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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 2021

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2021

	<i>Notes</i>	Six months ended 30 September 2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	3	263,347	208,898
Cost of revenue		<u>(219,901)</u>	<u>(165,173)</u>
Gross profit		43,446	43,725
Government subsidies		–	2,247
Other income and gains		860	1,563
Marketing and distribution expenses		(109)	(516)
Administrative and other operating expenses		(19,731)	(18,940)
Finance costs		(746)	(594)
Profit before income tax	4	23,720	27,485
Income tax expense	5	(4,200)	(4,287)
Profit for the period		19,520	23,198
Other comprehensive income for the period		<u>–</u>	<u>–</u>
Total comprehensive income for the period		<u>19,520</u>	<u>23,198</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
Basic and diluted earnings per share		<u>3.25</u>	<u>3.87</u>

Condensed Consolidated Statement of Financial Position

As at 30 September 2021

	<i>Notes</i>	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	16,793	17,465
Investment properties	8	5,072	26,983
Goodwill		601	601
Deferred tax assets		139	139
		<u>22,605</u>	<u>45,188</u>
Current assets			
Inventories		10,754	11,068
Contract assets	9	116,157	126,099
Trade and other receivables, deposits and prepayments	10	197,827	130,123
Tax recoverable		2,814	2,266
Cash and bank balances		87,381	116,649
		<u>414,933</u>	<u>386,205</u>
Properties classified as held for sale	11	<u>22,000</u>	–
		<u>436,933</u>	<u>386,205</u>
Current liabilities			
Contract liabilities	9	65,420	50,346
Trade and other payables	12	98,645	96,212
Lease liabilities		6,436	6,603
Tax payable		6,499	4,176
		<u>177,000</u>	<u>157,337</u>

	<i>Notes</i>	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Liabilities associated with properties classified as held for sale	<i>11</i>	<u>21,612</u>	<u>–</u>
		<u>198,612</u>	<u>157,337</u>
Net current assets		<u>238,321</u>	<u>228,868</u>
Total assets less current liabilities		<u>260,926</u>	<u>274,056</u>
Non-current liabilities			
Lease liabilities		5,133	5,061
Deferred tax liabilities		<u>772</u>	<u>770</u>
		<u>5,905</u>	<u>5,831</u>
Net assets		<u><u>255,021</u></u>	<u><u>268,225</u></u>
CAPITAL AND RESERVES			
Share capital	<i>13</i>	6,000	6,000
Reserves		<u>249,021</u>	<u>262,225</u>
Total equity		<u><u>255,021</u></u>	<u><u>268,225</u></u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2021

	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 2020 (unaudited)							
At 1 April 2020	6,000	33,942	7,437	15,646	(882)	169,731	231,874
Profit for the period	-	-	-	-	-	23,198	23,198
Other comprehensive income for the period	-	-	-	-	663	-	663
Total comprehensive income for the period	-	-	-	-	663	23,198	23,861
Transactions with owners: Final dividend in respect of 2020 (note 6)	-	-	-	-	-	(15,000)	(15,000)
At 30 September 2020 (unaudited)	<u>6,000</u>	<u>33,942</u>	<u>7,437</u>	<u>15,646</u>	<u>(219)</u>	<u>177,929</u>	<u>240,735</u>
Six months ended 30 September 2021 (unaudited)							
At 1 April 2021	6,000	33,942	7,437	15,646	298	204,902	268,225
Profit for the period	-	-	-	-	-	19,520	19,520
Other comprehensive income for the period	-	-	-	-	276	-	276
Total comprehensive income for the period	-	-	-	-	276	19,520	19,796
Transactions with owners: Final dividend in respect of 2021 (note 6)	-	-	-	-	-	(33,000)	(33,000)
At 30 September 2021 (unaudited)	<u>6,000</u>	<u>33,942</u>	<u>7,437</u>	<u>15,646</u>	<u>574</u>	<u>191,422</u>	<u>255,021</u>

* The total of these equity accounts as at 30 September 2020 and 2021 represent "Reserves" in the condensed consolidated statements of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2021

	Six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(14,395)	41,216
Cash flows from investing activities		
Purchase of property, plant and equipment (<i>note 8</i>)	(681)	(2,113)
Deposits received from disposal of investment properties (<i>note 11</i>)	21,612	–
Interest received	45	548
	<hr/>	<hr/>
<i>Net cash generated from/(used in) investing activities</i>	20,976	(1,565)
Cash flows from financing activities		
Dividends paid (<i>note 6</i>)	(33,000)	(15,000)
Interest paid on bank borrowings	(428)	(138)
Proceed from bank borrowings	30,000	20,000
Repayment of bank borrowings	(30,000)	(20,000)
Payment of principal element of lease liabilities	(2,320)	(1,922)
Payment of interest element of lease liabilities	(318)	(456)
	<hr/>	<hr/>
<i>Net cash used in financing activities</i>	(36,066)	(17,516)
Net (decrease)/increase in cash and cash equivalents	(29,485)	22,135
Cash and cash equivalents at the beginning of period	116,649	125,842
Effect of exchange rate changes on cash and cash equivalents	217	609
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	87,381	148,586
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	87,381	148,586
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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 Windward 3, Regatta Office Park, P.O. Box 1350, 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 2021 (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 2021.

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 2021 (“2021 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 2021 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.

Adoption of new or revised HKFRSs

2.1 Adoption of new or revised HKFRSs effective on 1 April 2021

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 39, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021

The new or revised HKFRSs that are effective from 1 April 2021 did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

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 with installation services provided in Hong Kong.

Trading of Building Material Products – This segment mainly engages in sales of building material products to third-party customers 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 2021 (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>
<i>Segment revenue</i>				
Sales to external customers	251,352	9,536	2,459	263,347
Intersegment sales	–	–	166	166
	<u>251,352</u>	<u>9,536</u>	<u>2,625</u>	<u>263,513</u>
Elimination of intersegment sales				<u>(166)</u>
				<u>263,347</u>
<i>Segment profit</i>	<u>37,689</u>	<u>3,994</u>	<u>1,178</u>	42,861
Corporate and unallocated income				860
Corporate and unallocated expenses				
– Administrative and other operating expenses				(19,255)
– Finance costs				<u>(746)</u>
Profit before income tax				<u>23,720</u>

Six months ended 30 September 2020 (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>
<i>Segment revenue</i>				
Sales to external customers	192,049	12,809	4,040	208,898
Intersegment sales	—	—	266	266
	<u>192,049</u>	<u>12,809</u>	<u>4,306</u>	209,164
Elimination of intersegment sales				<u>(266)</u>
				<u>208,898</u>
<i>Segment profit</i>	<u>22,290</u>	<u>2,206</u>	<u>2,024</u>	26,520
Corporate and unallocated income				2,310
Corporate and unallocated expenses				
– Administrative and other operating expenses				(1,328)
– Finance costs				<u>(17)</u>
Profit before income tax				<u>27,485</u>

During the period, the segment asset had not been presented as there has not been a material change from the 2021 Financial Statements for the reportable segment.

- (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	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Timing of revenue recognition								
Point in time	-	-	-	-	2,459	4,040	2,459	4,040
Over time	251,352	192,049	9,536	12,809	-	-	260,888	204,858
	<u>251,352</u>	<u>192,049</u>	<u>9,536</u>	<u>12,809</u>	<u>2,459</u>	<u>4,040</u>	<u>263,347</u>	<u>208,898</u>

4. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Depreciation in respect of:		
Right-of-use assets included in property, plant and equipment under the following categories:		
– Other properties leased for own use	2,225	2,252
Other property, plant and equipment	1,397	1,533
	<u>3,622</u>	<u>3,785</u>
Employee benefit expenses (including directors' emoluments)		
– Salaries, allowances and benefits in kind	20,924	19,705
– Contribution to defined contribution retirement plan	794	558
	<u>21,718</u>	<u>20,263</u>

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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax for the period		
– Hong Kong Profits Tax	4,200	4,287
– Other regions of the PRC – Enterprise Income Tax (“EIT”)	<u>–</u>	<u>–</u>
Total income tax expense	<u>4,200</u>	<u>4,287</u>

Hong Kong Profits Tax is calculated at 16.5% (Six months ended 30 September 2020: 16.5%) on the estimated assessable profits for the period.

EIT arising from other regions of the PRC is calculated at 25% (Six months ended 30 September 2020: 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 2021 (30 September 2020: nil).

The final dividend in respect of the year ended 31 March 2021 amounting to HK\$33,000,000 was paid in September 2021 thus no dividend payable was recorded as at 30 September 2021.

7. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	<u><u>19,520</u></u>	<u><u>23,198</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 2021, the Group used approximately HK\$189,000, HK\$355,000, HK\$122,000, HK\$1,000 and HK\$14,000 on acquisition of leasehold improvement, computer equipment, motor vehicles, office equipment and furniture and fixture respectively (six months ended 30 September 2020: approximately HK\$186,000, HK\$684,000, HK\$1,074,000, HK\$nil and HK\$nil respectively).

The Group has not disposed any of its property, plant and equipment during the period (six months ended 30 September 2020: nil).

As at 30 September 2021, the Group has not pledged its leasehold land and buildings to secure the bank borrowings and banking facilities granted to the Group (31 March 2021: nil).

The Group has entered into provisional agreements for sale and purchase (“Agreements”) with third parties to sell all of its investment properties located in Hong Kong (“Sale Investment Properties”). The fair values of the Sale Investment Properties as at 31 March 2021 were HK\$22,000,000, which are expected to qualify for recognition as a completed sale within one year from the date of the Agreements. Therefore, the Sale Investment Properties were reclassified as properties classified as held for sale and carried at fair value as at 30 September 2021 (Note 11).

The fair value of the remaining investment property as at 30 September 2021 was approximately HK\$5,072,000 (31 March 2021: approximately HK\$26,418,000), 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 2021 and 31 March 2021 is a level 2 recurring fair value measurement. No fair value gain or loss arose from remeasurement of the investment property as at 30 September 2021 (six months ended 30 September 2020: nil). None of the investment property was pledged to banks to secure for the bank borrowings and banking facilities granted to the Group.

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract Assets

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Contract assets arising from:		
– Structural engineering works	116,990	127,082
– Supply and installation of building material products	597	447
	<u>117,587</u>	<u>127,529</u>
Less: Loss allowance	<u>(1,430)</u>	<u>(1,430)</u>
	<u><u>116,157</u></u>	<u><u>126,099</u></u>

(b) Contract Liabilities

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Contract liabilities arising from:		
– Structural engineering works	61,740	48,436
– Supply and installation of building material products	2,900	1,274
– Trading of building material products	780	636
	<u>65,420</u>	<u>50,346</u>
	<u><u>65,420</u></u>	<u><u>50,346</u></u>

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Trade receivables (<i>note (a)</i>)	103,159	44,221
Less: Loss allowance	<u>(525)</u>	<u>(618)</u>
Trade receivables, net	<u>102,634</u>	<u>43,603</u>
Retention receivables	90,439	80,944
Less: Loss allowance	<u>(1,579)</u>	<u>(1,615)</u>
Retention receivables, net (<i>note (b)</i>)	<u>88,860</u>	<u>79,329</u>
Other receivables	1,282	3,194
Deposits	3,241	2,359
Prepayments	<u>1,810</u>	<u>1,638</u>
	<u>6,333</u>	<u>7,191</u>
	<u><u>197,827</u></u>	<u><u>130,123</u></u>

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 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
0–30 days	53,966	27,675
31–60 days	18,300	12,232
61–90 days	21,763	3,323
Over 90 days	<u>9,130</u>	<u>991</u>
	<u><u>103,159</u></u>	<u><u>44,221</u></u>

(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 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
On demand or within one year	7,094	6,215
After one year or more	81,766	73,114
	<u>88,860</u>	<u>79,329</u>

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 percentage of the order amount and grants a credit period of 30 days upon delivery of products to customers.

11. PROPERTIES CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH PROPERTIES CLASSIFIED AS HELD FOR SALE

	As at 30 September 2021 (Unaudited) HK\$'000
Properties classified as held for sale	
Investment properties	<u><u>22,000</u></u>
Liabilities associated with properties classified as held for sale	
Deposit received from disposal of investment properties	<u><u>21,612</u></u>

The investment properties were previously leased to a third party under operating lease to earn rental income before entering into the Agreements. The management is committed to the sale of the investment properties according to the Agreements. The Sale Investment Properties reclassified as held for sale were carried at fair values which were HK\$22,000,000 as at 30 September 2021. The fair values were determined by the Directors by reference to recent market prices for properties in the similar locations and conditions.

The total consideration of HK\$21,612,000 was fully settled by the end of the Period which were separately presented as liabilities associated with properties classified as held for sale on the condensed consolidated statement of financial position as at 30 September 2021 pending sale completion.

12. TRADE AND OTHER PAYABLES

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Trade payables (<i>note (a)</i>)	59,545	53,194
Retention payables (<i>note (b)</i>)	34,249	31,500
Other payables and accruals	4,851	11,518
	<u>98,645</u>	<u>96,212</u>

Notes:

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

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
0–30 days	26,411	35,624
31–60 days	19,402	6,978
61–90 days	8,736	6,453
Over 90 days	4,996	4,139
	<u>59,545</u>	<u>53,194</u>

- (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 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
On demand or within one year	27,352	28,506
After one year or more	6,897	2,994
	<u>34,249</u>	<u>31,500</u>

13. SHARE CAPITAL

Ordinary shares	Par value <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:			
At 30 September 2021 and 31 March 2021	0.01	2,000,000,000	20,000
Issued and fully paid:			
At 30 September 2021 and 31 March 2021	0.01	600,000,000	6,000

14. 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 2021 (Unaudited) <i>HK\$'000</i>	As at 31 March 2021 (Audited) <i>HK\$'000</i>
Aggregate value of the surety bonds issued in favour of customers	–	1,085

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.

15. LITIGATIONS

A lawsuit arising from the normal course of business were lodged against the Group which remain outstanding as of the end of the reporting period. Claim amount is not specified in the applications of the lawsuit. In the opinion of the Directors, sufficient insurance coverage is maintained to cover the potential losses, if any, arising from the lawsuit and therefore the ultimate liability under the lawsuit would not have material adverse impact on the financial position of the Group.

16. RELATED PARTY TRANSACTIONS

During the six months period ended 30 September 2021 and 2020, the Group entered into the following transactions with related parties:

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

	Six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Salaries, allowances and benefits	3,120	3,720
Contributions to defined contribution retirement plan	18	27
	3,138	3,747

17. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the Agreements entered into by the Group with independent third-party buyers dated 17 May 2021 and 12 July 2021, the completion of sales of investment properties in Hong Kong have taken place on 15 October 2021.

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 units and commercial building and also the HKSAR Government’s implementation of long-term policies on housing supply and infrastructural development. As the Group’s track record, reputation and technical capability and capacity grew over the years, we have been able to tap into a market segment of higher entry threshold and secure larger scale projects from public service operators, governmental bodies, and real estate developers.

Although Hong Kong’s economy has been affected since the COVID-19 outbreak in early 2020, the HKSAR Government continues to adopt expansionary fiscal policy and commission infrastructure projects. As mentioned by the Chief Executive of the HKSAR Government in the 2021 Policy Address, it proposed to develop the northern part of Hong Kong into a metropolitan area of 300 square kilometres and committed to several railway projects in the outskirts areas. Accordingly, we expect that there will be a steady flow of construction contracts from the public sector in the coming years.

The Group will maintain a prudent financial management approach to conserve resources while at the same time stay vigilant and proactive to capture market opportunities at favourable margins.

Subsequent to 30 September 2021, the Group further secured several new contracts and the total value of outstanding contracts on hand is approximately HK\$1,146 million which is a record high.

Looking ahead, the Group will continue to explore new opportunities that are beneficial to the Group and our shareholders.

Financial Review

Revenue

The Group’s revenue amounted to approximately HK\$263.3 million for the six months ended 30 September 2021 (the “Period”) as compared to approximately HK\$208.9 million for six months ended 30 September 2020 (the “Previous Period”), representing an increase of approximately HK\$54.4 million or 26.0%. Such increase was because the progress of newly obtained key projects was favorable.

Cost of Revenue and Gross Profit

The Group's cost of revenue mainly comprised material and processing charges and subcontracting charges; the increase in cost of revenue was partly because of the increase in revenue recognised for the Period. Besides, in the periodic review of project budgets against actual performance, the management had noticed that the costs incurred for some substantially completed projects were higher than previous estimation due to prolongation in completion stage, thus, the management has further adjusted the budgets and resulted in lower gross profit margin for those projects. Despite of that, the Group was able to maintain the gross profit margin of other projects in progress as expected by negotiation with customers on compensation for certain variation works during the Period. The Group achieved an overall gross profit margin of approximately 16.5% for the Period as compared to approximately 20.9% for the Previous Period, the decrease was considered to be reasonable based on the combined effect of the above reasons. Notwithstanding that, the Group's gross profit for the Period was only decreased by approximately HK\$0.3 million mainly attributable to the increase in revenue as mentioned before.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of staff costs, depreciation expenses on right-of-use assets, and legal and other professional fees. Administrative and other operating expenses of the Group increased by approximately 4.2% from approximately HK\$18.9 million for the Previous Period to approximately HK\$19.7 million for the Period.

Finance Costs

For the Period, the Group's finance costs were approximately HK\$0.7 million and remained stable as compared to approximately HK\$0.6 million for the Previous Period. Finance costs for the Period mainly comprised interest on bank borrowings and interest costs of lease of right-to-use assets.

Income Tax Expense

Income tax expense of the Group amounted to approximately HK\$4.2 million for the Period, representing a decrease of approximately HK\$0.1 million as compared to HK\$4.3 the Previous Period. However, the effective tax rate for the Period is 17.7% which is higher than Previous Period of 15.6% because the government subsidies of approximately HK\$2.2 million in Previous Period is non-taxable.

Profit for the Period

The Group's profit for the Period decreased by approximately HK\$3.7 million, which was mainly attributable to the decrease in gross profit of approximately HK\$0.3 million and increase in administrative expenses of HK\$0.8 million and no government subsidies were received during the Period.

Liquidity, Financial Resources and Capital Structure

	As at 30 September 2021 (Unaudited) HK\$'000	As at 31 March 2021 (Audited) HK\$'000
Current assets	436,933	386,205
Current liabilities	198,612	157,337
Current ratio	2.2	2.5

During the six months ended 30 September 2021, the Group financed its operations by its internal resources and banking facilities. As at 30 September 2021, the Group had net current assets of approximately HK\$238.3 million (31 March 2021: approximately HK\$228.9 million), including cash and bank balances of approximately HK\$87.4 million (31 March 2021: approximately HK\$116.6 million). The Group's current ratio as at 30 September 2021 was approximately 2.2 times (31 March 2021: approximately 2.5 times).

As at 30 September 2021, the Group had a total available banking and other facilities of approximately HK\$255 million (31 March 2021: approximately HK\$170 million).

There has been no change in capital structure of the Company since 31 March 2021. As at 30 September 2021, the equity amounted to approximately HK\$255.0 million (31 March 2021: approximately HK\$268.2 million).

Gearing Ratio

The gearing ratio is calculated as total debt to equity. Total debts include lease liabilities and bank borrowings of the Group. Equity represents total equity of the Group.

The gearing ratio of the Group as at 30 September 2021 was 4.5% (31 March 2021: approximately 4.3%), because of the Group's lease liabilities arising from adoption of HKFRS16 Leases. The Group did not have any bank borrowings as at 30 September 2021 and 31 March 2021.

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 2021, the Group did not have any bank borrowings (as at 31 March 2021: nil) and banking facilities are unsecured as at 30 September 2021 (31 March 2021: nil);

As at 30 September 2021, the Group did not have any pledged deposit (31 March 2021: nil).

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments during the Period.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not acquire nor dispose any subsidiaries during the Period.

CONTINGENT LIABILITIES

As at 30 September 2021, 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 2021 (six months ended 30 September 2020: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2021, the Group had 156 staff members (31 March 2021: 170). The total employee benefit expenses for the six months ended 30 September 2021 (including Directors' emoluments, salaries to staff and other staff benefits included provident fund contributions, medical insurance coverage and other staff benefits) was approximately HK\$21.7 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 2021, 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.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the provisional agreements for sales and purchase of the Group's all investment properties located in Hong Kong entered into by the Group with independent third-party buyers on 17 May 2021 and 12 July 2021 for total consideration of HK\$21,612,000, the buyers had already fully settled the consideration before the end of the Period and the completion of sales have taken place on 15 October 2021. No other event has occurred after 30 September 2021 and up to the date of this announcement which would have a material effect on the Group.

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 2021, 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	12,182	33.01%
	Interests held jointly	20,789	56.34%
Mr. Yip Pak Hung	Beneficial owner	12,182	33.01%
	Interests held jointly	20,789	56.34%

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

As at 30 September 2021, 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 Interests held jointly	369,000,000 63,000,000	61.5% 10.5%

Save as disclosed above, as at 30 September 2021, 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 2021, 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").

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 announcement.

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

Save for the related party transactions disclosed in note 16 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 2021

As at the date of this announcement, 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.