CHINA ALL NATION INTERNATIONAL HOLDINGS GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8170)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 JANUARY 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This announcement, 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 announcement 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 announcement misleading.

The condensed consolidated interim results for the six months ended 31 January 2020 of the Company have been audited on a voluntary basis by the Company to give more assurance to the shareholders of the Company (the "Shareholders") as to the reliability of the interim results.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 JANUARY 2020

- The Group's revenue amounted to approximately HK$80.1 million for the six months ended 31 January 2020 (the "**Relevant Period**"), representing an increase of approximately HK$68.1 million or approximately 567.1% as compared to the six months ended 31 January 2019.

- The profit attributable to owners of the Company is approximately HK$4.5 million for the Relevant Period, representing a significant turnaround from the loss of approximately HK$9.7 million for the six months ended 31 January 2019, 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.

MOORE

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會計師事務所有限公司

Independent Auditor's Report to the Board of Directors of China All Nation International Holdings Group Limited (Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the condensed consolidated financial statements of China All Nation International Holdings Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 6 to 45, which comprise the condensed consolidated statement of financial position as at 31 January 2020, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The GEM Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "**Interim Financial Reporting**" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

In our opinion, the condensed consolidated financial statements give a true and fair view of the condensed consolidated financial position of the Group as at 31 January 2020, and of its condensed consolidated financial performance and its condensed consolidated cash flows for the six-month period then ended in accordance with HKAS 34.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the condensed consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER MATTER

The condensed consolidated statement of profit or loss and other comprehensive income of the Group and the comparative figures for the three months ended 31 January 2020, and the comparative figures of condensed consolidated financial statements of the Group for the six months ended 31 January 2019, and the relevant notes to these condensed consolidated financial statements, were unaudited and not reviewed.

RESPONSIBILITIES OF DIRECTORS FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the condensed consolidated financial statements in accordance with HKAS 34 issued by the HKICPA for such internal control as the directors determine is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the audit committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the condensed consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this announcement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these condensed consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – *continued*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the condensed consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the condensed consolidated financial statements, including the disclosures, and whether the condensed consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 13 March 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 January 2020

	Notes	Three months ended 31 January		Six months ended 31 January	
		2020	2019	**2020**	2019
		HK$'000	HK$'000	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
Revenue	5	**42,712**	7,195	**80,080**	12,005
Cost of services		**(27,123)**	(5,645)	**(52,718)**	(9,932)
Gross profit		**15,589**	1,550	**27,362**	2,073
Other income and gains	6	**617**	63	**1,282**	165
Gain on disposal of subsidiaries		**–**	–	**–**	73
Administrative and other operating expenses		**(5,332)**	(5,419)	**(10,889)**	(9,933)
Impairment loss allowance on trade receivables and contract assets, net	17	**(529)**	–	**(810)**	–
Finance costs	7	**(3,544)**	–	**(8,083)**	–
Profit/(loss) before income tax	8	**6,801**	(3,806)	**8,862**	(7,622)
Income tax expense	9	**(2,835)**	(151)	**(4,145)**	(151)
Profit/(loss) for the period		**3,966**	(3,957)	**4,717**	(7,773)
Other comprehensive (loss)/income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of foreign operations		**(268)**	393	**(758)**	393
Total comprehensive income/(loss) for the period, net of income tax		**3,698**	(3,564)	**3,959**	(7,380)
Profit/(loss) for the period attributable to:					
Owners of the Company		**3,931**	(3,376)	**4,504**	(9,672)
Non-controlling interests		**35**	(581)	**213**	1,899
		3,966	(3,957)	**4,717**	(7,773)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 January 2020

	Notes	Three months ended 31 January		Six months ended 31 January	
		2020	2019	**2020**	2019
		HK$'000	HK$'000	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)	**(Audited)**	(Unaudited)
Total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		**3,663**	(2,983)	**3,746**	(9,279)
Non-controlling interests		**35**	(581)	**213**	1,899
		3,698	(3,564)	**3,959**	(7,380)
Earnings/(loss) per share attributable to the owners of the Company					
– Basic and diluted earnings/(loss) per share (HK cents)	10	**1.0**	(0.8)	**1.1**	(2.4)

Details of dividends are disclosed in Note 11 to the condensed consolidated financial statements of the Company.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2020

	Notes	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	**2,257**	3,087
Investment properties	13	**118,372**	–
Right-of-use assets	14	**2,071**	–
Finance lease receivables	15	**60,443**	–
Goodwill		**230**	230
Intangible assets	16	**–**	882
Deposits paid	18	**15,725**	12,330
		199,098	16,529
Current assets			
Trade receivables	17	**32,726**	21,078
Contract assets	17	**7,086**	18,334
Finance lease receivables	15	**36,021**	–
Prepayments, deposits paid and other receivables	18	**15,719**	20,487
Restricted cash	19	**30,000**	–
Cash and cash equivalents	19	**52,477**	65,518
		174,029	125,417
Current liabilities			
Trade and other payables	20	**31,835**	52,654
Contract liabilities		**270**	1,392
Lease liabilities	21	**63,133**	–
Tax payable		**4,420**	2,011
		99,658	56,057
Net current assets		**74,371**	69,360
Total assets less current liabilities		**273,469**	85,889

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2020

	Notes	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Non-current liabilities			
Deposits received	20	**16,476**	12,697
Deferred tax liabilities		**3,133**	220
Loan from a shareholder	22	**24,298**	–
Lease liabilities	21	**138,752**	–
		182,659	12,917
Net assets		**90,810**	72,972
Equity			
Share capital	23	**4,112**	4,112
Reserves	24	**87,348**	69,723
Equity attributable to owners of the Company		**91,460**	73,835
Non-controlling interests		**(650)**	(863)
Total equity		**90,810**	72,972

The condensed consolidated financial statements on pages 6 to 45 were approved and authorised for issue by the Board of Directors on 13 March 2020 and are signed on its behalf by:

Mr. Yuan Shuang Shun
Director

Mr. Au Siu Chung
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2020

	Attributable to owners of the Company					
	Share capital HK$'000 (Note 23)	Share premium HK$'000	Other reserves HK$'000 (Note 24)	Sub-total HK'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 31 July 2018 (audited)	4,112	24,394	52,705	81,211	(4,202)	77,009
Loss for the period	–	–	(9,672)	(9,672)	1,899	(7,773)
Other comprehensive income for the period						
Exchange differences on translation of financial statements of foreign operations	–	–	393	393	–	393
Total comprehensive loss for the period	–	–	(9,279)	(9,279)	1,899	(7,380)
Disposal of subsidiaries	–	–	–	–	32	32
As at 31 January 2019 (unaudited)	4,112	24,394	43,426	71,932	(2,271)	69,661
At 31 July 2019 as previously reported (audited)	**4,112**	**24,394**	**45,329**	**73,835**	**(863)**	**72,972**
Impact on initial application of Hong Kong Financial Reporting Standard 16 *(Note 3.1)*	**–**	**–**	**7,314**	**7,314**	**–**	**7,314**
Adjusted balance as at 1 August 2019 (audited)	**4,112**	**24,394**	**52,643**	**81,149**	**(863)**	**80,286**
Profit for the period	**–**	**–**	**4,504**	**4,504**	**213**	**4,717**
Other comprehensive income for the period						
Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**(758)**	**(758)**	**–**	**(758)**
Total comprehensive income for the period	**–**	**–**	**3,746**	**3,746**	**213**	**3,959**
Deemed capital contribution arising from non-current interest-free shareholder's loan *(Note 22)*	**–**	**–**	**6,565**	**6,565**	**–**	**6,565**
As at 31 January 2020 (audited)	**4,112**	**24,394**	**62,954**	**91,460**	**(650)**	**90,810**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2020

	Notes	Six months ended January 2020 HK$'000 (Audited)	2019 HK$'000 (Unaudited)
Cash flows from operating activities			
Net cash generated from/(used in) operations		**24,791**	(6,891)
Income tax (paid)/refunded		**(1,206)**	62
Interest received		**241**	–
Net cash generated from/(used in) operating activities		**23,826**	(6,829)
Cash flows from investing activities			
Net cash outflow on acquisition of a subsidiary		**–**	(9,450)
Net cash inflow on disposal of subsidiaries		**–**	32
Purchases of property, plant and equipment	12	**(73)**	(978)
Net cash used in investing activities		**(73)**	(10,396)
Cash flows from financing activities			
Advance from a related party	20(c)	**–**	1,000
Payment of principal portion of lease liabilities		**(29,196)**	–
Interest paid	7	**(7,220)**	–
Net cash (used in)/generated from financing activities		**(36,416)**	1,000
Net decrease in cash and cash equivalents		**(12,663)**	(16,225)
Cash and cash equivalents at beginning of the period		**65,518**	66,584
Effect of foreign exchange rate changes		**(378)**	343
Cash and cash equivalents at end of the period, represented by cash at banks and on hand	19	**52,477**	50,702

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 the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). With effect from 1 November 2019, trading in the shares of the Company on Stock Exchange has been suspended.

The registered office address of the Company is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. 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 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 PRC.

2. BASIS OF PREPARATION

These condensed consolidated financial statements of the Company have been prepared in accordance with Hong Kong Accounting Standards 34 ("**HKAS 34**"), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure required by the Rules Governing the Listing of Securities on GEM on Stock Exchange (the "**Listing Rules**").

These condensed consolidated financial statements for the six months ended 31 January 2020 comprise the Company and its subsidiaries (the "**Group**"), which contains condensed consolidated financial statements and selected explanatory notes.

The condensed consolidated financial statements for the six months ended 31 January 2020 have been audited by the Company's independent auditor, but the financial statements for the three months ended 31 January 2020 have been reviewed by the Company's audit committee.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 July 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations ("**Int**")) as disclosed in Notes 3.1 and 4 and the change of accounting policy of investment properties as disclosed in Note 4.

2. BASIS OF PREPARATION – *continued*

The condensed consolidated financial statements have been presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include the explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the Group's annual consolidated financial statements as at 31 July 2019.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has applied, for the first time, a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 August 2019 but they do not have a material effect on the Group's condensed consolidated financial statements except for the adoption of HKFRS 16 Leases ("**HKFRS 16**") as described in below as disclosed in Note 3.1.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 August 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

3. ADOPTION OF NEW AND REVISED HKFRSs – *continued*

3.1 HKFRS 16 Leases – *continued*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 August 2019.

As at 1 August 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant PRC entities range from 8.76% to 9.13% and HK entities range from 7.93% to 8.08%.

	At 1 August 2019 HK$'000 (Audited)
Operating lease commitments disclosed as at 31 July 2019	228,034
Less: Low-value leases recognised on a straight-line basis as expense	(32)
Lease end with 12 months from the date of the initial application	(2,940)
Operating lease liabilities before discounting as at 31 July 2019	225,062
Effect from discounting at incremental borrowing rate as at 1 August 2019	(40,964)
Lease liabilities as at 1 August 2019	184,098
Analysed as	
Current	44,908
Non-current	139,190
	184,098

3. ADOPTION OF NEW AND REVISED HKFRSs – *continued*

3.1 HKFRS 16 Leases – *continued*

As a lessee – continued

The carrying amount of right-of-use assets for own use, those under subleases relating to operating leases (classified as investment properties) and those under subleases relating to finance leases (classified as finance lease receivables) as at 1 August 2019 comprises the following:

	Notes	Right-of-use assets HK$'000 (Audited)	Investment properties HK$'000 (Audited)	Finance lease receivables HK$'000 (Audited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(f)	813	112,678	80,359
Add: favourable terms of operating leases arising from business combinations	(a)	–	882	–
Add: adjustments on advance payment at 1 August 2019		–	4,453	–
Add: accrued lease receivables relating to rent-free period and progressive rent at 1 August 2019	(e)	–	1,211	–
Less: accrued lease liabilities relating to rent-free period and progressive rent at 1 August 2019	(c)	–	(2,766)	(1,082)
Less: adjustments on receipt in advance as at 1 August 2019	(b)	–	–	(453)
		813	116,458	78,824

(a) The Group previously recognised an intangible asset by applying HKFRS 3 *Business Combinations* relating to favourable terms of an operating lease relating to lease contracts acquired in a business combination with finite useful lives. The carrying amount as at 1 August 2019 was derecognised by adjusting to investment properties.

(b) It relates to receipt in advance of several finance leases of leased properties under subleases. The carrying amount of the receipt in advance recognised under trade and other payables line item as at 1 August 2019 was adjusted to finance lease receivables at transition.

(c) Rent-free period

These relate to accrued lease liabilities for leases of properties in which the Group provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 August 2019 was adjusted to investment properties and finance lease receivables at transition.

3. ADOPTION OF NEW AND REVISED HKFRSs – *continued*

3.1 HKFRS 16 Leases – *continued*

As a lessee – continued

(c) – *continued*

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 August 2019 was adjusted to investment properties and finance lease receivables at transition.

As an intermediate lessor

(d) The Group, as an intermediate lessor, has reclassified certain of its sublease agreements as finance leases. The leased assets of approximately HK$70,607,000 have been derecognised and finance lease receivables have instead been recognised. This change in accounting treatment changes the timing of recognition of the related revenue (recognised in finance income).

(e) *Rent-free period*

These relate to accrued lease receivables for leases of properties in which the Group provided rent-free period. The carrying amount of the lease incentive receivables as at 1 August 2019 was adjusted to investment properties at transition.

Lease receipts increase progressively over lease terms

These relate to accrued lease receivables of operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease receivables as at 1 August 2019 was adjusted to investment properties at transition.

Subleases

(f) At the date of initial application, leased properties under subleases were assessed and classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sublease at that date.

Certain leased properties under subleases of approximately HK$116,458,000 as at the date of initial application were classified as operating leases and transferred to investment properties of the Group. Investment properties are measured by using the cost model.

As 31 January 2020, the carrying amount of investment properties which were under subleases amounted to approximately HK$118,372,000 (Note 13). During the period ended 31 January 2020, income from subleasing these properties amounted to approximately HK$26,214,000 (Note 5), depreciation of these investment properties amounted approximately HK$17,234,000 (Note 13) were recognised in profit of loss.

Certain leased properties under subleases of approximately HK$78,824,000 as at the date of initial application were classified as finance leases and recognised the difference between the right-of-use assets and the net investment in the subleases in profit or loss.

3. ADOPTION OF NEW AND REVISED HKFRSs – *continued*

3.1 HKFRS 16 Leases – *continued*

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets, investment properties, finance lease receivables, and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets, investment properties, finance lease receivables, and the related lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets, investment properties, finance lease receivables and lease liabilities separately. Temporary differences relating to right-of-use assets, investment properties, finance lease receivables, and lease liabilities are not recognised at initial recognition due to application of the initial recognition exemption.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 August 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 July 2019 HK$'000 (Audited)	Impact of initial application of HKFRS 16 HK$'000 (Audited)	Carrying amounts under HKFRS 16 at 1 August 2019 HK$'000 (Audited)
Right-of-use assets	–	813	813
Investment properties	–	116,458	116,458
Finance lease receivables	–	54,469	54,469
Intangible assets	882	(882)	–
Total non-current assets	**16,529**	**170,858**	**187,387**
Finance lease receivables	–	24,355	24,355
Trade receivables	21,078	(1,723)	19,355
Prepayment, deposits paid and other receivables	20,487	(2,467)	18,020
Total current assets	**125,417**	**20,165**	**145,582**
Lease liabilities	–	(44,908)	(44,908)
Trade and other payables	(52,654)	2,827	(49,827)
Total current liabilities	**(56,057)**	**(42,081)**	**(98,138)**
Lease liabilities	–	(139,190)	(139,190)
Deferred tax liabilities	(220)	(2,438)	(2,658)
Total non-current liabilities	**(12,917)**	**(141,628)**	**(154,545)**
Reserves	(69,723)	(7,314)	(77,037)
Total equity	**(72,972)**	**(7,314)**	**(80,286)**

3. ADOPTION OF NEW AND REVISED HKFRSs – *continued*

3.1 HKFRS 16 Leases – *continued*

Taxation – continued

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 August 2019.

	Impact of adopting HKFRS 16 at 1 August 2019 HK$'000
Net income from sub-leasing right-of-use assets	9,752
Tax effect	(2,438)
Retained profits	7,314

3.2 New and revised HKFRSs that issued but not yet effective

Up to the date of issue of these condensed consolidated financial statements, the HKICPA has issued a number of new and revised standards which are not yet effective for the financial year beginning 1 August 2019, and which have not been early adopted in these condensed consolidated financial statements of the Company.

4. CHANGES IN ACCOUNTING POLICIES

4.1 Investment Property

In previous years, the Group's investment properties were carried in the statement of financial position at their fair value amount in accordance with HKAS 40 "Investment Property".

Commencing from the current year, investment properties are carried at cost less accumulated depreciation and impairment loss, if any (the "**cost model**") in accordance with HKAS 40 "Investment Property".

Management is of the view that the Group's investment properties, which are only included leased properties under operating lease in relation to sub-leasing business. By using the cost model would provide more relevant information about the Group's financial position and performance. As a result of this change in accounting policy, the Group has not made adjustment to opening balances at 1 August 2019, which increased the fair value of investment properties by approximately HK$14,431,000, and closing balance at 31 January 2020, which increased in the fair value of investment properties by approximately HK$38,499,000 respectively. This change in accounting policy has no effect of the comparative figures for the corresponding comparative prior period which would not been restated.

4. CHANGES IN ACCOUNTING POLICIES – *continued*

4.2 Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transition in note 3.1)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 3.1)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the group allocates the consideration in the contract to each lease component on the basis of the relative stand- alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leased properties under sub-leases and office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

4. CHANGES IN ACCOUNTING POLICIES – *continued*

4.2 Leases – *continued*

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 3.1) **–** *continued*

Right-of-use assets – continued

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. Right-of-use assets that meet the definition of investment property is presented within "investment properties".

Refundable rental deposits paid

Based on the definition of lease payments under HKFRS 16, refundable rental deposits paid are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits paid may be adjusted to amortised cost.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

4. CHANGES IN ACCOUNTING POLICIES – *continued*

4.2 Leases – *continued*

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 3.1) – continued

Lease liabilities – continued

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes expected payment under a guaranteed residual value in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the condensed consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4. CHANGES IN ACCOUNTING POLICIES – *continued*

4.2 Leases – *continued*

The Group as an intermediate lessor (upon application of HKFRS 16 in accordance with transition in note 3.1)

Classification and measurement of leases

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Subleases for which the Group is an intermediate lessor are classified as finance or operating leases. Whenever the terms of the sublease transfer substantially all the risks and rewards incidental to ownership of head leas to the lessee, the contract is classified as a finance lease. All other head leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as finance lease receivables at commencement date at amounts equal to net investments in the leases, measured using the incremental borrowing rate in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the head lease, and such costs are recognised as an expense on a straight-line basis over the lease term consistent with investment properties from leased properties under sub-leases.

Finance income and rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits received

Based on the definition of lease payments under HKFRS 16, refundable rental deposits received are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits received may be adjusted to amortised cost.

4. CHANGES IN ACCOUNTING POLICIES – *continued*

4.2 Leases – *continued*

The Group as an intermediate lessor (upon application of HKFRS 16 in accordance with transition in note 3.1) *– continued*

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

The group as a lessee (prior to 1 August 2019)

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period of which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis.

The Group as lessor (prior to 1 August 2019)

When assets are leased out under an operating lease, the asset is included in the condensed consolidated statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

5. 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 six months ended 31 January 2020 are as follows:

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Revenue from property sub-leasing:		
Gross rental income	**26,214**	4,241
Finance income on finance lease receivables	**3,783**	–
Net income from sub-leasing right-of-use assets	**7,029**	–
Revenue from contracts with customers within the scope of HKFRS 15, types of goods or services:		
Contracting	**5,403**	5,351
Interior design and decoration work	**33,692**	2,413
Property management fee income and value-adding services	**3,959**	–
	80,080	12,005

Segment reporting

The management of the Company has determined the operating segments based on the reports reviewed by the directors of the Company, 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 work: 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.

5. REVENUE AND SEGMENT INFORMATION – *continued*

Segment reporting – *continued*

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

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

The directors assess the performance of the operating segments based on a measure of segment results. Unallocated corporate expenses, income tax expenses and other major items that are isolated and non-recurring in nature are not included in segment results.

Segment assets mainly consist of current assets and non-current assets as disclosed in the condensed consolidated statement of financial position except restricted cash, cash and cash equivalents, unallocated property, plant and equipment, unallocated right-of-use assets, and unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities mainly consist of current liabilities as disclosed in the condensed consolidated statement of financial position except unallocated corporate liabilities, unallocated lease liabilities, tax payable and deferred tax liabilities and loan from a shareholder as these liabilities are managed on a group basis.

5. REVENUE AND SEGMENT INFORMATION – *continued*

Segment reporting – *continued*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below:

	Contracting HK$'000	Interior design and decoration HK$'000	Property sub-leasing and management service HK$'000	Total HK$'000
For six months ended 31 January 2020 (audited)				
Revenue from external customers and disaggregated by timing of revenue recognition				
Services transferred over time	5,403	33,692	40,985	80,080
Reportable segment profit	444	5,472	11,134	17,050
Unwinding of imputed interest on shareholder's loan (Note 22)				(863)
Unallocated corporate expenses				(7,325)
Profit before income tax				8,862
Income tax expense				(4,145)
Profit for the period				4,717
Included in segment results are:				
Depreciation of investment properties	–	–	17,234	17,234
Depreciation of property, plant and equipment	38	76	656	770
Impairment loss allowance on finance lease receivables	–	–	381	381
Impairment loss allowance on trade receivables and contract assets, net	–	852	(42)	810
At 31 January 2020 (audited)				
Segment assets	7,494	35,683	243,479	286,656
Unallocated assets				86,471
Consolidated total assets				373,127
Included in segment assets are: Additions to non-current assets	–	–	–	–
Segment liabilities	443	18,132	227,287	245,862
Tax payable				4,420
Deferred tax liabilities				3,133
Unallocated liabilities				28,902
Consolidated total liabilities				282,317

5. REVENUE AND SEGMENT INFORMATION – *continued*

Segment reporting – *continued*

	Contracting HK$'000	Interior design and decoration HK$'000	Property sub-leasing and management service HK$'000	Total HK$'000
For six months ended 31 January 2019 (unaudited)				
Revenue from external customers and disaggregated by timing of revenue recognition				
Services transferred over time	5,351	2,413	4,241	12,005
Reportable segment (loss)/profit	(1,277)	(824)	604	(1,497)
Gain on disposal of subsidiaries				73
Unallocated corporate expenses				(6,198)
Loss before income tax				(7,622)
Income tax expense				(151)
Loss for the period				(7,773)
Included in segment results are:				
Depreciation of property, plant and equipment	–	–	243	243
At 31 July 2019 (audited)				
Segment assets	14,394	30,030	24,116	68,540
Unallocated assets				73,406
Consolidated total assets				141,946
Included in segment assets are:				
Additions to non-current assets	–	–	3,312	3,312
Segment liabilities	6,173	28,570	27,663	62,406
Tax payable				2,011
Deferred tax liabilities				220
Unallocated liabilities				4,337
Consolidated total liabilities				68,974

Note: There is no inter-segment revenue for both periods.

6. OTHER INCOME AND GAINS

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Bank interest income	**241**	–
Gain on disposal of subsidiaries	**–**	73
Gain on derecognition upon termination of leases of investment properties and lease liabilities, net	**107**	–
Management fee income (Note 25(a))	**480**	–
Net foreign exchange gains	**107**	–
Others	**347**	92
	1,282	165

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Interest on lease liabilities	**7,220**	–
Unwinding of imputed interest on loan from a shareholder (Note 22)	**863**	–
	8,083	–

8. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging:

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Auditors' remuneration	**500**	–
Sub-contracting costs recognised as an expense	**24,649**	6,365
Depreciation of investment properties (Note 13)	**17,234**	–
Depreciation of property, plant and equipment*	**848**	640
Depreciation of right-of-use assets (Note 14)	**404**	–
Loss on derecognition upon termination of leases of finance lease receivables and lease liabilities	**126**	–
Minimum lease payments under operating lease charges**	**–**	4,987
Impairment loss on finance lease receivables (Note 15)	**381**	–
Expenses relating to short-term leases#	**1,609**	–
Employee benefits expense (including directors' emoluments (Note 25(c))***:		
– Salaries and allowances	**6,400**	4,694
– Retirement benefit scheme contributions (defined contribution scheme)	**313**	197
Other expenses##	**978**	–

* Depreciation of property and plant and equipment of approximately HK$643,000 (six months ended 31 January 2019: Nil) and approximately HK$205,000 (six months ended 31 January 2019: HK$640,000) has been included in cost of services and administrative expenses respectively.

** Amount in 2019 represents the lease rentals recognised over the lease terms for operating leases under HKAS 17. Upon adoption of HKFRS 16 as disclosed in note 3.1, the minimum lease payments under operating lease charges (except for short-term leases) are no longer recognised under operating expenses.

*** Employee benefit expense (including directors' emolument) of approximately HK$1,767,000 (six months ended 31 January 2019: Nil) and approximately HK$4,946,000 (six months ended 31 January 2019: HK$4,891,000) has been included in cost of services and administrative expenses respectively.

\# Expenses relating to short-term leases of approximately HK$688,000 (six months ended 31 January 2019: Nil) and approximately HK$921,000 (six months ended 31 January 2019: Nil) has been included in cost of services and administrative 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.

9. INCOME TAX EXPENSE

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

The PRC Enterprise Income Tax (the "**EIT**") is calculated at the rate of 25% prevailing in the PRC jurisdiction for the six months ended 31 January 2020 (six months ended 31 January 2019: 25%).

Provision for Hong Kong Profits Tax has been provided at the rate of 8.25% or 16.5% (six months ended 31 January 2019: 8.25% or 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

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 are not qualifying for the two-tiered profits tax rates regime and continue to be taxed at a flat rate of 16.5%.

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Current – PRC		
Charge for the period	**3,666**	151
Deferred tax	**479**	–
Income tax expense	**4,145**	151

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$4,990,000 (31 July 2019: approximately HK$4,014,000) in respect of losses amounting to approximately HK$30,242,000 (31 July 2019: approximately HK$24,327,000) that can be carried forward against future taxable income. Tax losses may be carried forward indefinitely. Certain amounts of unused tax losses are subject to approval from the Hong Kong Inland Revenue Department.

9. INCOME TAX EXPENSE – *continued*

Other than deferred tax liabilities recognised under business combination in prior year and the recognised under the impact on application of HKFRS 16 in effect on 1 August 2019, the Group does not have deferred income tax assets and liabilities in the condensed consolidated financial statements as the Group did not have other material temporary differences arising between tax bases of assets and liabilities and their carrying amounts as at 31 January 2020 (31 July 2019: Nil).

10. EARNINGS/(LOSS) PER SHARE

	Six months ended 31 January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Profit/(loss) attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	**4,504**	(9,672)

	Number of shares	Number of shares
	'000	'000
	(Audited)	(Unaudited)
Weighted average number of ordinary shares in issue for the purpose of basic and diluted earnings/(loss) per share	**411,200**	411,200

There were no dilutive potential ordinary shares during the six months ended 31 January 2020 (six months ended 31 January 2019: Nil) and therefore, the amount of diluted earnings/(loss) per share is same as the amount of basic earnings/(loss) per share.

11. DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 31 January 2020 (six months ended 31 January 2019: Nil). No dividend has been paid or declared by the Company since its incorporation.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2020, the Group acquired certain property, plant and equipment of approximately HK$73,000 (six months ended 31 January 2019: HK$978,000).

13. INVESTMENT PROPERTIES

	Leased properties under operating lease HK$'000
Cost	
At 31 July 2019 (audited)	–
Adjustment upon application of HKFRS 16 (Note 3.1)	116,458
At 1 August 2019 under HKFRS 16 (audited)	116,458
Additions	30,261
Derecognised upon termination of leases	(8,517)
Exchanged alignments	(2,686)
	135,516
Accumulated depreciation	
At 31 July 2019 and 1 August 2019 (audited)	–
Depreciation for the period (Note 8)	17,234
Derecognised upon termination of leases	(83)
Exchanged alignments	(7)
	17,144
Net carry amount	
At 31 July 2019 (audited)	–
At 1 August 2019 (audited)	116,458
At 31 January 2020 (audited)	**118,372**

The Group's investment properties are leased properties in relation to operating lease used in sub-leasing business. Upon the adoption of HKFRS 16, certain of the Group's right-of-use assets, which are used in sub-leasing business, meet the definition of investment properties.

At 31 January 2020, no investment properties of the Group were pledged to secure any borrowings to the Group (31 July 2019: Nil).

At 1 August 2019 and 31 January 2020, an independent valuer assessed the fair values which were derived by using income capitalisation method. Income capitalisation method is based on capitalising the rental income derived from the existing tenancies, if any, with due provision for the reversionary potential of each constituent portion of the property at appropriate capitalisation rates. As a result, the fair value of investment properties of the Group as at the initial application of HKFRS 16 on 1 August 2019 was approximately HK$130,889,000 and as at 31 January 2020 was approximately HK$156,871,000 respectively.

14. RIGHT-OF-USE ASSETS

	Office premises
	HK$'000
Cost	
At 31 July 2019 (audited)	–
Adjustment upon application of HKFRS 16 (Note 3.1)	813
At 1 August 2019 (audited)	813
Additions	1,662
At 31 January 2020 (audited)	2,475
Accumulated depreciation	
At 31 July 2019 and 1 August 2019 (audited)	–
Depreciation for the period (Note 8)	404
At 31 January 2020 (audited)	404
Net carrying amount	
At 31 July 2019 (audited)	–
At 31 January 2020 (audited)	2,071

	HK$'000
Expense relating to short-term leases (Note 8) (audited)	(1,609)
Leases receipts of finance lease receivables (audited)	22,271
Total cash inflow for leases (audited)	4,659

Notes:

The Group leases various office premises for its operations. Lease contracts are entered into for fixed term of 6 months to 4 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15. FINANCE LEASE RECEIVABLES

Certain leased properties under subleases were accounted for as finance leases during the six months ended 31 January 2020 and carried interest ranged from 8.90% to 9.48%.

	Minimum lease payments At 31 January 2020 HK$'000 (Audited)
Amounts receivable under finance leases:	
Year 1	43,837
Year 2	36,762
Year 3	13,971
Year 4	7,449
Year 5 and afterwards	11,473
Undiscounted lease payments	113,492
Less: unearned finance income	(16,647)
Present value of lease payments receivable	96,845
Less: impairment loss allowance (Note 8)	(381)
Net investment in the leases	**96,464**
Undiscounted lease payments analysed as:	
Recoverable within 12 months	43,837
Recoverable after 12 months	69,655
	113,492
Net investment in the lease analysed as:	
Recoverable within 12 months	36,021
Recoverable after 12 months	60,443
	96,464

The directors of the Company estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, the directors of the Company consider that finance lease receivable of approximately HK$381,000 is impaired.

16. INTANGIBLE ASSETS

During six months ended 31 January 2020 and 2019, the Group did not have any acquisition and disposal of intangible assets.

Upon the adoption of HKFRS 16, an opening adjustment as at 1 August 2019 was made to reclassify intangible assets to investment properties as disclosed in note 3.1.

17. TRADE RECEIVABLES AND CONTRACT ASSETS

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Trade receivables (Note (a))	**34,026**	21,953
Less: allowance for credit losses (Note (c))	**(1,300)**	(875)
	32,726	21,078
Contracts assets (Note (b))	**7,578**	18,441
Less: allowance for credit losses, net (Note (c))	**(492)**	(107)
	7,086	18,334
Total	**39,812**	39,412

Notes:

(a) Trade receivables

Normally 90 days of credit period is granted to certain customers under Hong Kong business and no credit period is granted to the customers under the PRC business (31 July 2019: no credit period is granted by both PRC and Hong Kong business).

The ageing analysis of the trade receivables of the Group, net of loss allowance, based on the invoice dates as at 31 January 2020 is as follows:

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
1–30 days	**13,776**	7,032
31–60 days	**2,364**	2,160
61–90 days	**4,656**	596
91–365 days	**11,930**	5,553
Over 365 days	**–**	5,737
	32,726	21,078

17. TRADE RECEIVABLES AND CONTRACT ASSETS – *continued*

Notes: – *continued*

(a) Trade receivables – *continued*

The ageing analysis of the trade receivables of the Group, net of loss allowance, based on the due dates as at 31 January 2020 is as follows:

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Past due for less than 1 month	**13,776**	7,032
Past due for more than 1 month but less than 2 months	**8,370**	2,160
Past due for more than 2 months but less than 3 months	**4,656**	596
Past due for more than 3 months but less than 1 year	**5,924**	5,553
Past due for more than 1 year	**—**	5,737
	32,726	21,078

Trade receivables that were past due but not impaired related to customers that had a good track record of credit with the Group with no history of default in the past.

As at 31 January 2020 and 31 July 2019, the Group did not hold any collateral in respect of trade receivables past due but not impaired.

(b) Contract assets

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Contracting services	**–**	336
Interior design and decoration work services	**7,086**	17,998
	7,086	18,334

The contract assets primarily relate to the Group's rights to consideration for work completed to-date and not billed because the rights are conditional on the Group's future performance in achieving agreed milestones at the reporting date on the contracting and interior design and decoration work services. The contract assets are transferred to trade receivables when the rights become unconditional, at which time the amounts become billable to the customer. The Group typically transfer contract assets to trade receivables upon achieving the agreed milestones in the contracts. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

17. TRADE RECEIVABLES AND CONTRACT ASSETS – *continued*

Notes: – *continued*

(c) Allowance for credit loss on trade receivables and contract assets

The Group applies HKFRS 9 and measures ECL based on a lifetime expected loss allowance for all trade receivables and contract assets.

The Group uses provision matrix to calculate ECL for trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to work completed but not billed at the reporting date and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The estimated ECL loss rates are estimated based on the Group's historical settlement experience of various groups of debtors that have similar loss patterns and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. The Group has identified the gross domestic product in Hong Kong and the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Movement in the loss allowances for trade receivables and contract assets is as follows:

	Trade receivable HK$'000	**Contract assets** HK$'000
At 1 August 2018 (audited)	169	2
Increase in loss allowance recognised in profit or loss during the year	706	105
At 31 July 2019 and 1 August 2019 (audited)	875	107
Increase in loss allowance recognised in profit or loss during the period	**448**	**404**
Reversal of loss allowance recognised in prior year	**(23)**	**(19)**
At 31 January 2020 (audited)	**1,300**	**492**

18. PREPAYMENTS, DEPOSITS PAID AND OTHER RECEIVABLES

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Current		
Prepayments (Note (a))	**13,792**	12,584
Deposits paid	**1,381**	1,413
Other receivables	**872**	6,816
	16,045	20,813
Less: Provision for impairment (Note (b))	**(326)**	(326)
	15,719	20,487
Non-current		
Deposits paid	**15,725**	12,330
Total	**31,444**	32,817

Notes:

(a) At 31 January 2020, the balance includes an amount of approximately HK$10,060,000 (31 July 2019: HK$5,265,000) which relates to prepaid costs paid to certain sub-contractors in relation to the contracts for contracting and interior design and decoration works entered into by the Group, which would be utilised as sub-contracting costs incurred within the next financial year.

(b) Movement in the loss allowance for impairment of deposits paid and other receivables is as follows:

	HK$'000
At 1 August 2018 (audited)	326
Additions through acquisition of a subsidiary	951
Reversal of impairment loss upon settlement of deposits and other receivables	(954)
Exchange realignment	3
At 31 July 2019 and 31 January 2020 (audited)	**326**

19. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Restricted cash (Note (a))	**30,000**	–
Cash at banks	**34,674**	40,059
Bank deposit	**17,780**	25,434
Cash on hand	**23**	25
Cash and cash equivalents	**52,477**	65,518
Total restricted cash and cash and cash equivalents	**82,477**	65,518

Notes:

(a) Restricted cash represents loan from a shareholder (note 22) during the period ended 31 January 2020, which is restricted to be used in the purpose of financing the Company's potential acquisition of an office premise in Hong Kong and its related expenses, and provide extra assurance for the Profit Guarantee (as defined in note 22) on 11 October 2019.

(b) The carrying amounts of the restricted cash and cash and cash equivalents are denominated in the following currencies:

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
HKD	**64,070**	37,394
Renminbi ("**RMB**")	**18,407**	28,124
	82,477	65,518

(c) Cash at banks and bank deposit earn interest at floating rates based on daily bank deposit rates.

(d) As at 31 January 2020, included in cash and cash equivalents of the Group is approximately HK$18,403,000 (31 July 2019: HK$28,120,000) of cash at banks and bank deposit denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business in the PRC.

20. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
Current		
Trade payables (Note (a))	**18,482**	37,490
Receipts in advance	**1,297**	6,019
Deposits received (Note (b))	**6,441**	4,817
Accruals and other payables (Note (c))	**5,615**	4,328
	31,835	52,654
Non-current		
Deposits received (Note (b))	**16,476**	12,697
Total	**48,311**	65,351

Notes:

(a) No credit period is granted by suppliers (31 July 2019: Nil).

The ageing analysis of trade payables based on the invoice date is as follows:

	At 31 January 2020 HK$'000 (Audited)	At 31 July 2019 HK$'000 (Audited)
0–30 days	**2,885**	19,994
31–60 days	**1,638**	9,988
61–90 days	**132**	4,470
91–365 days	**9,054**	1,901
Over 365 days	**4,773**	1,137
	18,482	37,490

(b) The deposits which mainly represent the rental deposits received under the business segment of property sub-leasing from the ultimate lessee. The deposits are refundable at the end of the lease terms.

(c) Other payables include the balance amounting to approximately HK$1,000,000 (31 July 2019: HK$1,000,000) which was advanced from Mr. Yeung Wing Yan, who is a director of a subsidiary of the Company and he has been also appointed as a chief operating officer of the Company on 11 June 2019. This balance is unsecured, interest-free and repayable on demand.

21. LEASE LIABILITIES

	At 31 January 2020 HK$'000 (Audited)
Lease liabilities payable:	
Within one year	**63,133**
Within a period of more than one year but not more than two years	**68,444**
Within a period of more than two years but not more than five years	**57,598**
Within a period of more than five years	**12,710**
	201,885
Less: portion classified as current liabilities	**(63,133)**
Non-current liabilities	**138,752**

22. LOAN FROM A SHAREHOLDER

On 11 October 2019, Mr. Lin Ye ("**Mr. Lin**"), who is a director and single largest shareholder which held approximate 28.22% shareholding of the Company, signed a letter of profit guarantee (the "**Profit Guarantee**") in favour of the Company pursuant to which Mr. Lin irrevocable warranted and guaranteed that (i) the audited consolidated earnings before interest, taxes, depreciation and amortisation (the "**EBITDA**") of the Group for the financial year ending 31 July 2020 would be not less than HK$13,800,000; and (ii) the audited consolidated EBITDA of the Group for the financial year ending 31 July 2021 would be not less than HK$13,800,000.

To provide extra assurance for the Profit Guarantee, on 11 October 2019, the Company as borrower and Mr. Lin as the lender entered into a loan agreement (the "**Loan Agreement**") pursuant to which Mr. Lin agreed to grant a loan to the Company in the principal amount of HK$30,000,000 (the "**Loan**"). If Mr. Lin is obliged under the Profit Guarantee to compensate the Company for any shortfall, the Company is entitled to set off part of the principal amount of the Loan against the compensation (if any).

The Loan is (i) interest free and unsecured; (ii) repayable within five business days after the publication by the Company of the annual results announcement for the financial year ending 31 July 2021; (iii) for the purpose of financing the Company's potential acquisition of an office premise in Hong Kong and its related expenses (Note 19), (iv) to provide extra assurance for the Profit Guarantee.

22. LOAN FROM A SHAREHOLDER – *continued*

	HK$'000
At 1 August 2019 (audited)	–
Proceeds from shareholder's loan	**30,000**
Discount at inception	**(6,565)**
Unwinding of imputed interest (Note 7)	**863**
At 31 January 2020 (audited)	**24,298**

The discount of the loan from a shareholder at inception is recognised as deemed capital contribution from a shareholder as other reserves in the equity of the Group. The corresponding unwinding of imputed interest is recognised as finance costs (Note 7) in the condensed consolidated statement of profit or loss of the Group. The effective interest rate at 12.39% per annum for imputed interest expense for the Loan is determined based on the unsecured cost-of-funds of the Group.

23. SHARE CAPITAL

	Number of ordinary shares '000	Ordinary shares HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 31 July 2019, 1 August 2019 and 31 January 2020 (audited)	2,000,000	20,000

	Number of ordinary shares '000	Ordinary shares HK$'000
Issued and fully paid:		
At 31 July 2019, 1 August 2019 and 31 January 2020 (audited)	411,200	4,112

24. OTHER RESERVES

	Merger reserve HK$'000 (Note (i))	Exchange fluctuation reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000 (Note 22)	Retained earnings HK$'000	Total HK$'000
As at 31 July 2018 (audited)	(494)	–	–	–	53,199	52,705
Loss for the period	–	–	–	–	(9,672)	(9,672)
Other comprehensive income for the period						
Exchange differences on translation of financial statements of foreign operations	–	393	–	–	–	393
Total comprehensive income/(loss) for the period	–	393	–	–	(9,672)	(9,279)
Transfer to statutory reserve	–	–	85	–	(85)	–
As at 31 January 2019 (unaudited)	(494)	393	85	–	43,442	43,426
As at 31 July 2019 as previously reported (audited)	**(494)**	**88**	**430**	**–**	**45,305**	**45,329**
Impact on initial application of HKFRS 16 (Note 3.1)	**–**	**–**	**–**	**–**	**7,314**	**7,314**
Adjusted balance at 1 August 2019 (audited)	**(494)**	**88**	**430**	**–**	**52,619**	**52,643**
Profit for the period	**–**	**–**	**–**	**–**	**4,504**	**4,504**
Other comprehensive loss for the period						
Exchange differences on translation of financial statements of foreign operations	**–**	**(758)**	**–**	**–**	**–**	**(758)**
Total comprehensive (loss)/income for the period	**–**	**(758)**	**–**	**–**	**4,504**	**3,746**
Deemed capital contribution arising from non-current interest-free shareholder's loan	**–**	**–**	**–**	**6,565**	**–**	**6,565**
Transfer to statutory reserve	**–**	**–**	**1,113**	**–**	**(1,113)**	**–**
As at 31 January 2020 (audited)	**(494)**	**(670)**	**1,543**	**6,565**	**56,010**	**62,954**

Note:

(i) Merger reserve represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the share capital of its subsidiaries arising from the group reorganisation.

25. RELATED PARTY TRANSACTIONS

(a) The Group did not have any significant related party transaction with related parties during the period, except for the management fee income of approximately HK$480,000 (six months ended 31 January 2019: Nil) derived from Mr. Lin for rendering administrative and accounting services as disclosed in Note 6.

(b) Amount of approximately HK$1,000,000 (31 July 2019: HK$1,000,000) advanced from Mr. Yeung Wing Yan, who was a director of the subsidiary of the Company and he has been also appointed as a chief operating officer of the Company on 11 June 2019, are disclosed in Note 20(c).

(c) The emoluments of the directors and senior executives (representing the key management personnel) during the period as follows:

	Six months ended January	
	2020	2019
	HK$'000	HK$'000
	(Audited)	(Unaudited)
Directors' emoluments		
Short-term benefits:		
Fees, salaries, allowances and other benefits in kind	**1,702**	1,874
Post-employment benefits:		
Retirement benefit scheme contributions	**45**	66
	1,747	1,940

(d) Details of Profit Guarantee and interest-free loan advanced from a shareholder of Mr. Lin is disclosed in Note 22.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors of the Company have assessed that the fair values of financial assets and financial liabilities, including cash and bank balances, trade receivables, deposits paid and other receivables, trade and other payables, deposits received, loan from a shareholder, and contract assets and finance lease receivables, approximate to their carrying amounts largely due to the short term maturities of these financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

27. COMPARATIVE AMOUNTS

Finance income on finance lease receivables, which were previously included in other income in the condensed consolidated statement of profit or loss, were reclassified as revenue in the condensed consolidated statement of profit or loss for the three months ended 31 October 2019, in order to conform with the current period's presentation and disclosures.

28. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the directors of the Company on 13 March 2020.

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 Zhongshenguotou Assets Management Co., Ltd* (深圳中深國投資產管理有限公司) ("**ZSGT**") to develop the sub-leasing as well as establishing the interior design and decoration team focusing on interior design and decoration business arising from the sub-lease business in order to secure 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 of a proper address, preferably at grade-A commercial building, to gain creditability for such start-up and small-to-medium business; (iii) the entry barrier of grade-A commercial building which generally lease out floor by floor and may not be affordable by start-up and small-to-medium business, and generally lease 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*

Taking advantage of the listing status, the Group, after performing detailed study including demographic and geographic information of the surrounding of the commercial building such that the commercial building is considered to be able to fulfill the need of the target customers of the Group, entered into a long term head lease with fixed leasing fee with the landlord of grade A commercial building.

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 31 January 2020, the Group leased 6 large scale properties in the PRC, of which five properties are situated at Futian (福田), Nanshan (南山) and Baoan (寶安) districts of Shenzhen and one property is located in Beijing, with total floor area of approximately 34,334 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 88% as at 31 January 2020.

Business flow

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

1 Sourcing of property → 2 Sub-leasing planning and renovation → 3 Sourcing of sub-tenants → 4 Value-adding services

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 fulfill the requirement 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.

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, startup 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.

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 SN (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 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.

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 startup 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 comprise:

Role	**Duties**
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

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 and 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 announcement.

As majority of the sub-tenants is startup 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.

• 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. The Group will also seek advice from Mr. Wang Xuebing ("**Mr. Wang**"), being the special assistant to the chairman of the Board and a retired deputy director of the Public Security (Fire Services) Bureau of Shenzhen, the PRC.
• 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) assistant on compiling regulatory filings; (ii) book-keeping of all relevant filings and company seal. In view of the targeted sub-tenants being startup 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 startups 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) sourcing 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.

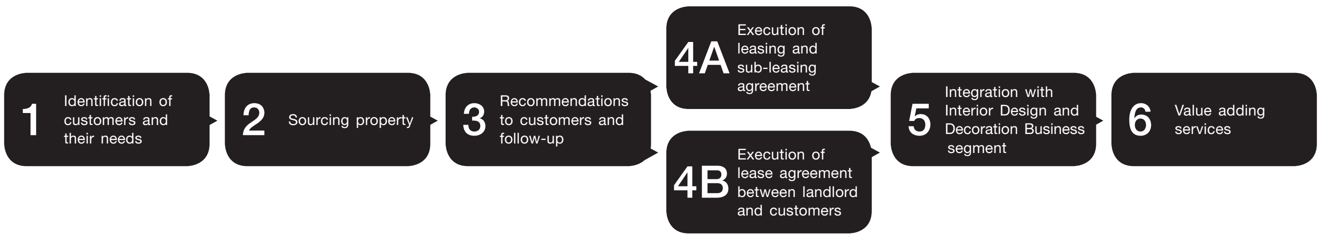
Given the sub-leasing management service is demand driven, the Group will generally enter into rental agreement with landlord back to back with the sub-leasing agreement with the customers, and as such, the Group generally does not expose to any risk of unable to leasing the premises out, and there is 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 31 January 2020, the Group's sub-leasing management services cover three cities, namely Shenzhen, Beijing, Shanghai and 13 other provinces of the PRC, namely Guangdong, Guangxi, Jiangxi, Hunan, Hubei, Hainan, Hebei, Fujian, Jilin, Shandong, Sichuan, Ningxia and Inner Mongolia, with total floor areas of approximately 43,899 sq.m..

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.

Step 3: Recommendations to customers and follow-up

Based on a list of potential properties that fulfil 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 of the 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.

Step 6: Value-adding services

As the customers liaise with the Group directly instead of multiple landlords, the Group is responsible for all the general matters of the office premises. Such general matters include basic repairment and maintenance, appointment of regular premise inspection by government authorities and enquiry of leasing terms. The Group will assess the relevant requests from the customers based on its complexity and either resolve by the Group itself and resort to the landlord and other relevant parties. Each customer has been assigned with a designated customer service officer to take care of its needs.

Scope of service

The key features of the Group's sub-leasing management services comprise:

- Services — Provision of sub-leasing management, which consists of:

  (i) sourcing of office premises across the PRC based on customers' specifications and preferences;

  (ii) sub-leasing office premises to customers;

  (iii) managing all leasing matters with landlords and other relevant parties on behalf of the customers.

- Value-adding services — The Group offer value-adding services to the customers, including but not limited to:

  (i) *Interior design and decoration* – With reference to the Interior Design and Decoration Business, the Group will provide one-stop interior design, decorating and furnishing services to its customers with charge at the request of the customers;

  (ii) *Repair and maintenance services* – The Group will liaise with the landlords and provide general repair and maintenance services to customers, such as consultation and appointment with contractors and inspection of maintenance works;

  (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 fulfil its obligations as tenants, including arranging regular checks of office premises with the regulatory bodies. The Group will also seek advice from Mr. Wang, being the special assistant to the chairman of the Board and a retired deputy director of the Public Security (Fire Services) Bureau of Shenzhen, the PRC;

(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 actual usage.

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 51% owned subsidiary, New Brio Engineering Limited ("**NBE**"). 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.

Although this business segment in Hong Kong only recorded revenue of approximately HK$2.4 million for the six months ended 31 January 2019, it had a remarkable growth during the six months ended 31 January 2020 as the Group was able to secure more contracts via the effort of its management team.

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 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 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 Relevant Period, the Group provided interior design and decoration service in the PRC to both of sub-tenants and customers which were not related to the sub-leasing business. Since the design and decoration team in the PRC was newly set up, it has limited manpower and currently prioritises its work to satisfy the requests of sub-leasing customers first. The Group will further enhance the manpower of the interior design and decoration team and expand its fleet in the PRC in the year ending 31 July 2020 and afterward in order to enhance the capability to take up more contracts from sub-leasing non-related customers.

3. Original Businesses

In order to secure new contracts for the Original Businesses notwithstanding the sluggish condition in Hong Kong construction industry, the Group has adopted a more aggressive approach in seeking new contracts which including but not limited to relaxing payment terms of its contracts so as to increase its competitiveness. For the six months ended 31 January 2020, the Company has engaged in tender or request for quotation for 5 projects with approximately total contract sum HK$90,400 million.

The Group appointed Mr. So, who has over 30 years of experience in the civil engineering industry, as the chief operating officer of the Group in February 2019 and he is responsible for overseeing and developing the Group's civil engineering projects. Mr. Yeung, on the other hand, is primarily responsible for overseeing the Interior Design and Decoration Business. He will also refer civil engineering contracting works to the Group, if available. Also, the Board has decided that for those contracts sourced by the Group's own effort in Hong Kong, the Group will perform such contracts via KSL Engineering Limited, its wholly-owned subsidiary in Hong Kong whereas those contracts sourced by Mr. Yeung, one of the chief operating officers of the Group and the ultimate beneficial owner of the remaining 49% shares in NBE, will be continue to be handled by NBE. KSL Engineering Limited was incorporated in 2009 and has been one of the operating subsidiaries of the Company prior to the listing of the Company on GEM.

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; 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 six months ended 31 January 2020 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 and thus 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 source 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 condition in Hong Kong.

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. In addition, one of the major property developers in Hong Kong recently announced that it would donate 3 million square feet of farmland to The Government of the Hong Kong Special Administrative Region and toward charity for building public homes. 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$12.0 million for the six months ended 31 January 2019 to approximately HK$80.1 million for the Relevant Period, representing an increase of approximately 567.1%. 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$9.9 million for the six months ended 31 January 2019 to approximately HK$52.7 million for the Relevant Period, representing an increase of approximately 430.8%. Such increase was 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 material cost etc. as well as lease payment under operating lease.

Gross Profit

Our gross profit increased from approximately HK$2.1 million for the six months ended 31 January 2019 to approximately HK$27.4 million for the Relevant Period, representing an increase of approximately 1,219.9%, as a result of the substantial increase in our revenue as discussed above.

Other Income and Gains

Our other income and gains increase by approximately HK$1.1 million from approximately HK$165,000 for the six months ended 31 January 2019 to approximately HK$1.3 million for the Relevant Period. Such increase was mainly due to the increase of bank interest income and management fee income by approximately HK$241,000 and HK$480,000 respectively.

Administrative and Other Operating Expenses

Our administrative and other operating expenses amounted to approximately HK$9.9 million and HK$10.9 million for the six months ended 31 January 2019 and 2020 respectively, representing an increase of approximately 9.6%. Such increase was primarily due to the increase in legal and professional fees in attending to the queries of the Stock Exchange on maintaining the listing status of the Company.

Profit/(Loss) for the Relevant Period

As a result of the aforesaid, the business of the Group turnaround and record a profit of approximately HK$4.7 million for the six months ended 31 January 2020 from a loss of approximately HK$7.8 million for the same period last year.

Dividend

The Board does not recommend the payment of dividend for the Relevant Period (six months ended 31 January 2019: Nil).

Liquidity and Financial Resources

The Group maintained a healthy financial position during the Relevant Period. As at 31 January 2020, the Group had a cash and cash equivalents of approximately HK$52.5 million (31 July 2019: approximately HK$65.5 million). The current ratio as at 31 January 2020 was approximately 1.7 (31 July 2019: approximately 2.2).

Gearing Ratio

The gearing ratio of the Group as at 31 January 2020 was 26.8% (31 July 2019: Nil). The increase in gearing ratio was attributed to the loan from a shareholder amounted to approximately HK$24.3 million as at 31 January 2020 (31 July 2019: Nil).

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

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 31 January 2020, the Group did not have any charges on its assets (31 July 2019: 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 six months ended 31 January 2020. Nevertheless, the management will continue to monitor the Group's foreign exchange exposure and will take prudent measures as and when appropriate.

Capital Structure

The shares of the Company have been listed on the Stock Exchange since 5 December 2014. There has been no change in capital structure of the Company since 5 December 2014. The capital of the Company comprises ordinary shares and capital reserves.

As at 31 January 2020, the share capital and equity attributable to owners of the Company amounted to approximately HK$4.1 million and HK$91.5 million respectively (31 July 2019: approximately HK$4.1 million and HK$73.8 million respectively).

Capital Commitments

As at 31 January 2020, the Group did not have any capital commitments (31 July 2019: Nil).

Human Resources Management

As at 31 January 2020, the Group had 47 (31 July 2019: 44) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK$6.7 million for the Relevant Period as compared to approximately HK$4.9 million for the six months ended 31 January 2019. The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees with reference to market norms and individual employees' performance, qualification and experience. On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses.

The emoluments of the Directors were reviewed by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance, and were approved by the Board.

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, the Group did not conduct any material acquisition or disposals.

Contingent Liabilities

As at 31 January 2020, the Group did not have any material contingent liability (31 July 2019: 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, Mr. Lin Ye ("**Mr. Lin**") signed a letter of profit guarantee (the "**Profit Guarantee**") in favour of the Company pursuant to which Mr. Lin irrevocable warranted and guaranteed that (i) the audited consolidated earnings before interest, taxes, depreciation and amortisation (the "**EBITDA**") of the Group for the financial year ending 31 July 2020 would be not less than HK$13,800,000; and (ii) the audited consolidated EBITDA of the Group for the financial year ending 31 July 2021 would be not less than HK$13,800,000.

To secure and provide extra assurance for the Profit Guarantee, on 11 October 2019, the Company as borrower and Mr. Lin as the lender entered into a loan agreement (the "**Loan Agreement**") pursuant to which Mr. Lin agreed to grant a loan to the Company in the principal amount of HK$30,000,000 (the "**Loan**"). If Mr. Lin is obliged under the Profit Guarantee to compensate the Company for any shortfall, the Company is entitled to set off part of the principal amount of the Loan against the compensation (if any).

The Loan is (i) interest free and unsecured; (ii) repayable within five business days after the publication by the Company of the annual results announcement for the financial year ending 31 July 2021; (iii) solely for the purpose of financing the Company's potential acquisition of an office premises in Hong Kong and its related expenses; and (iv) to provide extra assurance for the Profit Guarantee.

As at 31 January 2020 and up to the date of this announcement, the Company did not acquire any office premises in Hong Kong as its principal place of business. Given the change in economic environment, in particular the social unrest in Hong Kong last year, the Group is able to identify an office premise with relatively low leasing fee, and after cost analysis, the Directors considered renting an office premise was better off than acquiring an office premises, and with effect from 9 January 2020, the Group has moved to a newly leased office at Unit 2918, 29/F., Shui On Centre, No. 6–8 Harbour Road, Wanchai, Hong Kong.

It is the Group's current intention that the Loan will be fully utilised for the development of the Group's sub-leasing business, in particular to pay for the initial cost for entering into future head lease , as well as the payment for monthly leasing fee in the event the newly leased property cannot be sub-leased within the relevant rent free period.

DISCLOSURE OF INTERESTS

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

As at 31 January 2020, 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 GEM Listing Rules, were as follows:

Long positions in the Shares

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

Note:

1. 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 Ye. As such, Mr. Lin Ye is deemed to be interested in 86,534,000 Shares held by Sonic Solutions Limited for the purposes of the SFO.

Save as disclosed above and so far as is known to the Directors, as at 31 January 2020, 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 31 January 2020, 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 (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.

Save as disclosed above, as at 31 January 2020, 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 announcement, 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 announcement, 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 of 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 announcement.

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 31 January 2020.

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 announcement and the audited 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.

On 29 July 2019, the GEM Listing Committee informed the Company that the GEM Listing Committee 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. 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 January 2020, 1 November 2019, 2 August 2019, 29 July 2019, 10 May 2019 and 3 May 2019 respectively.

EVENTS AFTER THE RELEVANT PERIOD

The outbreak of the epidemic caused by the new coronavirus in the PRC has affected macroeconomic condition of the PRC and thus the Group's operations of the sub-leasing business which were conducted in the PRC. Major cities in the PRC have taken emergency public health measures including travel restrictions to control the spread of the new coronavirus and certain local governments in the PRC required enterprises to delay the resumption of work from the Chinese Lunar New Year.

In response to the new coronavirus, the Group has implemented the following measures in order to minimise the impact to the Group's operations:

1. The Group has contacted majority of the sub-tenants under the sub-leasing business to understand the influence of the new coronavirus to their operations. The Group discussed and enquired delayed work schedule of the sub-tenants to assess whether special assistance is required from the Group. Based on the communication with the sub-tenants and customers, none of them has indicated any intention to terminate the leases or encountered material financial difficulty which may result in default of rental payments;

2. The Group has actively encouraged the sub-tenants to communicate by means of electronic communication (such as phone calls and instant messages) and it can further convey their request to landlords and other service providers, with a view to minimising physical contact. The Group has also regularly communicated with the sub-tenants and customers in respect of the requirements from the regulatory bodies and landlords to impose registration and sterilization when entering into the relevant properties. Given that most of the leasing matters could be handled and/or transferred to other relevant parties by online enquiry, it is believed that the Group is still able to provide on-going leasing assistance to its sub-tenants;

3. It is believed that the impact of the new coronavirus is distinct to different industries. The Group has reviewed the portfolio and background of sub-tenants, including their principal business, number of offices and geographic coverage, in order to assess their impact from the new coronavirus. Based on the analysis performed, major of the sub-tenants engages in industries which are relatively less affected by the new coronavirus and hence the operational risk of sub-tenants is not material. The Group has identified those sub-tenants which have been influenced by the new coronavirus to a greater extent, and will closely monitor their rental payment record and operational need and further communicate with them if necessary.

As at the date of this announcement, none of the Group's leased properties under the sub-leasing business were subject to any closure and quarantine requirements in the PRC. Also, as the Group entered into long-term lease agreements with the existing sub-tenants while early termination of lease is required to obtain the Group's prior approval, the Group is able to secure a stable income stream, thereby protecting from sudden loss of sub-tenants. In addition, the Group requests sub-tenants to provide security deposits equivalent to two or three months of rents and it has the rights to forfeit the security deposits in the event that sub-tenants have material delay or default in monthly rental payments.

Although the Group considers that the potential prolonged new coronavirus will affect its expansions and business operations in areas of property and new customer sourcing, the impact of which is not considered to be significant in view of the nature of the Group's sub-leasing business and measures as stated above, and the impact, if any, is non-recurring in nature. The Group will continue to assess the impact of the new coronavirus on business, result of operations and financial performance and closely monitor its exposure to the risks and uncertainties in connection with the new coronavirus.

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

Hong Kong, 13 March 2020

As at the date of this announcement, the executive Directors are Mr. Lin Ye, Mr. Au Siu Chung, Mr. Long Jie, Mr. Yuan Shuang Shun 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.