affairs, including but not limited to liaising with the landlords for the property leasing matters.

As companies may establish multiple offices or branches in different cities, they have to deal with different landlords independently. With a view to reducing the costs associated with leasing a high number of office premises in multiple cities from different landlords or property developers, the Group offers sub-leasing management services of companies which provides sub-leasing of non-partitioned commercial premises with value-adding services to the customers.

The Group identifies nationwide asset management companies, insurance companies, finance company as its major customers as these companies generally require to open different branches in various cities for its widespread service coverage. Once a potential customer is identified through the business network of the Group's Directors and management, the Group will understand and obtain the relevant requirements from the potential customer relating to property leasing, such as location and size of office premise, preference of office building grading and rental budget.

#### Step 2: Sourcing property

After understanding customers' specifications, the marketing and customer service team will commence sourcing appropriate properties. The Group engages both online and offline platforms for property sourcing. The marketing and customer service team identifies appropriate properties from websites of property agencies. Also, with the established network with landlords or property developers, the marketing and customer service team will contact the relevant landlords or property landlords to enquire whether they have suitable office premises for leasing based on the customers' specifications.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Step 3: Recommendations to customers and follow-up

Based on a list of potential properties that fulfill customers' specifications from the sourcing process, the Group will evaluate such properties internally and add on additional charge in addition to the rental level obtained from the landlords to reflect the fees of our sub-leasing management services. The marketing and customer service team will compile a summary of the potential properties to the customers, which set out the landlord, location, size, monthly rental and pictures of the potential properties.

In order for the customers to better understand the potential properties, the marketing and customer service team will follow up with them for their feedbacks and answer the questions they may have. The Group will obtain information from the landlords based on the requests or queries from the customers. The Group will arrange premises inspection, if requested, with the landlord and customers. If the potential properties could not satisfy the preferences of customers, the Group will closely communicate with the customers and attempts to source other properties for their consideration.

### Step 4A: Execution of leasing and sub-leasing agreement

After customers confirm the selection of office premise from the Group's recommendations, the Group will enter into a sub-leasing agreement with the customers. At the same time, the Group will also enter into a lease agreement with the landlord.

### Step 4B: Execution of lease agreement between landlord and customers

Certain customers prefer to sign the lease agreement with the landlord directly. As such, the Group will arrange the signing of lease agreement between the landlord and customers. The relevant scope of services provided by the Group between the entering into the lease agreement with (i) the Group and customers; and (ii) the landlord and customers are substantially the same.

### Step 5: Integration with Interior Design and Decoration Business segment

After the lease has been confirmed with the respective landlord and customer, the Group will carry out the handover inspection and relevant processes with the customer. As the Group also engages in the Interior Design and Decoration Business, the marketing and customer service team will provide general advice in relation to renovation and refurbishment of the office premise and provide quotation for carrying out such works. It is believed that the integration of the Sub-leasing Business segment and the Interior Design and Decoration Business segment could facilitate the customers as they may lack local connection and network for such renovation and refurbishment works when they open a new office or branch in a city that they have no previous business engagements.





## MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) *Consultation services for obtaining approval from the fire services department and other regulatory bodies* – The Group has an in-house customer service team with expertise in property management. The Group will provide on-going consultation services for customers to fulfill its obligations as tenants, including arranging regular checks of office premises with the regulatory bodies;
- (iv) *General leasing advisory matters* – The Group will advise customers in relation to wide range of leasing issues, ranging from compliance with the local leasing regulations in various cities to referral of local service providers relating to operations and management of office premises. Such advisory services could protect the interests of our customers in terms of pricing and regulatory requirements when dealing with the landlords directly.

### (c) *Co-work space*

The Group operates one co-work space centre (i.e. an advanced form of business centre) at a grade A commercial building located at Nanshan district of Shenzhen, which is Shenzhen's focal development area for hi-tech and innovative businesses. Target customers of the co-work space centre are entrepreneurs and start-up business. The co-work space centre offers:

- (i) rental of office space or dedicated desks;
- (ii) rental of private office room/booth;
- (iii) conference rooms; and
- (iv) auxiliary services (e.g. provision of registered office for business licence registration purpose, front-desk and guest reception, business-class printing, mail and packing handling as well as other secretarial services);

to customers and sub-tenants of ZSGT's other leased properties in which charges are calculated based on the membership plan subscribed, which is very flexible ranging from hourly usage plan to monthly usage plan, purchased by customers and/or based on actual usage.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board believes that the sub-leasing business segment has a strong growth potential in view of:

- (i) the PRC government's preferential policy to encourage innovation and start-up businesses in recent years resulting in the setting up of a vast number of small-scale companies and the annual increase in the number of start-up companies which has in turn led to increasing demand for small-sized offices in the PRC;
- (ii) the concept of "co-use/sharing offices" has become more popular and widely accepted in the PRC in recent years as it offers a more flexible and affordable way for entrepreneurs to start-up and grow their businesses; and
- (iii) the co-use of centralised conference rooms which is one of the value-added services offered by the Group is well received by its customers as they can achieve cost-saving by renting smaller office premises which do not equip with conference rooms.

As majority of the sub-tenants' leases with the Group are for 2 to 3 years and the total floor area leased by the Group for sub-leasing is increasing, the Company believes that the sub-leasing business will continue to provide stable source of revenue to the Group in future.

### 2. Interior Design and Decoration Business segment

#### *Hong Kong*

The Group's Interior Design and Decoration Business in Hong Kong is conducted via its 100% owned subsidiary, KSL Engineering Limited ("KSL"). The scope of the Interior Design and Decoration Business of the Company covers interior design and decoration services for private offices and residential properties, and other small-scaled projects.

The in-house design department of the Group is mainly responsible for the residential interior design projects. For decoration services of private offices and residential properties, and other small-scaled projects, project managers of the Group ("Project Managers") are responsible for identifying suitable vendors and suppliers across different fields for providing resources and services such as fire safety equipment, air-conditioning and mechanical ventilation system, interior fitting out and electrical works, etc. The Group has outsourced the relevant tasks to the appropriate vendors and suppliers under the supervision of Project Managers in order to reach customers' expectation.

### *The PRC*

Leveraging on the Group's experience and expertise accumulated since the commencement of its interior design and decoration business segment in mid-2016, the Group expanded its Interior Design and Decoration Business from Hong Kong to the PRC by setting up an interior design and decoration team under ZSGT in the second half of the financial year ended 31 July 2019.

The premises offered by ZSGT to its sub-tenants are fully decorated in which sub-tenants can move in immediately with their own furniture once they signed a sub-lease agreement with ZSGT. In order to allow ZSGT to partition and/or decorate premises for sub-leasing to customers at the soonest possible time and in view of the increase in number of properties newly leased by ZSGT which create a strong demand for interior design and decoration works, ZSGT sets up its own in-house interior design and decoration team for provision of such services to (i) its leased properties internally; (ii) those external sub-tenants who require additional design and decoration services; and (iii) other external customers which are not its sub-tenants. ZSGT is responsible for the overall design, purchasing and project management. Appropriate external workers/contractors are engaged to implement the design plans under ZSGT's supervision.

During the nine months ended 30 April 2021, the Group provided interior design and decoration service in the PRC to both sub-tenants and customers which were not related to the sub-leasing business.

### **3. Original Businesses**

In order to secure new contracts for the Original Businesses notwithstanding the sluggish condition in the Hong Kong construction industry, the Group has adopted a more aggressive approach in seeking new contracts, including but not limited to relaxing payment terms of its contracts so as to increase its competitiveness.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OUTLOOK

The Board has resolved to focus the Group's business on the aforesaid three business segments at its meeting held in February 2019 and the Board believes that these three business segments, namely, (i) the Original Businesses; (ii) Interior Design and Decoration Business; and (iii) sub-leasing, are the three pillars supporting the continuing development of the Group's businesses, improving its financial performance and contributing to the growth of the Group.

The financial results of the Group for the nine months ended 30 April 2021 proves that the Group is on the right track as its revenue and gross profit have substantially increased. Since the Group has developed multiple business lines which are complementary to each other, it no longer solely rely on the Original Businesses. The fast-growing sub-leasing as well as the interior design and decoration businesses do not only provide stable sources of revenue to the Group and improve the Group's profitability, but also diversify the overall business risk of the Group. Expansion of the Group's business to the PRC also allows the Group to maintain its growth momentum and reduce its reliance on a single market especially in view of the current adverse market conditions in Hong Kong. In March 2021, the group commenced the commodities trading business.

Looking forward, the Directors will continue to develop the Group's existing businesses in Hong Kong while at the same time continue its expansion in the PRC. Furthermore, the Directors are optimistic on the development of the Original Businesses as the HKSAR Government has implemented different policies such as "Long Term Housing Strategies" and "Lantau Tomorrow" in the Chief Executive's 2018 Policy Address on 10 October 2018, which will revitalise Hong Kong's construction engineering industry. This will in turn benefit the civil engineering industry in Hong Kong which the Board believes would be positive to the future business performance of the Group. The Group and the management team are determined to intensify their effort during the year and afterward so that the Group can continue to thrive.

### FINANCIAL REVIEW

#### Revenue

Our revenue increased from approximately HK\$108.3 million for the nine months ended 30 April 2020 to approximately HK\$127.0 million for the Relevant Period, representing an increase of approximately 17.4%. Such increase was mainly due to the increase in revenue derived from the sub-leasing, as well as interior design services and decoration businesses.

#### Cost of Services

Our cost of services increased from approximately HK\$70.7 million for the nine months ended 30 April 2020 to approximately HK\$89.4 million for the Relevant Period, representing an increase of approximately 26.4%. Such increase was mainly due to the increase of sub-contracting charge which is in line with the increase in revenue of the Group. The major cost items of the Group include sub-contracting charge, depreciation of investment properties and expenses relating to short terms leases and etc.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross Profit

Our gross profit slightly increased from approximately HK\$37.5 million for the nine months ended 30 April 2020 to approximately HK\$37.6 million for the Relevant Period, representing an increase of approximately 0.1 million.

### Other Income and Gains

Our other income and gains increased by approximately HK\$0.4 million from approximately HK\$3.0 million for the nine months ended 30 April 2020 to approximately HK\$3.4 million for the Relevant Period. Such increase was mainly due to increase in gain on disposal of a subsidiary of HK\$1.3 million for the Relevant Period.

### Administrative and Other Operating Expenses

Our administrative and other operating expenses decreased by approximately HK\$2.0 million from approximately HK\$16.0 million for the nine months ended 30 April 2020 to approximately HK\$14.1 million for the Relevant Period, representing a decrease of approximately 12.4%. Such decrease was mainly due to the decrease in legal and professional fee.

### Profit for the Relevant Period

As a results of the aforesaid, the business of the Group recorded a profit of approximately HK\$9.0 million for the Relevant Period from a profit of approximately HK\$2.1 million for the nine months ended 30 April 2020.

### Dividend

The Board does not recommend the payment of dividend for the Relevant Period (nine months ended 30 April 2020: Nil).

### Liquidity and Financial Resources

The Group maintained a healthy financial position during the Relevant Period. As at 30 April 2021, the Group had a cash and cash equivalents of approximately HK\$102.8 million (31 July 2020: approximately HK\$82.7 million). The current ratio as at 30 April 2021 was approximately 1.3 (31 July 2020: approximately 1.6).

### Gearing Ratio

The gearing ratio of the Group as at 30 April 2021 was 10.6% (31 July 2020: 13.4%).

The gearing ratio is calculated as total borrowings divided by total equity as at the respective periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Relevant Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, 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 from time to time.

### Pledge of Assets

As at 30 April 2021, the Group did not have any charges on its assets (31 July 2020: Nil).

### Foreign Exchange Exposure

Most of the Group's bank balances and income are denominated in either Renminbi or Hong Kong dollars. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. The Directors considered that no hedging of exchange risk is required and accordingly, there were no financial instruments being used for hedging purposes during the nine months ended 30 April 2021. Nevertheless, the management will continue to monitor the Group's foreign exchange exposure and will take prudent measures as and when appropriate.

### Capital Commitments

As at 30 April 2021, the Group did not have any capital commitments (31 July 2020: Nil).

### Significant Investments Held

Except for investment in its subsidiaries during the Relevant Period, the Group did not hold any significant investment in equity interest in any other company.

### Material Acquisition and Disposals

For the Relevant Period, save as the investment properties and right-of-use assets recognised in accordance with HKFRS 16 and the disposal of a non-wholly owned subsidiary, the Group did not conduct any material acquisition or disposals.

### Contingent Liabilities

As at 30 April 2021, the Group did not have any material contingent liability (31 July 2020: Nil).

### Future Plans for Material Investments or Capital Assets

For the Relevant Period, save as investment properties that may be recognised in accordance with HKFRS 16 for new leases under the Group's property sub-leasing and management business, the Group did not have other plans for material investments and capital assets.

### PROFIT GUARANTEE AND LOAN FROM THE SINGLE LARGEST SHAREHOLDER OF THE COMPANY

On 11 October 2019, the Group received an amount of HK\$30,000,000 regarding a loan from a shareholder, Mr. Lin Ye ("Mr. Lin"), who is also an executive Director and the chairman of the Board, which is restricted to be used for the purpose of financing the Company's potential acquisition of an office premise in Hong Kong and its related expenses, and providing extra assurance for the profit guarantee provided by Mr. Lin in favour of the Company.

After assessment of the internal resources of the Group, the Directors consider that it would be sufficient for the Group to apply half amount of the loan from a shareholder for the development of the Group's sub-leasing business. As such, on 3 April 2020, the Company repaid HK\$15,000,000 to Mr. Lin. Mr. Lin consented to and the Company released the remaining restricted cash for development of the Group's sub-leasing business.

As disclosed in the announcement of the Company dated 30 September 2020, the Group's audited consolidated earnings before interest, taxes, depreciation and amortisation (the "EBITDA") for the year ended 31 July 2020, which amounted to approximately HK\$82.0 million, is more than the profit guarantee made by Mr. Lin in favor of the Company (i.e. the EBITDA of the Group for the year ended 31 July 2020 being not less than HK\$13,800,000) (the "Profit Guarantee"). Accordingly, there will not be any compensation made by Mr. Lin to the Company for any shortfall of the Profit Guarantee for the year ended 31 July 2020. Further announcement will be made by the Company in relation to the performance of the Profit Guarantee for the year ending 31 July 2021 as and when appropriate.

### DISPOSAL OF A NON-WHOLLY OWNED SUBSIDIARY

On 30 December 2020 (after trading hours of the Stock Exchange), Sky Planner Limited (the "Vendor"), being a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with 深圳深南裝飾工程有限公司 (for transliteration purpose only, Shenzhen Shennan Decoration Engineering Co., Ltd.) (the "Purchaser"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 51% of the issued share capital of New Brio Engineering Limited at a total consideration of HK\$510,000. The Purchaser is a company established in the PRC with limited liability and principally engaged in interior and exterior decoration business and engineering contracting services.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Consideration was settled by the Purchaser in cash and in full on the date of execution of the Sale and Purchase Agreement. It was determined after arm's length negotiations between the Vendor and the Purchaser with reference to (1) a valuation report issued by an independent professional valuer, which assessed the fair value of 100% equity interest of New Brio Engineering Limited as at 30 December 2020 to be HK\$894,000, using the market approach; and (2) New Brio Engineering Limited recorded profit after taxation for the year end 31 July 2019 and 2020 in the amount of approximately HK\$313,000 and HK\$230,000 respectively.

Completion of the Sale and Purchase Agreement took place immediately after the entering into of the Sale and Purchase Agreement on 30 December 2020. Upon Completion, the Vendor disposed of all its shareholding interest in New Brio Engineering Limited and New Brio Engineering Limited has ceased to be a subsidiary of the Company.

For more details, please refer to the announcement of the Company dated 30 December 2020.

### DISCLOSURE OF INTERESTS

#### A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 April 2021, the interests and short positions of the Directors and chief executive of the Company in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong (the "SFO")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

##### *Long positions in the Shares*

| Name of Director    | Capacity                             | Number of<br>ordinary shares<br>interested<br>(Long position) | Approximate<br>percentage of<br>shareholding |
|---------------------|--------------------------------------|---|--|
| Mr. Lin Ye (Note 1) | Beneficial owner                     | 29,513,000  | 7.18%  |
|                     | Interest in a controlled corporation | 86,534,000  | 21.04%                                       |

Note:

- 86,534,000 Shares are held by Sonic Solutions Limited as a beneficial owner. The entire issued share capital of Sonic Solutions Limited is wholly-owned by Mr. Lin. As such, Mr. Lin is deemed to be interested in 86,534,000 Shares held by Sonic Solutions Limited for the purposes of the SFO.

## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above and so far as is known to the Directors, as at 30 April 2021, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

### B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 April 2021, so far as was known to the Directors, the interests and short positions of the following persons (other than the Directors or chief executive of the Company) or entities which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were requested to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Names of Shareholders               | Nature of interest                   | Number of Shares<br>(Note 1) | Approximate percentage of shareholding |
|-------------------------------------|--------------------------------------|------------------------------|--|
| Sonic Solutions Limited (Note 2)    | Beneficial owner                     | 86,534,000                   | 21.04%                                 |
| Jing Shiqi (Note 3)                 | Interest in a controlled corporation | 60,000,000                   | 14.59%                                 |
| Wealth Triumph Corporation (Note 3) | Beneficial owner                     | 60,000,000                   | 14.59%                                 |
| Pan Guorong                         | Beneficial owner                     | 30,000,000                   | 7.30%                                  |
| Liu Guo Ping                        | Beneficial owner                     | 54,833,000                   | 13.33%                                 |
| Li Song                             | Beneficial owner                     | 34,738,000                   | 8.45%                                  |
| Xia Yuqing                          | Beneficial owner                     | 32,135,000                   | 7.81%                                  |

Notes:

1. Interests in Shares stated above represent long positions.
2. The entire issued share capital of Sonic Solutions Limited is wholly-owned by Mr. Lin Ye, an executive director of the Company.
3. Mr. Jing Shiqi beneficially owns the entire issued share capital of Wealth Triumph Corporation which in turns hold 60,000,000 Shares. As such, Mr. Jing Shiqi is deemed, or taken to be, interested in all the Shares held by Wealth Triumph Corporation for the purposes of the SFO. Mr. Jing Shiqi is the sole director of Wealth Triumph Corporation.

## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 April 2021, no person, other than the Directors and chief executive of the Company whose interests are set out in the section “Disclosure of Interests” above, had notified the Company of an interest or short position in the shares or underlying shares 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.

### COMPETITION AND CONFLICT OF INTEREST

Having made specific enquiry of all Directors and substantial shareholders, during the Relevant Period, none of the Directors and substantial shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had held any position or had interest in any businesses or companies that were or might be materially competing with the business of the Group, or gave rise to any concern regarding conflict of interests.

### PURCHASE, SALES OF REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the Relevant Period and up to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

### CORPORATE GOVERNANCE CODE

During the Relevant Period and up to the date of this report, the Company has complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the deviation from code provision A.2.1 of the Code as described below.

Pursuant to code provision A.2.1 of the Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. During the Relevant Period, there have been no chief executive in the Company. Mr. Lin Ye acted as the Chairman of the Board, and is responsible for the overall management and formulation of business strategy of the Group.

The Board does not have the intention to fill the position of the chief executive of the Company at present and believe the absence of the chief executive will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive Directors. The Board will keep reviewing the current structure of the Board and the need for appointment of a suitable candidate to perform the role of chief executive. Appointment will be made to fill the chief executive post to comply with code provision A.2.1 of the Code if necessary.

### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of provisions of conduct regarding securities transactions by the Directors (the “Code of Conduct”) on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Relevant Period and up to the date of this report.

### SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 19 November 2014 (the “Scheme”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 April 2021.

### AUDIT COMMITTEE

The Board established an audit committee (the “Audit Committee”) on 19 November 2014 with its written terms of reference in compliance with paragraphs C.3.3 and C.3.7 of the CG Code. The primary duties of the Audit Committee are to review and supervise the Group’s financial reporting process, risk management, and internal control system of the Group, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, namely Ms. Kwong Ka Ki (Chairperson), Mr. Yu Hua Chang and Ms. Guo Liying, all being independent non-executive Directors, Ms. Kwong Ka Ki currently serves as the chairperson of the Audit Committee.

The Audit Committee has reviewed this report and the unaudited condensed consolidated financial statements of the Group for the Relevant Period.

### DECISION FROM THE STOCK EXCHANGE TO SUSPEND THE TRADING OF OUR SHARES UNDER RULE 17.26 OF THE GEM LISTING RULES

On 3 May 2019, the Stock Exchange issued a decision letter that the Company has failed to maintain a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant its continued listing under GEM Listing Rule 17.26 and the circumstances of the Company to be an extreme case which warrants a trading suspension of the Company’s shares under GEM Listing Rule 9.04(3) (the “Decision”).

On 10 May 2019, the Company applied for a review on the Decision and the Company’s review on the Decision was heard by the GEM Listing Committee on 17 July 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

On 29 July 2019, the GEM Listing Committee informed the Company that the GEM Listing Committee had decided to uphold the Decision (the “LC Decision”). On 2 August 2019, the Company applied for a review on the LC Decision by the GEM Listing (Review) Committee. The review hearing of the GEM Listing Committee Decision by the GEM Listing Review Committee took place on 22 October 2019. On 31 October 2019, the Company received a fax from the GEM Listing Review Committee that they had decided to uphold the GEM Listing Committee Decision (the “GEM Listing Review Committee Decision”).

In view of the GEM Listing Review Committee Decision, the Company is required to re-comply with Rule 17.26 of the GEM Listing Rules and it will have a remedial period of 12 months to re-comply with Rule 17.26 of the GEM Listing Rules (the “Resumption Condition”). If the Company fails to do so by the expiry of the 12-month period (i.e. 31 October 2020), the Stock Exchange will proceed with cancellation of the Company’s listing.

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 1 November 2019. Further announcement(s) will be made by the Company as and when appropriate and in accordance with the requirements of the GEM Listing Rules.

For more details, please refer to the announcements of the Company dated 30 October 2020, 4 August 2020, 29 April 2020, 30 January 2020, 1 November 2019, 2 August 2019, 29 July 2019, 10 May 2019 and 3 May 2019 respectively.

Through various submissions, the Company had demonstrated to the Stock Exchange that it has before 31 October 2020 fulfilled the Resumption Condition. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on 17 November 2020. For details, please refer to the announcement of the Company dated 16 November 2020.

### EVENTS AFTER THE RELEVANT PERIOD

Save as disclosed in the announcement of the Company dated 31 May 2021 in relation to the full settlement arrangements as a result of the arbitration, the Directors are not aware of any other significant event requiring disclosure that has taken place subsequent to 30 April 2021 and up to the date of this report.

By order of the Board  
China All Nation International Holdings Group Limited  
Lin Ye  
Chairman

Hong Kong, 11 June 2021

*As at the date of this report, the executive Directors are Mr. Lin Ye, Mr. Au Siu Chung and Ms. Xiao Yi Liao Ge; and the independent non-executive Directors are Ms. Kwong Ka Ki, Mr. Yu Hua Chang and Ms. Guo Liying.*