



KPa-BM Holdings Limited 應力控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 2663

Interim Report 2019

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Corporate Information

BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Mr. Yip Pak Hung (*Chairman*)

Mr. Wai Yat Kin (*Chief Executive Officer*)

Independent Non-Executive Directors

Ms. Lai Pik Chi, Peggy

Mr. Lam Chi Wai, Peter

Dr. Yeung Kit Ming

AUDIT COMMITTEE

Ms. Lai Pik Chi, Peggy (*Chairman*)

Mr. Lam Chi Wai, Peter

Dr. Yeung Kit Ming

NOMINATION COMMITTEE

Dr. Yeung Kit Ming (*Chairman*)

Ms. Lai Pik Chi, Peggy

Mr. Lam Chi Wai, Peter

REMUNERATION COMMITTEE

Mr. Lam Chi Wai, Peter (*Chairman*)

Ms. Lai Pik Chi, Peggy

Dr. Yeung Kit Ming

COMPANY SECRETARY

Mr. Chan Sun Kwong

PRINCIPAL BANKERS

Hang Seng Bank Limited

9/F., 83 Des Voeux Road Central

Hong Kong

The Hong Kong and Shanghai Banking
Corporation Limited

Level 10, HSBC Main Building

1 Queen’s Road Central

Hong Kong

Citibank N.A.

21/F., Tower 1

The Gateway, Harbour City

Kowloon, Hong Kong

REGISTERED OFFICE

P. O. Box 1350

Clifton House, 75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27/F, The Octagon

6 Sha Tsui Road

Tsuen Wan, New Territories

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen’s Road East

Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Yip Pak Hung

Mr. Chan Sun Kwong

AUDITOR

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

COMPANY’S WEBSITE

www.kpa-bm.com.hk

STOCK CODE

2663

Management Discussion and Analysis



BACKGROUND, RECENT DEVELOPMENT AND OUTLOOK

KPa-BM Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in (i) provision of structural engineering works with a focus on design and build projects in Hong Kong; (ii) supply of building material products together with installation services of such products in Hong Kong; and (iii) trading of building material products predominately in Hong Kong.

The construction market has been growing steadily in the past few years due to the strong demands for residential office and commercial building and also the Hong Kong Government’s implementation of long-term policies on housing supply and infrastructural development. Despite of the US-China trade war and the protests in Hong Kong, which has remote impact on construction market, the Directors believe that the availability of private and public sector construction projects is expected to grow in the coming years, and with our experienced management team and reputation in the market, we can further strengthen our position as a well-established one-stop solution service provider which covers design, supply and installation of structural steel works, noise barriers and façade. The Group is confident in the industry outlooks and prospects of the construction market in Hong Kong for the upcoming years. Subsequent to 30 September 2019, the Group further secured several new contracts and the total value of outstanding contracts on hand is approximately HK\$700.1 million.

Looking ahead, the Group will continue to further expand our project teams by recruiting more designers and engineers for undertaking more sizeable projects as well as exploring new opportunities that are beneficial to the Group and our shareholders.

FINANCIAL REVIEW

Revenue

The Group’s revenue amounted to approximately HK\$391.2 million for the six months ended 30 September 2019 (the “Period”) as compared to that of approximately HK\$174.4 million for six months ended 30 September 2018 (the “Previous Period”), representing an increase of approximately HK\$216.8 million or 124%. Such increase was mainly attributable to favourable progress achieved during the Period on key projects.

Cost of Revenue and Gross Profit

The Group’s cost of revenue mainly comprised material and processing charges and subcontracting charges; the rise in cost of revenue was generally in line with the increase in revenue recognised for the Period. The Group implemented various control measures to monitor project progress, including periodic review of project budgets against actual performance. For the Previous Period, the Group had successfully negotiated with customers on compensation for certain variation works and thus further adjustments for higher profit margin have been made on a number of project budgets, resulting a relatively high overall gross profit margin at approximately 18.8%. The Group achieved a gross profit margin of approximately 11.9% for the Period, the decrease was considered to be reasonable as the scale of the two key projects of the Period were larger than Previous Period which bring a relatively low gross profit margin. The Group’s gross profit for the Period increased by approximately HK\$13.8 million mainly attributable to the increase in revenue.

Management Discussion and Analysis (Continued)

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of staff costs, rental expenses, and legal and other professional fees. Administrative and other operating expenses of the Group increased by approximately 18.9% from approximately HK\$16.9 million for the Previous Period to approximately HK\$20.1 million for the Period. The increase was attributable to overhead expenses of BuilMax(SZ) which was acquired during the Period.

Finance Costs

For the Period, the Group's finance costs were approximately HK\$0.8 million, representing an increase of approximately HK\$0.4 million or 100% as compared to approximately HK\$0.4 million for the Previous Period, which was mainly due to the interest expenses on lease liabilities arising from adoption of HKFRS16 during the Period.

Income Tax Expense

Income tax expense of the Group amounted to approximately HK\$4.3 million and HK\$2.4 million for the Period and the Previous Period, respectively. Such increase was mainly because of the increase in profit before income tax. However, the effective tax rate for the Period is 14.2% which is lower than Previous Period of 15.5% because the gain on disposal of property, plant and equipment of approximately HK\$4.1 million is non-taxable.

Profit for the Period

The Group's profit for the Period increased by approximately HK\$12.9 million, which was mainly attributable to (i) the increase in gross profit of approximately HK\$13.8 million; (ii) a gain on disposal of property, plant and equipment of approximately HK\$4.1 million; and (iii) offset by an increase of approximately HK\$3.2 million in administration and other operating expenses.

Liquidity, Financial Resources and Capital Structure

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Current assets	386,294	298,887
Current liabilities	220,126	138,621
Current ratio	1.8	2.2

Management Discussion and Analysis (Continued)

During the six months ended 30 September 2019, the Group financed its operations by its internal resources and bank facilities. As at 30 September 2019, the Group had net current assets of approximately HK\$166.2 million (31 March 2019: approximately HK\$160.3 million), including cash and bank balances of approximately HK\$47.5 million (31 March 2019: approximately HK\$82.5 million). The Group's current ratio as at 30 September 2019 was approximately 1.8 times (31 March 2019: approximately 2.2 times).

As at 30 September 2019, the Group had a total available banking and other facilities of approximately HK\$121.3 million.

Please refer to note 13 to the financial statements for more detailed information, including maturity profile, on the Group's loans and borrowings.

There has been no change in capital structure of the Company since 31 March 2019. As at 30 September 2019, the equity amounted to approximately HK\$204.3 million (31 March 2019: approximately HK\$188.5 million).

Gearing Ratio

The gearing ratio is calculated as total debt to equity. Total debts include bank borrowings and obligation under finance leases. Equity represents total equity of the Group.

The gearing and net gearing ratio of the Group as at 30 September 2019 was both nil (31 March 2019: approximately 13.6% and nil), because the Group's bank borrowings were fully repaid during the Period with the cash reserves from operation.

FOREIGN CURRENCY EXPOSURE AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, United States Dollars, Pound Sterling, Euro and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group and will closely monitor its foreign exchange position. During the Period, the Group did not engage in any hedging activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 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.

Management Discussion and Analysis (Continued)

PLEDGE OF ASSETS

As at 30 September 2019, the Group did not have any bank borrowings (as at 31 March 2019: approximately HK\$25.4 million) and banking facilities are unsecured as at 30 September 2019 (31 March 2019: bank deposits of approximately HK\$10 million);

As at 30 September 2019, the Group had pledged deposits of HK\$3,044,000 (31 March 2019: approximately HK\$3,044,000).

SIGNIFICANT INVESTMENTS

Other than the investment in its subsidiaries, the Group did not hold any significant investments during the Period.

MATERIAL ACQUISITIONS AND DISPOSALS

The acquisition of subsidiaries during the Period was disclosed in note 15. The Group did not dispose any subsidiaries during the Period.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Board did not recommend a payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2019, the Group had 201 staff members (31 March 2019: 93), the significant increase was mainly due to the acquisition of subsidiaries as disclosed in note 15. The total employee benefit expenses for the six months ended 30 September 2019 (including Directors' emoluments, salaries to staff and other staff benefits included provident fund contributions, medical insurance coverage and other staff benefits) was approximately HK\$18.7 million. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee.

During the six months ended 30 September 2019, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

Management Discussion and Analysis (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2019, the interests or short positions of the Directors and chief executive in the share of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long Positions In Shares of the Company

(a) Interest in the shares of the Company

Director	Capacity/Nature of interest	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Mr. Wai Yat Kin	Corporate interest	369,000,000	61.5%
	Beneficial owner	31,500,000	5.25%
	Interests held jointly	31,500,000	5.25%
Mr. Yip Pak Hung	Corporate interest	369,000,000	61.5%
	Beneficial owner	31,500,000	5.25%
	Interests held jointly	31,500,000	5.25%

(b) Interest in the shares of an associated corporation

**Name of associated corporation:
Success Wing Investments Limited**

Director	Capacity/Nature of interest	Number of shares	Percentage of Shareholding
Mr. Wai Yat Kin	Beneficial owner	11,182	30.30%
	Interests held jointly	21,789	59.05%
Mr. Yip Pak Hung	Beneficial owner	11,182	30.30%
	Interests held jointly	21,789	59.05%

Management Discussion and Analysis (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of a Director, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Ordinary shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Success Wing Investments Limited	Beneficial owner	369,000,000	61.5%
Ms. Lam Suk Lan Bonnie	Interest of spouse	432,000,000	72.0%
Ms. Wu Janet	Interest of spouse	432,000,000	72.0%
Mr. Lui Bun Yuen Danny	Corporate interest	369,000,000	61.5%
	Interests held jointly	63,000,000	10.5%

Save as disclosed above, as at 30 September 2019, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or otherwise notified to the Company.

SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 22 September 2015 (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 30 September 2019, no share option was outstanding under the Share Option Scheme. During the Period, no share option has been granted by the Company under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standard of Dealings").

Management Discussion and Analysis (Continued)

Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the Period and to the date of this report.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for the related party transactions disclosed in note 19 to the interim financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, or holding company was a party and in which a Director or controlling Shareholder, or an entity connected with a Director or controlling Shareholder, had a material interests, whether directly or indirectly, subsisted during or at the end of the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance practices. It met all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules during the Period. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors. In accordance to the requirements of the Listing Rules, the Company has established an audit committee, a remuneration committee and a nomination committee with specific written terms of reference.

COMPETING INTEREST

None of the Directors, substantial shareholders of the Company and their respective associates had engaged in a business which competes or is likely to compete with the business of the Group during the Period.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive Directors and is chaired by Ms. Lai Pik Chi Peggy, who has appropriate professional qualifications and experience as required under Rule 3.10(2) of the Listing Rules. The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the Period, and was of the opinion that such information complied with the applicable accounting standards and requirements, and that adequate disclosures have been made.

By order of the Board
KPa-BM Holdings Limited
Yip Pak Hung
Chairman and Executive Director

Hong Kong, 26 November 2019

As at the date of this report, the executive Directors are Mr. Yip Pak Hung (chairman of the Board) and Mr. Wai Yat Kin and the independent non-executive Directors are Ms. Lai Pik Chi Peggy, Mr. Lam Chi Wai, Peter and Dr. Yeung Kit Ming.

Unaudited Condensed Consolidated Interim Financial Information

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2019

	Notes	Six months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	3	391,215	174,367
Cost of revenue		(344,676)	(141,624)
Gross profit		46,539	32,743
Gain on disposal of property, plant and equipment		4,106	–
Other income and gains		1,092	533
Marketing and distribution expenses		(401)	(339)
Administrative and other operating expenses		(20,092)	(16,927)
Finance costs		(842)	(360)
Profit before income tax	4	30,402	15,650
Income tax expense	5	(4,307)	(2,433)
Profit for the period		26,095	13,217
Other comprehensive income for the period		–	–
Total comprehensive income for the period		26,095	13,217
		HK cents	HK cents
Earnings per share	7		
Basic and diluted earnings per share		4.35	2.20

Condensed Consolidated Statement of Financial Position

As at 30 September 2019

	<i>Notes</i>	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	7,531	7,470
Investment properties	8	27,078	21,500
Right-of-use assets		12,243	–
Deferred tax assets		117	117
Goodwill	15	601	–
		47,570	29,087
Current assets			
Inventories		7,527	3,281
Contract assets	9	18,753	68,164
Trade and other receivables, deposits and prepayments	10	307,658	130,129
Tax recoverable		1,796	1,713
Pledged deposits	11	3,044	3,044
Pledged bank deposits		–	10,014
Cash and bank balances		47,516	82,542
		386,294	298,887
Current liabilities			
Contract liabilities	9	82,194	22,333
Trade and other payables	12	128,735	89,660
Lease liabilities		3,854	–
Tax payable		5,343	1,085
Bank borrowings	13	–	25,386
Obligation under finance leases		–	157
		220,126	138,621
Net current assets		166,168	160,266
Total assets less current liabilities		213,738	189,353

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 September 2019

	<i>Notes</i>	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Non-current liabilities			
Obligation under finance leases		–	107
Deferred tax liabilities		1,115	717
Lease liabilities		8,304	–
		9,419	824
Net assets		204,319	188,529
CAPITAL AND RESERVES			
Share capital	14	6,000	6,000
Reserves		198,319	182,529
Total equity		204,319	188,529

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2019

	Share capital HK\$'000	Share premium* HK\$'000	Merger reserve* HK\$'000	Asset revaluation reserve* HK\$'000	Exchange reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
Six months ended 30 September 2018							
(unaudited)							
At 1 April 2018	6,000	33,942	7,437	15,646	(18)	108,534	171,541
Profit for the period	-	-	-	-	-	13,217	13,217
Other comprehensive income for the period	-	-	-	-	(82)	-	(82)
Total comprehensive income for the period	-	-	-	-	(82)	13,217	13,135
Transactions with owners:							
Final dividend in respect of 2018 (note 6)	-	-	-	-	-	(9,600)	(9,600)
At 30 September 2018 (unaudited)	6,000	33,942	7,437	15,646	(100)	112,151	175,076
Six months ended 30 September 2019							
(unaudited)							
At 1 April 2019	6,000	33,942	7,437	15,646	(74)	125,578	188,529
Profit for the period	-	-	-	-	-	26,095	26,095
Other comprehensive income for the period	-	-	-	-	(92)	-	(92)
Total comprehensive income for the period	-	-	-	-	(92)	26,095	26,003
Acquisition of interests in subsidiaries	-	-	-	-	(613)	-	(613)
Transactions with owners:							
Final dividend in respect of 2019 (note 6)	-	-	-	-	-	(9,600)	(9,600)
At 30 September 2019 (unaudited)	6,000	33,942	7,437	15,646	(779)	142,073	204,319

* The total of these equity accounts as at 30 September 2018 and 2019 represent "Reserves" in the condensed consolidated statements of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	(648)	16,995
Cash flows from investing activities		
Purchase of property, plant and equipment (<i>note 8</i>)	(874)	(143)
Proceeds from disposal of property, plant and equipment (<i>note 8</i>)	5,597	–
Decrease in pledged bank deposits	10,014	8,143
Cash outflow on Acquisition of subsidiaries (<i>note 15</i>)	(11,950)	–
Interest received	147	67
<i>Net cash generated from investing activities</i>	2,934	8,067
Cash flows from financing activities		
Dividend paid (<i>note 6</i>)	(9,600)	–
Interest paid	(610)	–
Proceed from bank borrowings	20,000	–
Repayment of bank borrowings	(45,386)	(12,626)
Repayment of lease liabilities	(2,263)	(80)
Capital element of finance lease payments	–	(80)
<i>Net cash used in financing activities</i>	(37,859)	(12,706)
Net (decrease)/increase in cash and cash equivalents	(35,573)	12,356
Cash and cash equivalents at the beginning of period	82,542	41,401
Effect of exchange rate changes on cash and cash equivalents	547	(53)
Cash and cash equivalents at the end of period	47,516	53,704
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	47,516	53,704

Notes to the Condensed Financial Statements

1. CORPORATE INFORMATION

KPa-BM Holdings Limited (the “Company”) was incorporated as an exempted company in the Cayman Islands with limited liability on 15 May 2015. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 27/F., The Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in (i) provision of structural engineering works; (ii) supply and installation of building material products; and (iii) trading of building material products.

The Company's parent is Success Wing Investments Limited (“Success Wing”), a company incorporated in the British Virgin Islands (“BVI”). In the opinion of the directors, Success Wing is also the ultimate parent of the Company.

The condensed consolidated financial statements of the Group for the six months ended 30 September 2019 (the “interim financial statements”) are unaudited, but have been reviewed by the audit committee of the Company. These interim financial statements were approved for issue by the Company's board of directors on 26 November 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial statements do not include all the information and disclosures required in the annual financial statements and thereby should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2019 (“2019 Financial Statements”) which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The interim financial statements have been prepared under the historical cost basis except for investment properties which are measured at fair value. The interim financial statements are presented in Hong Kong dollars (“HK\$”), which is same as the functional currency of the Company and its major subsidiaries.

The accounting policies applied and methods of computation used in the preparation of the interim financial statements are consistent with those used in 2019 Financial Statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of the new or revised HKFRSs issued by the HKICPA as set out in note 2.1.

Notes to the Condensed Financial Statements (Continued)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs

2.1 Adoption of new or revised HKFRSs effective on 1 April 2019

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period and relevant to the Group:

HKFRS 16	Leases
Amendments to HKAS 19	Employee Benefits
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs

The following explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s financial statements and the new accounting policies that have been applied from 1 April 2019, where they are different to those applied in prior periods. Certain of the Group’s accounting policies have been changed to comply with the adoption of HKFRS 16.

HKFRS 16 Leases

(i) *Impact of adoption of HKFRS 16*

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

The Group applied the standard from its mandatory adoption date of 1 April 2019. The Group applied the simplified transition approach with the cumulative effect of initial application recognised on 1 April 2019 and did not restate comparative amounts for the year prior to first adoption. The lease liabilities of leases previously classified as operating leases were recognised on the date of initial application at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application. The weighted average Group’s incremental borrowing rate applied is 4.15%. The right-of-use assets were measured on the date of initial application at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position immediately before the date of initial application.

The Group reviewed all of the Group’s leasing arrangements during the year ended 31 March 2019 in light of the new lease accounting rules in HKFRS 16. The standard affected primarily the accounting for the Group’s operating leases.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of approximately HK\$12,704,000. The Group recognised right-of-use assets of approximately HK\$12,011,000 and the corresponding lease liabilities of approximately HK\$11,996,000 (after adjustments for prepayment and accrued lease payment recognised as at 31 March 2019) on 1 April 2019 in respect of these leases.

On initial application of HKFRS 16, net current assets decreased by approximately HK\$4,201,000 due to the presentation of the lease liabilities as current liabilities.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs effective on 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(i) Impact of adoption of HKFRS 16 (Continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 March 2019 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 April 2019:

Reconciliation of operating lease commitment to lease liabilities

	HK\$'000
Operating lease commitment as at 31 March 2019	12,704
Less: future interest expenses	(708)
<hr/>	
Total lease liabilities as at 1 April 2019	<hr/> 11,996
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 April 2019	4.15%

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate 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, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs effective on 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are amortised over the lease term on a straight-line basis.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be amortised over the lease term on a straight-line basis. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs effective on 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(iii) Accounting as a lessee (Continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these condensed consolidated interim financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the simplified transition approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance at the date of initial application (1 April 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 April 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019.

Notes to the Condensed Financial Statements (Continued)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs effective on 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(v) Transition (Continued)

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the date of initial application, and measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 April 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)- Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

Accounting estimates and assumptions are used in the preparation of financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. In preparing the interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2018 Financial Statements.

3. SEGMENT INFORMATION AND REVENUE

- (a) The following summary describes the operations in each of the Group's reportable operating segments:

Structural Engineering Works – This segment mainly engages in the provision of structural engineering works for public and private sectors in Hong Kong and the Group mainly acts as a subcontractor.

Supply and Installation of Building Material Products – This segment engages in supply of building material products together with installation services of such products in Hong Kong. In some circumstances, the Group designs and supplies building material products without providing installation works.

Trading of Building Material Products – This segment engages in sales of building material products in Hong Kong, the People's Republic of China ("PRC") (other than Hong Kong) and overseas.

Notes to the Condensed Financial Statements (Continued)

3. SEGMENT INFORMATION AND REVENUE (Continued)

- (a) The following summary describes the operations in each of the Group's reportable operating segments:
(Continued)

Information regarding the Group's reporting segments including the reportable segment revenue, segment profit, reconciliation to revenue and profit before income tax are as follows:

Six months ended 30 September 2019 (unaudited)	Structural Engineering Works HK\$'000	Supply and Installation of Building Material Products HK\$'000	Trading of Building Material Products HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	378,797	8,658	3,760	391,215
Intersegment sales	–	–	22,332	22,332
	<u>378,797</u>	<u>8,658</u>	<u>26,092</u>	<u>413,547</u>
Elimination of intersegment sales				<u>(22,332)</u>
				<u>391,215</u>
Segment profit	<u>25,816</u>	<u>1,305</u>	<u>1,287</u>	<u>28,408</u>
Corporate and unallocated income				4,170
Corporate and unallocated expenses				
– Marketing and distribution expenses				–
– Administrative and other operating expenses				(2,135)
– Finance costs				(41)
Profit before income tax				<u>30,402</u>

Notes to the Condensed Financial Statements (Continued)

3. SEGMENT INFORMATION AND REVENUE (Continued)

(a) The following summary describes the operations in each of the Group's segments: (Continued)

Six months ended 30 September 2018 (unaudited)	Structural Engineering Works HK\$'000	Supply and Installation of Building Material Products HK\$'000	Trading of Building Material Products HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	162,125	8,625	3,617	174,367
Intersegment sales	–	–	263	263
	162,125	8,625	3,880	174,630
Elimination of intersegment sales				(263)
				174,376
Segment profit				
	26,662	4,850	1,408	32,920
Corporate and unallocated income				533
Corporate and unallocated expenses				
– Marketing and distribution expenses				(339)
– Administrative and other operating expenses				(17,104)
– Finance costs				(360)
Profit before income tax				15,650

During the period, the segment asset had not been presented as there has not been a material change from the 2019 Financial Statements for the reportable segment.

Notes to the Condensed Financial Statements (Continued)

3. SEGMENT INFORMATION AND REVENUE (Continued)

- (b) In the following table, revenue from contracts with customers is disaggregated by major products and service lines and timing of revenue recognition provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period.

Disaggregation of revenue

Six months ended 30 September (unaudited)

	Structural Engineering Works		Supply and Installation of Building Material Products		Trading of Building Material Products		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Timing of revenue recognition								
Point in time	–	–	–	–	3,760	3,617	3,760	3,617
Over time	378,797	162,125	8,658	8,625	–	–	387,455	170,750
	378,797	162,125	8,658	8,625	3,760	3,617	391,215	174,367

Notes to the Condensed Financial Statements (Continued)

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging the following:

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation in respect of:		
— Owned assets	1,145	776
— Right-of-use assets	2,351	80
	3,496	856
Employee benefit expenses (including directors' emoluments)		
— Salaries, allowances and benefits in kind	17,671	16,123
— Contribution to defined contribution retirement plan	1,031	517
	18,702	16,640

5. INCOME TAX EXPENSE

The amounts of income tax expense in the unaudited condensed consolidated statement of comprehensive income represents:

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax for the period		
— Hong Kong Profits Tax	4,307	2,433
— Other regions of the PRC — Enterprise Income Tax ("EIT")	—	—
Total income tax expense	4,307	2,433

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the period.

Notes to the Condensed Financial Statements (Continued)

5. INCOME TAX EXPENSE (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces 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 qualifying entities will be taxed at 8.25% whereas profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 April 2018.

EIT arising from other regions of the PRC is calculated at 25% (Six months ended 30 September 2017: 25%) on the estimated assessable profits for the period.

6. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2019 (30 September 2018: nil).

The final dividend in respect of the year ended 31 March 2019 amounting to HK\$9,600,000 was paid in September 2019 thus no dividend payable was recorded as at 30 September 2019.

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the following data:

	Six months ended 30 September 2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	26,095	13,217
	Number of shares (thousands)	
Weighted average number of ordinary share in issue		
Weighted average number of ordinary shares in issue during the period	600,000	600,000

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the current period and prior period.

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 September 2019, the Group used approximately HK\$nil, HK\$547,000, HK\$326,000 and HK\$1,000 on acquisition of furniture & fixtures, computer equipment, motor vehicles and office equipment respectively (six months ended 30 September 2018: approximately HK\$44,000, HK\$48,000, nil and HK\$51,000 respectively).

The acquisition of subsidiaries as disclosed in note 15, has also contributed an addition of property, plant and equipment with carrying amount of HK\$1,986,000 as at 30 Sep 2019.

During the six months ended 30 September 2019, the Group recognised right-of-use assets of approximately HK\$9,497,000 in relation to the application of HKFRS 16.

The Group has disposed one of its leasehold land and buildings which included in property, plant and equipment with net carrying amount of approximately HK\$1,491,000 during the period (six months ended 30 September 2018: nil). A gain on disposal of fixed assets of approximately HK\$4,106,000 was recorded for the period.

As at 30 September 2019, the Group has not pledged its leasehold land and buildings to secure the bank borrowings and banking facilities granted to the Group (note 13) (31 March 2019: nil).

The acquisition of subsidiaries as disclosed in note 15, has also contributed an addition of investment properties with carrying amount of HK\$5,578,000 as at 30 Sep 2019.

The investment properties were carried at fair value. The fair value of the investment properties as at 30 September 2019 was approximately HK\$27,078,000 which solely because of acquisition of subsidiaries mentioned in the above (31 March 2019: approximately HK\$21,500,000), which was determined by the Directors by reference to recent market prices for properties in the similar locations and conditions. The fair value of investment properties as at 30 September 2019 and 31 March 2019 is a level 2 recurring fair value measurement. No fair value gain or loss arose from remeasurement of the investment properties as at 30 September 2019 (six months ended 30 September 2018: nil). None of the investment properties were pledged to banks to secure for the bank borrowings and banking facilities granted to the Group (note 13).

Notes to the Condensed Financial Statements (Continued)

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract Assets

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Contract assets arising from:		
— Structural engineering works	19,790	69,342
— Supply and installation of building material products	380	239
	20,170	69,581
Less: Loss allowance	(1,417)	(1,417)
	18,753	68,164

(b) Contract Liabilities

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Contract liabilities arising from:		
— Structural engineering works	78,956	21,563
— Supply and installation of building material products	2,569	770
	81,525	22,333

Notes to the Condensed Financial Statements (Continued)

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Trade receivables (<i>note (a)</i>)	233,312	73,209
Less: Loss allowance	(528)	(528)
Trade receivables, net	232,784	72,681
Retention receivables	70,254	52,493
Less: Loss allowance	(734)	(734)
Retention receivables, net (<i>note (b)</i>)	69,520	51,759
Other receivables	986	206
Deposits	1,856	1,828
Prepayments	2,512	3,655
	5,354	5,689
	307,658	130,129

Notes:

- (a) The ageing analysis of the gross carrying amount of trade receivables, based on invoice date, as of the end of the reporting period is as follow:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
0–30 days	171,208	57,292
31–60 days	41,042	11,441
61–90 days	2,644	1,664
Over 90 days	18,418	2,812
	233,312	73,209

Notes to the Condensed Financial Statements (Continued)

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

(b) Retention receivables

The retention receivables as of the end of the reporting period are to be settled, based on the terms and conditions in relation to the release of the retention monies by customers and taking into account the status of rectification work, as follows:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
On demand or within one year	21,059	17,512
After one year or more	48,461	34,247
	69,520	51,759

Based on the assessment of the directors, no impairment allowance is necessary for the net retention receivables outstanding at the end of the of the reporting periods as those balances are from customers with long business relationship and there has not been a significant change in their credit quality.

(c) Credit policy

In respect of structural engineering and supply and installation of building material products, the Group usually submits a payment application for interim payment on a monthly basis. The customer usually issues an interim payment certificate within one month from application submission and payment will be settled within another one month. For trading of building material products, the Group usually requires customers to pay a deposit in a mutually agreed% of the order amount and grants a credit period of 30 days upon delivery of products to customers.

11. PLEDGED DEPOSITS

As at 30 September 2019, the Group had pledged deposits of HK\$3,044,000 (31 March 2019: HK\$3,044,000), which represented deposits placed by the Group with an insurance company as collaterals for the surety bonds issued in favour of the customers of certain construction contracts. The surety bonds are required for the entire period of the relevant construction contracts. The aggregate bond values of the surety bonds arranged by the insurance companies as at 30 September 2019 were HK\$10,147,000 (31 March 2019: HK\$10,147,000). The surety bonds are required for the entire period of the relevant construction contracts in practice. Pledged deposits as at 30 September 2019 are expected to be released in year 2020.

Notes to the Condensed Financial Statements (Continued)

12. TRADE AND OTHER PAYABLES

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Trade and bill payables	92,127	57,547
Retention payables (<i>note (b)</i>)	31,195	21,551
Receipts in advance	990	–
Other payables, accruals and deposits	4,423	10,562
	128,735	89,660

Notes:

- (a) The ageing analysis of trade payables, based on invoice date, as of the end of the reporting period is as follows:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
0–30 days	59,883	38,662
31–60 days	28,743	15,445
61–90 days	286	79
Over 90 days	3,215	3,361
	92,127	57,547

- (b) Based on the terms and conditions agreed in relation to the release of retention monies to subcontractors and taking into account the status of rectification work, the retention payables as at the end of the reporting period are to be settled as follows:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
On demand or within one year	9,834	6,384
After one year or more	21,361	15,167
	31,195	21,551

Notes to the Condensed Financial Statements (Continued)

13. BANK BORROWINGS

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Current liabilities		
Secured and interest-bearing bank borrowings		
Bank loans subject to repayment on demand clause (<i>note (a)</i>)		
— Bank loans due for repayment within one year	—	25,386
— Bank loans due for repayment after one year (<i>note (b)</i>)	—	—
	—	25,386

Notes:

- (a) Bank borrowings, including trade financing, are interest bearing at the banks' prime rates or cost of funds or Hong Kong Inter-Bank Offered Rate adjusted by certain basis points per annum. The interest rates of the Group's bank borrowings as at 30 September 2019 granted under banking facilities ranged from 3.57% to 5.55% (31 March 2019: 3.62% to 5.88%) per annum.
- (b) As 30 September 2019, the Group's bank borrowings and banking facilities were unsecured (31 March 2019: bank deposits of HK\$10,014,000).

Notes to the Condensed Financial Statements (Continued)

14. SHARE CAPITAL

Ordinary shares	Par value HK\$	Number of shares	Amount HK\$'000
Authorised:			
At 30 September 2019 and 31 March 2019	0.01	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:			
At 30 September 2019 and 31 March 2019	0.01	<u>600,000,000</u>	<u>6,000</u>

15. ACQUISITION OF SUBSIDIARIES

On 9 March 2019, BuildMax Holdings Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Company and Mr. Lui, Mr. Wai, Mr. Yip, Mr. Liu and Mr. Chan, the directors and key management of the Group (collectively the "Vendors") entered into a sale and purchase agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors conditionally agreed to sell (i) the entire issued share capital of Hillford Trading Limited ("Hillford"); and (ii) all outstanding debts of Hillford and its wholly owned subsidiary, BuildMax Technology (Shenzhen) Limited ("BuildMax (SZ)") (collectively, "the Hillford Group") as at the date of completion owed to the Vendors for the total consideration of approximately HK\$12.2 million (the "Acquisition").

The Acquisition was completed on 29 April 2019 and Hillford and BuildMax (SZ) then become indirect wholly-owned subsidiaries of the Company.

Hillford is principally engaged in investment holding. BuildMax (SZ) is principally engaged in processing, fabrication and manufacturing of building material products in the PRC, and sales and supply of building material products predominantly to the Group and to customers in the PRC.

The Acquisition is accounted for using the acquisition method of accounting.

Notes to the Condensed Financial Statements (Continued)

15. ACQUISITION OF SUBSIDIARIES (Continued)

Details of net assets acquired and goodwill arising on the Acquisition were as follows:

	Hillford Group's fair value at acquisition date 29 April 2019 (Unaudited) HK\$'000
Net assets acquired:	
Property, plant and equipment	1,938
Investment Property	5,941
Right-of-use assets	3,167
Inventories	2,774
Trade and other receivables, deposits and prepayments	3,179
Cash and bank balances	924
Trade and other payables and accruals	(2,737)
Deferred tax liabilities	(398)
Shareholder's loan	(9,250)
Lease liabilities	(3,167)
	2,371
Goodwill arising on Acquisition:	
Purchase consideration settled by cash	12,222
Less: Acquisition of shareholder's loan	(9,250)
Consideration for equity interest	2,972
Less: Net assets acquired	(2,371)
	601
Cash (outflow)/inflow arising on Acquisition:	
Purchase consideration settled by cash	(12,222)
Cash and bank balances acquired	924
	(11,298)
Cash outflow on Acquisition included in cash flows from investing activities	(11,298)
Transaction costs of the Acquisition included in cash flows from operating activities	(652)
	(11,950)

Notes to the Condensed Financial Statements (Continued)

16. OPERATING LEASE COMMITMENTS

Operating leases — The Group as lessee

The Group leases office premises, car parks, warehouses and office equipment under operating lease arrangement. The leases run for an initial period of one to five year (31 March 2019: one to five years) and are non-cancellable. Leases with lease terms over one year have been recorded as lease liabilities at 30 September 2019 under application of HKFRS 16, therefore, no operating lease commitments as at the end of the Period. The operating lease commitment at 31 March 2019 presented below represents the future aggregate minimum lease payments under all non-cancellable operating leases.

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Within one year	—	4,539
Later than one year and not more than five years	—	8,165
	—	12,704

Operating leases — The Group as lessor

The Group leases its investment properties to a third party tenant. The leases run for an initial period of three years (31 March 2019: three years). The Group had the following future minimum lease payments receivables:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Within one year	346	723
Later than one year and not more than five years	—	—
	346	723

Notes to the Condensed Financial Statements (Continued)

17. GUARANTEE

The Group provided guarantee in respect of the surety bonds issued in favour of the customers of Group's certain construction contracts. The Group has unconditionally and irrecoverably agreed to indemnify the insurance company and the bank as issuers of the bonds for claims and losses they may incur in respect of the bonds. Details of these guarantees as at the end of the reporting period are as follows:

	As at 30 September 2019 (Unaudited) HK\$'000	As at 31 March 2019 (Audited) HK\$'000
Aggregate value of the surety bonds issued in favour of customers	11,232	11,232

As assessed by the directors, it is not probable that the insurance company and the bank would claim the Group for losses in respect of the guarantee contracts as it is unlikely that the Group is unable to fulfill the performance requirements of the relevant contracts. Accordingly, no provision for the Group's obligations under the guarantees has been made.

18. LITIGATIONS

A number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as of the end of the reporting period. Claim amounts are not specified in some of the applications of these lawsuits and claims. In the opinion of the directors, sufficient insurance coverage are maintained to cover the losses, if any, arising from most of these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

Notes to the Condensed Financial Statements (Continued)

19. RELATED PARTY TRANSACTIONS

- (a) During the six months period ended 30 September 2019 and 2018, the Group entered into the following transactions with related parties:

Name	Related party relationship	Type of transaction	Transaction amount	
			Six months ended 30 September 2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
BuildMax Technology (Shenzhen) Limited ("BuildMax (SZ)") (note (i))	Directors and key management have equity interest	Purchase of building material products and processing charges paid/payable	1,050	8,381

Note:

- (i) Precedent to the Acquisition, Mr. Lui, Mr. Wai, Mr. Yip, Mr. Liu Yuen Wai ("Mr. Liu") and Mr. Chan Chi Ming ("Mr. Chan") had equity interest in BuildMax (SZ). Mr. Wai and Mr. Yip are directors and substantial shareholders and Mr. Lui is a substantial shareholder and key management of the Company while Mr. Liu and Mr. Chan are key management of the Group having indirect equity interests in the Company.

The transactions were conducted on the basis of mutually agreed terms.

The Acquisition was completed on 29 April 2019 and BuildMax (SZ) then become indirect wholly-owned subsidiaries of the Company, thus, the transaction between BuildMax (SZ) and the Group was no longer related party transactions to the Group.

- (b) The remuneration of directors and other members of key management during the periods was as follows:

	Six months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Salaries, allowances and benefits	3,360	3,728
Contributions to defined contribution retirement plan	27	27
	3,387	3,755