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KPa-BM Holdings Limited

應力控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2663)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017**

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2017

	<i>Notes</i>	Six months ended 30 September 2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	3	161,976	192,547
Cost of revenue		<u>(128,937)</u>	<u>(160,785)</u>
Gross profit		33,039	31,762
Other income and gains		607	201
Marketing and distribution expenses		(243)	(414)
Administrative and other operating expenses		(16,488)	(11,860)
Finance costs		<u>(543)</u>	<u>(684)</u>
Profit before income tax	4	16,372	19,005
Income tax expense	5	<u>(2,765)</u>	<u>(3,172)</u>
Profit for the period		13,607	15,833
Other comprehensive income for the period		<u>63</u>	<u>(61)</u>
Total comprehensive income for the period		<u>13,670</u>	<u>15,772</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
Basic and diluted earnings per share		<u>2.27</u>	<u>2.64</u>

Condensed Consolidated Statement of Financial Position

As at 30 September 2017

	<i>Notes</i>	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	6,555	7,259
Investment properties		21,100	21,100
Pledged deposits	11	3,700	3,700
Deferred tax assets		<u>69</u>	<u>69</u>
		<u>31,424</u>	<u>32,128</u>
Current assets			
Inventories		2,929	2,606
Amounts due from customers of contract works	9	71,881	58,748
Trade and other receivables, deposits and prepayments	10	112,494	101,404
Tax recoverable		4	934
Pledged bank deposits		16,211	16,209
Cash and bank balances		<u>33,475</u>	<u>36,679</u>
		<u>236,994</u>	<u>216,580</u>
Current liabilities			
Amounts due to customers of contract works	9	4,055	4,096
Trade and other payables	12	62,680	67,891
Tax payable		2,123	579
Bank borrowings	13	39,279	19,857
Obligation under finance leases		<u>150</u>	<u>149</u>
		<u>108,287</u>	<u>92,572</u>
Net current assets		<u>128,707</u>	<u>124,008</u>
Total assets less current liabilities		<u>160,131</u>	<u>156,136</u>
Non-current liabilities			
Obligation under finance leases		341	416
Deferred tax liabilities		<u>915</u>	<u>915</u>
		<u>1,256</u>	<u>1,331</u>
Net assets		<u><u>158,875</u></u>	<u><u>154,805</u></u>

	<i>Notes</i>	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	<i>14</i>	6,000	6,000
Reserves		<u>152,875</u>	<u>148,805</u>
Total equity		<u><u>158,875</u></u>	<u><u>154,805</u></u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2017

	Equity attributable to owners of the Company						Total HK\$'000
	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	
Six months ended 30 September 2016							
(unaudited)							
At 1 April 2016	6,000	33,942	7,437	—	(28)	69,950	117,301
Profit for the period	—	—	—	—	—	15,833	15,833
Other comprehensive income for the period	—	—	—	—	(61)	—	(61)
Total comprehensive income for the period	—	—	—	—	(61)	15,833	15,772
Transactions with owners: Dividends declared (<i>note 6</i>)	—	—	—	—	—	(9,000)	(9,000)
At 30 September 2016 (unaudited)	<u>6,000</u>	<u>33,942</u>	<u>7,437</u>	<u>—</u>	<u>(89)</u>	<u>76,783</u>	<u>124,073</u>
Six months ended 30 September 2017							
(unaudited)							
At 1 April 2017	6,000	33,942	7,437	15,646	(134)	91,914	154,805
Profit for the period	—	—	—	—	—	13,607	13,607
Other comprehensive income for the period	—	—	—	—	63	—	63
Total comprehensive income for the period	—	—	—	—	63	13,607	13,670
Transactions with owners: Dividends declared (<i>note 6</i>)	—	—	—	—	—	(9,600)	(9,600)
At 30 September 2017 (unaudited)	<u>6,000</u>	<u>33,942</u>	<u>7,437</u>	<u>15,646</u>	<u>(71)</u>	<u>95,921</u>	<u>158,875</u>

* The total of these equity accounts as at 30 September 2016 and 2017 represent "Reserves" in the condensed consolidated statements of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2017

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(12,822)	3,243
Net cash used in investing activities	(115)	(3,790)
Net cash from/(used in) financing activities	<u>10,466</u>	<u>(18,993)</u>
Net decrease in cash and cash equivalents	(2,471)	(19,540)
Cash and cash equivalents at the beginning of period	35,961	32,439
Effect of exchange rate changes on cash and cash equivalents	<u>(15)</u>	<u>(6)</u>
Cash and cash equivalents at the end of period	<u><u>33,475</u></u>	<u><u>12,893</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balance as stated in consolidated statement of financial position	33,475	30,666
Less: Short-term time deposits with maturity period beyond three months but within one year	<u>—</u>	<u>(15,000)</u>
	33,475	15,666
Less: Bank overdrafts	<u>—</u>	<u>(2,773)</u>
	<u><u>33,475</u></u>	<u><u>12,893</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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 Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 October 2015 (the “Listing”). Subsequent to the end of the reporting period, the Company transferred the Listing of its shares to the Main Board of the Stock Exchange with effect from 24 October 2017. 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 1907–1915, 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) the provision of structural engineering works for the public and private sectors in Hong Kong; and (ii) trading of building material products predominately in Hong Kong.

The Company’s parent is Success Wing Investments Limited (“Success Wing”), a company incorporated in the British Virgin Islands. 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 2017 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 14 November 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim financial statements are 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. They have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value. These unaudited condensed consolidated 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 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 annual financial statements for the year ended 31 March 2017 (“2017 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 in accordance with the same accounting policies and methods of computation as adopted by the Group in the 2017 Financial Statements except for the adoption of new accounting policies as a result of applying the new or revised HKFRSs as set out below.

Adoption of new or revised HKFRSs

2.1 Adoption of new or revised HKFRSs effective on 1 April 2017

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses

The application of the above new or revised HKFRSs has no material effect on the Group’s results and financial position.

2.2 *New or revised HKFRSs that have been issued but are not yet effective*

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Lease ²

¹ *Effective for annual periods beginning on or after 1 January 2018*

² *Effective for annual periods beginning on or after 1 January 2019*

The directors of the Company are currently assessing the possible impact of these new or revised standards on the Group's results and financial position in the first year of application.

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 these 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 2017 Financial Statements.

3. **SEGMENT INFORMATION AND REVENUE**

The business of the Group had previously been managed under two separate business segments, namely structural engineering works and trading of building material products. Having reassessed the business and operational information that is periodically available to management, it is determined that the nature of certain of the Group's business previously classified under the structural engineering works segment is warranted to be and identifiable as a separate business segment. Such refinement in business segment reporting is beneficial for the management to monitor and assess the Group's performance and to formulate business strategies accordingly.

The following summary describes the operations in each of the Group's 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 the supply of building material products together with installation services of such products in Hong Kong.

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

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 2017 (unaudited)	Structural engineering works <i>HK\$'000</i>	Supply and installation of building material products* <i>HK\$'000</i>	Trading of building material products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Sales to external customers	<u>147,708</u>	<u>6,121</u>	<u>8,147</u>	<u>161,976</u>
Segment profit				
	<u>27,445</u>	<u>2,798</u>	<u>2,796</u>	33,039
Corporate and unallocated income				607
Corporate and unallocated expenses				
— Marketing and distribution expenses				(243)
— Administrative and other operating expenses				(16,488)
— Finance costs				<u>(543)</u>
Profit before income tax				<u>16,372</u>
Six months ended 30 September 2016 (unaudited)	Structural engineering works <i>HK\$'000</i>	Supply and installation of building material products* <i>HK\$'000</i>	Trading of building material products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Sales to external customers	<u>177,445</u>	<u>11,093</u>	<u>4,009</u>	<u>192,547</u>
Segment profit				
	<u>24,552</u>	<u>5,232</u>	<u>1,978</u>	31,762
Corporate and unallocated income				201
Corporate and unallocated expenses				
— Marketing and distribution expenses				(414)
— Administrative and other operating expenses				(11,860)
— Finance costs				<u>(684)</u>
Profit before income tax				<u>19,005</u>

* Previously classified under the "structural engineering works" segment in the 2017 Financial Statements and the unaudited consolidated financial statements for the six months ended 30 September 2016.

During the period, the segment asset had not been presented as there has not been a material change from the 2017 Financial Statements for the reportable segment.

4. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation in respect of:		
— Owned assets	768	411
— Leased assets	<u>80</u>	<u>80</u>
	<u>848</u>	<u>491</u>
Employee benefit expenses (including directors' emoluments)		
— Salaries, allowances and benefits in kind	16,059	15,307
— Contribution to defined contribution retirement plan	<u>507</u>	<u>575</u>
	<u>16,566</u>	<u>15,882</u>

5. INCOME TAX EXPENSE

The amounts of income tax expense in the unaudited consolidated statements of comprehensive income represent:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax for the period		
— Hong Kong Profits Tax	2,758	3,116
— Other regions of the PRC — Enterprise Income Tax (“EIT”)	<u>7</u>	<u>56</u>
Total income tax expenses	<u>2,765</u>	<u>3,172</u>

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the period.

EIT arising from other regions of the PRC is calculated at 25% (2016: 25%) on the estimated assessable profits for the period.

At 30 September 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Company's subsidiary established in the PRC. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future.

6. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2017 (30 September 2016: nil).

The final dividend in respect of the year ended 31 March 2017 amounting to HK\$9,600,000 was paid in September 2017 (2016: HK\$9,000,000).

7. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	<u><u>13,607</u></u>	<u><u>15,833</u></u>
	Number of shares (thousands)	
Weighted average number of ordinary share in issue		
Weighted average number of ordinary shares in issue during the period	<u><u>600,000</u></u>	<u><u>600,000</u></u>

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 2017, the Group used approximately HK\$14,000, HK\$99,000 and nil on acquisition of office equipment, computer equipment and leasehold improvements respectively (six months ended 30 September 2016: approximately HK\$165,000, HK\$242,000 and HK\$371,000 respectively).

The valuations of investment properties carried at fair value were performed by the Group's independent valuer, Asset Appraisal Limited, using the same valuation techniques as were used by this valuer when carrying out the 31 March 2017 valuations. The fair value of investment properties as at 30 September 2017 and 31 March 2017 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 2017 (31 March 2017 : nil), which were pledged to banks to secure for the bank borrowings and banking facilities granted to the Group (note 13).

The investment properties are leased to a third party under operating lease to earn rental income, further details of which are included in note 15.

9. AMOUNTS DUE FROM/TO CUSTOMERS OF CONTRACT WORKS

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Costs incurred to date plus recognised profits	777,542	712,296
Less: Progress billings to date	<u>(709,716)</u>	<u>(657,644)</u>
	<u>67,826</u>	<u>54,652</u>
Amounts due from customers of contract works	71,881	58,748
Amounts due to customers of contract works	<u>(4,055)</u>	<u>(4,096)</u>
	<u>67,826</u>	<u>54,652</u>

All amounts due from/to customers of contract works are expected to be recovered/settled within one year.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Trade receivables		
Trade receivables	62,554	59,982
Less: Provision for impairment	<u>(575)</u>	<u>(575)</u>
Trade receivables, net (<i>note (a)</i>)	<u>61,979</u>	<u>59,407</u>
Other receivables, deposits and prepayments		
Retention receivables	45,748	38,376
Less: Provision for impairment	<u>(269)</u>	<u>(269)</u>
Retention receivables, net (<i>note (b)</i>)	45,479	38,107
Other receivables	2,911	1,273
Deposits	1,440	1,221
Prepayments	<u>685</u>	<u>1,396</u>
	<u>50,515</u>	<u>41,997</u>
	<u>112,494</u>	<u>101,404</u>

Notes:

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

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
0–30 days	36,549	41,466
31–60 days	13,732	5,225
61–90 days	3,030	3,981
Over 90 days	<u>8,668</u>	<u>8,735</u>
	<u><u>61,979</u></u>	<u><u>59,407</u></u>

- (b) Retention receivables

As at 30 September 2017, based on due date of retention receivables, the Group's retention receivables of approximately HK\$32,460,000 (31 March 2017: HK\$35,304,000) were not yet past due and the remaining balance of approximately HK\$13,019,000 (31 March 2017: HK\$2,803,000), of which approximately HK\$4,530,000 (31 March 2017: HK\$2,803,000) were past due for one year. 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 the Group's structural engineering business, 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 2017, the Group had pledged deposit of HK\$3,700,000 (31 March 2017: HK\$3,700,000), 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 aggregate bond values as at 30 September 2017 of HK\$10,739,000 (31 March 2017: HK\$10,739,000). The surety bonds are required for the entire period of the relevant construction contracts. As at 30 September 2017 and 31 March 2017, the respective construction contracts are expected to be completed in year 2018 and 2019 respectively.

The Group have unconditionally and irrevocably agreed to indemnify the insurance company for claims and losses the insurance company may incur in respect of the bonds.

12. TRADE AND OTHER PAYABLES

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Trade payables	40,692	39,735
Bills payable	<u>—</u>	<u>8,355</u>
Trade and bills payables (<i>note (a)</i>)	40,692	48,090
Retention payables (<i>note (b)</i>)	16,528	11,755
Receipts in advance	1,053	677
Other payables, accruals and deposits	<u>4,407</u>	<u>7,369</u>
	<u>62,680</u>	<u>67,891</u>

Notes:

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

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
0–30 days	23,413	36,058
31–60 days	8,015	6,353
61–90 days	2,676	1,415
Over 90 days	<u>6,588</u>	<u>4,264</u>
	<u>40,692</u>	<u>48,090</u>

- (b) As at 30 September 2017, based on invoice date, retention payables of HK\$15,383,000 (31 March 2017: HK\$4,823,000) was aged one year or below and the remaining balance of approximately HK\$1,145,000 (31 March 2017: HK\$6,932,000) was aged over one year.

13. BANK BORROWINGS

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Current liabilities		
Secured and interest-bearing bank borrowings		
— Bank overdrafts (<i>note (a)</i>)	<u>—</u>	<u>718</u>
Bank loans subject to repayment on demand clause (<i>note (a)</i>)		
— Bank loans due for repayment within one year	36,859	16,507
— Bank loans due for repayment after one year (<i>note (b)</i>)	<u>2,421</u>	<u>2,632</u>
	<u>39,280</u>	<u>19,139</u>
	<u>39,280</u>	<u>19,857</u>

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 2017 granted under banking facilities ranged from 3.12% to 5.25% (31 March 2017: 3.22% to 5.25% per annum).
- (b) The current liabilities as at 30 September 2017 include bank loans of HK\$2,421,000 (31 March 2017: HK\$2,632,000) that are not scheduled to repay within one year after the end of the reporting periods. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that are classified as current liabilities are expected to be settled within one year.
- (c) The Group's bank borrowings and banking facilities are secured by the followings:
- land and buildings with net carrying amount of HK\$1,570,000 as at 30 September 2017 (31 March 2017: HK\$1,596,000);
 - investment properties with net carrying amount of HK\$21,100,000 as at 30 September 2017 (31 March 2017: HK\$21,100,000); and
 - bank deposits of HK\$16,211,000 as at 30 September 2017 (31 March 2017: HK\$16,209,000);

14. SHARE CAPITAL

Ordinary shares	Par value <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:			
At 30 September 2017 and 31 March 2017	0.01	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:			
At 30 September 2017 and 31 March 2017	0.01	<u>600,000,000</u>	<u>6,000</u>

15. 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 2017: one to five years) and are non-cancellable. The total future minimum lease payments under these leases are due as follows:

	As at 30 September 2017 (Unaudited) <i>HK\$'000</i>	As at 31 March 2017 (Audited) <i>HK\$'000</i>
Within one year	2,925	3,175
Later than one year and not more than five years	<u>2,273</u>	<u>3,892</u>
	<u>5,198</u>	<u>7,067</u>

Operating leases — The Group as lessor

During the period ended 30 September 2017, the Group leases its investment properties (note B) to a third party tenant. The leases run for an initial period of three years (31 March 2017: three years). The Group had the following future minimum lease payments receivables:

	As at 30 September 2017 (Unaudited) <i>HK\$'000</i>	As at 31 March 2017 (Audited) <i>HK\$'000</i>
Within one year	754	754
Later than one year and not more than five years	<u>1,068</u>	<u>1,446</u>
	<u>1,822</u>	<u>2,200</u>

16. GUARANTEE

The Group provided guarantee in respect of the surety bonds issued in favour of the customers of certain construction contracts. Details of these guarantees as at the end of the reporting period are as follows:

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Aggregate value of the surety bonds issued in favour of customers (<i>note 11</i>)	<u>10,739</u>	<u>10,739</u>

As assessed by the directors, it is not probable that the insurance company 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.

17. 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 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.

18. RELATED PARTY TRANSACTIONS

- (a) During the six months period ended 30 September 2017 and 2016, the Group entered into the following transactions with related parties:

Name	Related party relationship	Type of transaction	Transaction amount Six months ended 30 September	
			2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
BuildMax Technology (Shenzhen) Limited ("BuildMax (SZ)") (<i>note (i)</i>)	Directors and key management have equity interest	Purchase of construction materials and processing charges paid/payable	7,164	4,995
BuildMax (SZ) (<i>note (i)</i>)	Directors and key management have equity interest	Rental expenses paid/payable	—	39

Notes:

- (i) Mr. Lui, Mr. Wai, Mr. Yip, Mr. Liu Yuen Wai (“Mr. Liu”) and Mr. Chan Chi Ming (“Mr. Chan”) have equity interest in BuildMax (SZ). Mr. Lui, Mr. Wai and Mr. Yip are directors and shareholders of the Company. Mr. Liu and Mr. Chan are key management of the Group and since 22 September 2015, they have equity interests in the Company through Success Wing. Mr. Wai and Mr. Yip are directors of BuildMax (SZ).

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

- (b) As at 30 September 2017 and 31 March 2017, certain of the Group’s lease arrangements are subject to the personal guarantees provided by Mr. Yip and Mr. Wai, directors and shareholders of the Company.
- (c) The remuneration of directors and other members of key management during the periods was as follows:

	Six months ended	
	30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Salaries, allowances and benefits	3,330	3,078
Contributions to defined contribution retirement plan	<u>27</u>	<u>27</u>
	<u>3,357</u>	<u>3,105</u>

19. EVENT AFTER THE REPORTING PERIOD

On 24 October 2017, the shares of the Company were transferred from listing on GEM to the Main Board of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Background, Recent Development and Outlook

KPa-BM Holdings Limited (the “Company”, the Company and its subsidiaries collectively the “Group”) had been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 8 October 2015 (the “Listing”) and subsequently transferred from GEM to Main Board of the Stock Exchange on 24 October 2017 (the “Transfer of Listing”). The Group is principally engaged in (i) the provision of structural engineering works for the public and private sectors in Hong Kong; and (ii) trading of building material products predominately in Hong Kong.

According to the 2016 Policy Address, the Government would continue to increase the land used for commercial and economic activity through measures such as converting suitable Government, Institution or Community sites in core business districts into commercial use and the development of Kowloon East as an alternative core business district. In addition, according to the 2017 Policy Address, a variety of new development areas and new town extensions would offer over 220,000 residential units and over 8.6 million square metres of industrial and commercial floor area. As such, the Directors are of the view that the aforesaid Government’s policies will continue to support the growth of the construction industry as well as the facade and roof cladding work industry in Hong Kong in the near future, which will, in turn, bring more business opportunities to the Group.

Furthermore, Retrofit Noise Barrier Programme was launched to mitigate traffic noise impact of existing excessive noisy roads by way of installing noise barriers where practicable. According to the Environmental Protection Department of Hong Kong, the cumulative length of noise barrier structure increased from approximately 84,000 metres in 2010 to approximately 105,000 metres in 2014, representing a compound annual growth rate of approximately 4.6%. The increasing awareness of controlling noise pollution and the related legislation for the management of noise pollution has led to the construction of an increasing number of noise barriers in Hong Kong. In this connection, the Directors are of the view that there will be an increase in the demand for noise barriers in response to an increasing level of environmental concerns.

Looking ahead, the Group will continue to further develop its design and build business by undertaking more sizeable projects to expand its market share and to leverage its experience in the industry in order to explore new business opportunities.

Financial Review

Revenue

The Group's revenue amounted to approximately HK\$162.0 million for the six months ended 30 September 2017 (the "Period") as compared to that of approximately HK\$192.5 million for six months ended 30 September 2016 (the "Previous Period"), representing a decrease of approximately HK\$30.5 million or 15.9%. Such decrease was mainly due to (i) three key projects were still at the design and preliminary stage and hence did not generate much revenue during the Period; and (ii) partly offset by an increase in revenue from trading of building material products.

Cost of Revenue and Gross Profit

The Group's cost of revenue mainly comprised material and processing charges and subcontracting charges; the drop in cost of revenue was generally in line with the decrease 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, downward adjustments were made on the budget profit of certain projects due to variation in work scopes, resulting in a relatively low overall gross profit margin at approximately 16.5%. Subsequently, 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. The Group achieved a gross profit margin of approximately 20.4% for the Period, which was considered to be within the normal range of the Group's margin level. The Group's gross profit for the Period increased by approximately HK\$1.2 million because of the increase in gross profit margin.

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 39.0% from approximately HK\$11.9 million for the Previous Period to approximately HK\$16.5 million for the Period. The increase was attributable to the increase in office overhead, including rental, staff costs paid to Directors and staff for business expansion and the increase in legal and other professional fees for the transfer of listing during the Period.

Finance Costs

For the Period, the Group's finance costs were approximately HK\$543,000, representing a decrease of approximately HK\$141,000 or 20.6% as compared to that of approximately HK\$684,000 for the Previous Period, which was mainly due to the decrease in borrowings for financing for operational needs during the Period.

Income Tax Expense

Income tax expense of the Group amounted to approximately HK\$2.8 million and HK\$3.2 million for the Period and the Previous Period, respectively. Such decrease was related to the tax refund of approximately HK\$0.4 million during the Period.

Profit for the Period

The Group's profit for the Period decreased by approximately HK\$2.2 million, which was mainly attributable to (i) the increase in gross profit of approximately HK\$1.2 million; and (ii) partly offset by an increase of approximately HK\$4.6 million in administrative and other operating expenses.

Liquidity, Financial Resources and Capital Structure

	As at 30 September 2017 (Unaudited) HK\$'000	As at 31 March 2017 (Audited) HK\$'000
Current assets	236,994	216,580
Current liabilities	108,287	92,572
Current ratio	<u>2.2</u>	<u>2.3</u>

During the six months ended 30 September 2017, the Group financed its operations by its internal resources and bank facilities. As at 30 September 2017, the Group had net current assets of approximately HK\$128.7 million (31 March 2017: approximately HK\$124.0 million), including cash and bank balances of approximately HK\$33.5 million (31 March 2017: approximately HK\$36.7 million). The Group's current ratio as at 30 September 2017 was approximately 2.2 times (31 March 2017: approximately 2.3 times).

As at 30 September 2017, the Group had a total available banking and other facilities of approximately HK\$114.4 million, of which approximately HK\$46.0 million was utilised and approximately HK\$48.4 million was unutilised and available for use.

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 2017. As at 30 September 2017, the equity attributable to owners of the Company amounted to approximately HK\$158.9 million (31 March 2017: approximately HK\$154.8 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 ratio of the Group as at 30 September 2017 was approximately 25.0% (31 March 2017: approximately 13.2%), the increase was mainly due to draw down of additional banking facilities for operational needs of Group during the Period.

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.

PLEDGE OF ASSETS

As at 30 September 2017, the Group had bank borrowings of approximately HK\$39,279,000 (as at 31 March 2017: approximately HK\$19,857,000) and banking facilities are secured by the followings:

- land and buildings with net carrying amount of approximately HK\$1,570,000 as at 30 September 2017 (31 March 2017: approximately HK\$1,596,000);
- investment properties with net carrying amount of approximately HK\$21,100,000 as at 30 September 2017 (31 March 2017: approximately HK\$21,100,000);
- bank deposits of approximately HK\$16,211,000 as at 30 September 2017 (31 March 2017: approximately HK\$16,209,000);

As at 30 September 2017, the Group had pledged deposit of approximately HK\$3,700,000 (31 March 2017: approximately HK\$3,700,000), 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 aggregate bond values as at 30 September 2017 of approximately HK\$10,739,000 (31 March 2017: approximately HK\$10,739,000). The surety bonds are required for the entire period of the relevant construction contracts. As at 30 September 2017, the respective construction contracts are expected to be completed in year 2019 (31 March 2017: 2019).

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 Group did not carry out any material acquisition nor disposal of any subsidiary during the Period.

CONTINGENT LIABILITIES

As at 30 September 2017, 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 2017 (six months ended 30 September 2016: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2017, the Group had 96 staff (31 March 2017: 97). The total employee benefit expenses for the six months ended 30 September 2017 (including Directors' emoluments, salaries to staff and other staff benefits included provident fund contributions, medical insurance coverage and other staff benefits) was approximately HK\$16.6 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 2017, 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.

USE OF PROCEEDS

The estimated net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately HK\$27.0 million, which are intended to be applied in the manner as disclosed in the section headed "Statement of business objectives and use of proceeds" in the prospectus of the Company dated 30 September 2015 (the "Prospectus"). The net proceeds from the Listing were approximately HK\$28.9 million, which was different from the estimated net proceeds of approximately HK\$27.0 million. The difference of approximately HK\$1.9 million had been adjusted in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus.

Subsequently, the Directors had evaluated the Group's business plan and, as disclosed in the announcement of the Company dated 9 November 2016, resolved to combine use of the remaining unutilised proceeds from "further expanding the Group's capacity to capture more business opportunities" and "further development of the Group's structural engineering business" and extend it to include "acquisition of plant and equipment for operational use". The Board believes that the combined and extended the use of remaining unutilised proceeds will be cost effective and optimal for the Group's development.

The Group had utilised approximately HK\$23.1 million of the net proceeds as at 30 September 2017. The unutilised net proceeds of approximately HK\$5.8 million have been placed as interest bearing deposits with licensed bank in Hong Kong and is intended to be applied in the manner consistent with the proposed allocations.

As at 30 September 2017, the net proceeds had been utilised as follows:

Use of proceeds	Revised use of proceeds <i>HK\$ million</i>	Utilised <i>HK\$ million</i>	Unutilised <i>HK\$ million</i>
1 Further expanding the Group's capacity to capture more business opportunities	8.3	8.3	—
2 Further development of the Group's structural engineering business	—	—	—
3 Enhancing the Group's design and customisation capabilities	6.4	5.7	0.7
4 General working capital	2.9	2.9	—
5 Expanding the Group's capacity to capture more business, developing structural engineering business and acquisition of plant and equipment for operational needs	<u>11.3</u>	<u>6.2</u>	<u>5.1</u>
	<u><u>28.9</u></u>	<u><u>23.1</u></u>	<u><u>5.8</u></u>

Comparison of business objectives with actual business progress

An analysis comparing the business objectives as set out in the Prospectus for the six months ended 30 September 2017 (“Review Period”) with the Group’s actual business progress for the Review Period is set out below.

Business objectives for the Review Period

Actual business Progress for the Review Period

Further expanding the Group’s capacity to capture more business opportunities

Recruit up to about 1 to 4 project staff to cope with business development

Recruited 9 project staff

Enhancing the Group’s design and customisation capabilities

Recruit up to about 3 additional designers and draftsmen to strengthen the design and customisation capabilities of the Group

Recruited 1 design manager and 1 draftsman.

Sponsor the designers and other relevant staff to attend technical seminars and occupational health and safety courses organised by third parties

The Company had arranged training and classes to relevant staff members according to their duty needs and skills.

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 2017, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the “Model Code”) on terms no less exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Upon specific enquiries being made with all Directors, each of them confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

CORPORATE GOVERNANCE

The Group is committed to uphold high standards of corporate governance. The Board considers that enhanced public accountability and corporate governance are beneficial to the healthy growth of the Group, improving customer and supplier confidence and safeguarding the interests of the shareholders of the Company. The Company adopted the code provisions of Appendix 15 Corporate Governance Code and Corporate Governance Report of the GEM Listing Rules as its own code (the “CG Code”) and had complied with the CG Code throughout the Period.

COMPETING INTEREST

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

INTERESTS OF THE COMPLIANCE ADVISOR

Subsequent to the Transfer of Listing, the Company is required, under Rule 9A.13 of the Main Board Listing Rules, to continue to appoint a compliance adviser up to the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of its initial listing on GEM.

As notified by the Company’s compliance adviser, Messis Capital Limited (the “Compliance Adviser”), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 30 September 2015, which commenced on 8 October 2015, and the agreement dated 7 March 2017 appointing the Compliance Adviser as one of the joint financial advisers to the Company in relation to the Company’s application for the Transfer of Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 September 2017 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”) comprises three independent non-executive Directors and chaired by Ms. Lai Pik Chi Peggy, who has appropriate professional qualifications and experience as required by the GEM 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, 14 November 2017

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

* *For identification purpose only*