



2018

Interim Report



CHINNEY KIN WING HOLDINGS LIMITED
建業建榮控股有限公司*

(Incorporated in Bermuda with limited liability)
 Stock Code : 1556



* for identification purpose only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Yuen-Keung CHAN (*Chairman*)
James Sing-Wai WONG
Wing-Sang YU (*Managing Director*)
Philip Bing-Lun LAM
Hin-Kwong SO

Independent Non-Executive Directors

Siu-Chee KONG
Ivan Ti-Fan PONG
Robert Che-Kwong TSUI

AUDIT COMMITTEE

Siu-Chee KONG (*Chairman*)
Ivan Ti-Fan PONG
Robert Che-Kwong TSUI

REMUNERATION COMMITTEE

Robert Che-Kwong TSUI (*Chairman*)
Ivan Ti-Fan PONG
Yuen-Keung CHAN

NOMINATION COMMITTEE

Ivan Ti-Fan PONG (*Chairman*)
Robert Che-Kwong TSUI
Yuen-Keung CHAN

COMPANY SECRETARY

Eric Wing-Hung YUEN

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Hang Seng Bank Limited
Shanghai Commercial Bank Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited

AUDITOR

Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present to our shareholders the interim report of Chinney Kin Wing Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the six months ended 30 June 2018. The Group's revenue in the reporting period was decreased by 8.84% to HK\$538.71 million from the previous corresponding period of HK\$590.93 million. The profit and total comprehensive income for the period under review was HK\$30.18 million, representing a decrease of 39.27% as compared with the previous corresponding period of HK\$49.70 million.

The declined performance of the Group during the reporting period was mainly due to the continuing weakness and intensive competition among the contractors in the foundation industry. Increased numbers of listed issuers of the foundation contractors further worsen the situation. Nevertheless, with the Group's sound financial and debt free position, we are confident that the Group, along with our excellent colleagues, can overcome this transitional difficult time.

INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

BUSINESS AND OPERATION REVIEW

The Group is engaged in foundation construction and ancillary services (the "Foundation Division"), and drilling and site investigation works (the "Drilling Division") for both public and private sectors in Hong Kong and overseas.

During the six months ended 30 June 2018, the Group had completed 7 and 12 projects in the Foundation Division and the Drilling Division with contract sum of approximately HK\$178 million and HK\$7 million respectively.

As at 30 June 2018, the Group had 11 and 31 projects in progress with contract sum of approximately HK\$2,144 million and HK\$252 million in the Foundation Division and the Drilling Division respectively.

OUTLOOK AND FUTURE PLANS

The foundation industry in Hong Kong in the first half of 2018 remained difficult and tough; we do not see and optimistically expect any momentum of recovery of the foundation market in the short run. Increasing number of market players and reduced number of foundation contracts from both the public and private sectors resulted in intensive competition in the foundation market. In addition, the increasing price of major construction material costs further sacrificed the contract profit. Under such circumstances, the Group will undoubtedly be more restrained from increment in terms of revenue income and project profit margin. To cope with this challenging environment, the Group will continue to implement stringent project and overhead cost control measures; strengthen the project management team; optimise our design capabilities; and improve our production efficiency to minimise any negative impact to the Group. In fact, observable enhancements in various operation departments have been achieved as driven by the intense market competition.

Our DrillTech, on the other hand, had performed satisfactory in the reporting period with steady increment in terms of both contract revenue and profit contribution to the Group. The specialised technical know-how of DrillTech in ground investigation, instrumentation and Down-the-hole drilling had added value to its revenue and profit margin. Other than the specialist contractors of ground investigation, DrillTech had applied for inclusion in different categories of specialist contractors under the Works Bureau so as to further widen the business opportunities to work for the public sector of the construction industry. The Group expects DrillTech will continually to develop and perform well in 2018.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PLANS *(continued)*

Given the Group's established reputation in the market, together with our talented and highly motivated staff led by a committed Execution Panel, we trust the Group's business will remain stable and our client base will continue to expand. Despite the current weak foundation market conditions, we are still prudently optimistic as to the long term demands for reliable and reputable contractors in the construction industry. In particular, we look forward to the Government fulfilling its commitment to long term public housing development and land supply for the next decade.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our customers, business partners and shareholders for their long-lasting support. I would also like to thank my fellow Directors for their advice and guidance, the Execution Panel for their management of operation departments and all colleagues for their hard work, loyalty and contributions which are essential to the Group's overall performance during the period under review.

Finally, I would like to thank Mr. Herman Man-Hei Fung, our ex-Chairman, for his valuable contributions to the Group and leading the Board over the past years.

Yuen-Keung Chan

Chairman

Hong Kong, 28 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

REVENUE

The Group's total revenue for the period under review was HK\$538.71 million, representing a decrease of 8.84% as compared with the six months ended 30 June 2017 of HK\$590.93 million. The decrease of revenue was mainly attributed to the reduced revenue of HK\$67.95 million from the Foundation Division which was partly set-off by the increased revenue of HK\$15.73 million from the Drilling Division as compared with the previous corresponding period. Continuing weakness of the foundation market and keen competition among the market players had resulted in reduced contract value of individual projects and in turn had a negative impact on our revenue. The increased revenue from the Drilling Division was mainly due to the award of certain "Down-the-hole" projects at the year-end of 2017 and in the reporting period.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the period under review, the Group's total gross profit was HK\$124.87 million as compared with the previous corresponding period of HK\$162.93 million, representing a decrease of 23.36%. The gross profit margin of the Group was also decreased from the previous corresponding period of 27.57% to the reporting period of 23.18%. The decrease of gross profit and gross profit margin was due to our Group had adopted a short term tendering strategy of lowering the bidding prices for new contracts in order to maintain our positioning under the weak and competitive foundation market.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses was HK\$88.82 million in the reporting period, representing a decrease of 15.38% as compared with the previous corresponding of HK\$104.96 million. The decrease of administrative expenses was directly due to the Group's continuing implementation of stringent cost control on our overhead.

NET PROFIT

The Group's net profit for the reporting period was HK\$30.18 million, representing a decrease of 39.27% as compared with the previous corresponding period of HK\$49.70 million. The decrease of net profit was mainly due to the decrease of the Group's gross profit under the reporting period.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had unpledged cash and bank balances of HK\$193.20 million as compared with HK\$291.68 million as at 31 December 2017. The decrease of cash and bank balances was mainly due to the payment of HK\$45.00 million of 2017 final dividend to our shareholders and the acquisition of plant and machineries amounted to HK\$10.52 million during the reporting period. In addition, net cash was used in certain of our sizable projects due to their early stage of project progress. The Group had maintained a sound financial position during the period under review.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. 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

FINANCIAL REVIEW *(continued)*

PLEDGE OF ASSETS

As at 31 December 2017, time deposits of HK\$3.60 million were pledged to banks to secure the performance bonds issued in favour of the Group's clients on contracting works. All such deposits were released as at 30 June 2018.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 30 June 2018 are set out in note 15 to the condensed consolidated interim financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed 500 staffs in Hong Kong. The Group is proud of the professional foundation and drilling contracting team formed by these colleagues. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Notes			
	REVENUE	538,713	590,931
	Cost of construction	(413,844)	(428,000)
	Gross profit	124,869	162,931
	Other income and gains	1,364	1,537
	Administrative expenses	(88,815)	(104,960)
	PROFIT BEFORE TAX	37,418	59,508
	Income tax expense	(7,234)	(9,807)
	PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	30,184	49,701
	Profit and total comprehensive income attributable to:		
	Equity holders of the Company	30,184	49,701
	EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		
	Basic and diluted	HK 2.01 cents	HK 3.31 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	294,080	320,777
CURRENT ASSETS			
Gross amount due from contract customers		–	58,157
Trade receivables	10	120,190	112,123
Contract assets		75,528	–
Retention monies receivable		165,102	168,686
Prepayments, deposits and other receivables		17,197	17,526
Due from a fellow subsidiary		1,790	1,790
Due from a related company	11	34,518	37,282
Tax recoverable		2,125	2,587
Pledged time deposits		–	3,598
Cash and cash equivalents		193,201	291,676
Total current assets		609,651	693,425
CURRENT LIABILITIES			
Gross amount due to contract customers		–	364,843
Trade payables	12	87,105	97,328
Retention monies payable		23,622	22,661
Other payables and accruals		316,538	47,407
Tax payable		16,386	8,956
Total current liabilities		443,651	541,195
NET CURRENT ASSETS		166,000	152,230
TOTAL ASSETS LESS CURRENT LIABILITIES		460,080	473,007
NON-CURRENT LIABILITIES			
Deferred tax liabilities		48,219	48,687
Net assets		411,861	424,320
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	150,000	150,000
Reserves		261,861	274,320
Total equity		411,861	424,320

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) HK\$'000	Share premium* (Unaudited) HK\$'000	Capital reserve* (Unaudited) HK\$'000	Merger reserve* (Unaudited) HK\$'000	Retained profits* (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2018	150,000	63,628	(1)	20,002	190,691	424,320
Adjustment on adoption of HKFRS 15, net of tax	–	–	–	–	2,357	2,357
Restated balance at 1 January 2018	150,000	63,628	(1)	20,002	193,048	426,677
Profit and total comprehensive income for the period	–	–	–	–	30,184	30,184
Final 2017 dividend paid	–	–	–	–	(45,000)	(45,000)
At 30 June 2018	150,000	63,628	(1)	20,002	178,232	411,861
At 1 January 2017	150,000	63,628	(1)	20,002	169,085	402,714
Profit and total comprehensive income for the period	–	–	–	–	49,701	49,701
Final 2016 dividend paid	–	–	–	–	(60,000)	(60,000)
At 30 June 2017	150,000	63,628	(1)	20,002	158,786	392,415

The merger reserve of the Group represents the capital contribution from the equity holders of a subsidiary now comprising the Group before the completion of the Reorganisation.

* These reserve accounts comprise the consolidated reserves of HK\$261,861,000 in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
		37,418	59,508
Profit before tax			
Adjustments for:			
Interest income	4	(650)	(583)
Depreciation	5	31,720	33,514
Impairment of goodwill	5	398	–
Transfer of items of property, plant and equipment to contract costs		4,673	–
Loss on disposal of items of property, plant and equipment	5	824	832
		74,383	93,271
Decrease in gross amount due from contract customers		58,157	21,070
Increase in trade receivables		(8,067)	(54,697)
Increase in contract assets		(72,705)	–
Decrease in retention monies receivable		3,584	725
Decrease in prepayments, deposits and other receivables		329	5,101
Decrease/(increase) in amount due from a related company		2,764	(14,326)
Decrease in gross amount due to contract customers		(364,843)	(25,427)
Decrease in trade payables		(10,223)	(368)
Increase in retention monies payable		961	801
Increase/(decrease) in other payables and accruals		269,122	(11,432)
Cash generated from/(used in) operations		(46,538)	14,718
Overseas tax paid		(276)	–
Net cash flows from/(used in) operating activities		(46,814)	14,718
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		650	583
Purchase of items of property, plant and equipment		(10,520)	(54,928)
Acquisition of a subsidiary	14	(389)	–
Proceeds from disposal of items of property, plant and equipment		–	208
Decrease in pledged time deposits		3,598	1,372
Net cash used in investing activities		(6,661)	(52,765)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(45,000)	(60,000)
Net cash flows used in financing activities		(45,000)	(60,000)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(98,475)	(98,047)
Cash and cash equivalents at beginning of period	291,676	312,133
CASH AND CASH EQUIVALENTS AT END OF PERIOD	193,201	214,086
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	163,201	114,086
Non-pledged time deposits with original maturity of less than three months when acquired	30,000	100,000
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	193,201	214,086

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the Company's head office and principal place of business is located at Room 2308, 23/F, Wing On Centre, 111 Connaught Road Central, Hong Kong.

The Company is an investment holding company. During the period under review, the Company's subsidiaries were principally involved in foundation construction, and drilling and site investigation works for both public and private sectors in Hong Kong and overseas.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The unaudited condensed consolidated 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 with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules").

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except as described below. In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRS", which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA which are effective for the Group's financial year beginning on or after 1 January 2018.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
<i>Annual Improvements 2014 – 2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as further explained below, the adoption of the new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements of the Group.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, and presentation of contract assets and contract liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 9 Financial instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The standard introduces new requirements for classification and measurement and impairment. The Group has adopted HKFRS 9 from 1 January 2018.

(a) *Classification and measurement*

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

From 1 January 2018, the Group classified its financial assets as debt instruments measured at amortised cost as they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, retention monies receivable, contract assets, and deposits and other receivables.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

(b) *Impairment of financial assets*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit losses ("ECLs") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Lifetime ECLs represent the ECLs that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that are expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

At 1 January 2018 and 30 June 2018, the directors reviewed and assessed the Group's financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact were considered insignificant to the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 *Revenue* and related Interpretations, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 *Construction Contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of retained profits at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 January 2018:

	HK\$'000
Retained profits	
Adjustments of gross amount due from contract customers	2,823
Related tax	(466)
	<hr/>
	2,357

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Previously, revenue arising from construction contracts was recognised by applying the percentage-of-completion method.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- (a) when the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) when the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 15 Revenue from Contracts with Customers *(continued)*

The effects of the adoption of HKFRS 15 on construction contracts are further explained as follows:

Under HKFRS 15, when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, the Group recognises revenue as the performance obligation is satisfied over time.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings for construction work is recognised as contract assets. The contract assets will be reclassified as receivables when the progress billings are issued and delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The excess of cumulative billings for construction work over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. The contract liabilities are recognised as revenue when the Group satisfies its performance obligations.

To follow the terminology used under HKFRS 15, the Group has made the following adjustments at 1 January 2018:

- (1) "Gross amount due from contract customers" in relation to construction work has been reclassified as "Contract assets"; and
- (2) "Gross amount due to contract customers" in relation to construction work has been reclassified as "Other payables and accruals".

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
Current assets				
Gross amount due from contract customers	58,157	—	(58,157)	—
Contract assets	—	—	60,980	60,980
Current liabilities				
Gross amount due to contract customers	364,843	(364,843)	—	—
Other payables and accruals	47,407	364,843	—	412,250
Tax payable	8,956	—	466	9,422
Equity				
Retained profits	190,691	—	2,357	193,048

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 15 Revenue from Contracts with Customers *(continued)*

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position as at 30 June 2018

	As Reported HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current assets				
Gross amount due from contract customers	–	–	71,280	71,280
Contract assets	75,528	–	(75,528)	–
Current liabilities				
Gross amount due to contract customers	–	276,690	–	276,690
Other payables and accruals	316,538	(276,690)	–	39,848
Tax payable	16,386	–	(701)	15,685
Equity				
Retained profits	178,232	–	(3,547)	174,685

Impact on the condensed consolidated statement of profit or loss for the six months ended 30 June 2018

	As Reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Revenue	538,713	(14,548)	524,165
Cost of construction	(413,844)	13,123	(400,721)
Gross profit	124,869	(1,425)	123,444
Profit before tax	37,418	(1,425)	35,993
Income tax expense	(7,234)	235	(6,999)
Profit and total comprehensive income attributable to:			
Equity holders of the Company	30,184	(1,190)	28,994

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- Foundation construction and ancillary services; and
- Drilling and site investigation

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted operating profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income and unallocated corporate gains and expenses are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION *(continued)*

Six months ended 30 June 2018

	Foundation construction and ancillary services (Unaudited) HK\$'000	Drilling and site investigation (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	445,268	93,445	538,713
Intersegment sales	–	26,298	26,298
Other revenue	650	714	1,364
	445,918	120,457	566,375
<i>Reconciliation:</i>			
Elimination of intersegment sales			(26,298)
Other revenue			(1,364)
Revenue			538,713
Segment results	24,982	13,801	38,783
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(2,015)
Interest income			650
Profit before tax			37,418

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION *(continued)*

As at 30 June 2018

	Foundation construction and ancillary services (Unaudited) HK\$'000	Drilling and site investigation (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment assets	689,565	212,195	901,760
<i>Reconciliation:</i>			
Corporate and other unallocated assets			1,971
Total assets			903,731
Segment liabilities	339,092	150,178	489,270
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			2,600
Total liabilities			491,870

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION *(continued)*

Six months ended 30 June 2017

	Foundation construction and ancillary services (Unaudited) HK\$'000	Drilling and site investigation (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	513,217	77,714	590,931
Intersegment sales	–	16,682	16,682
Other revenue			
Rental Income from leasing of machinery	636	–	636
Others	701	–	701
	<hr/>	<hr/>	<hr/>
	514,554	94,396	608,950
<i>Reconciliation:</i>			
Elimination of intersegment sales			(16,682)
Other revenue			(1,337)
			<hr/>
Revenue			590,931
			<hr/>
Segment results	50,752	9,991	60,743
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(1,818)
Interest income			583
			<hr/>
Profit before tax			59,508
			<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION *(continued)*

As at 31 December 2017

	Foundation construction and ancillary services (Audited) HK\$'000	Drilling and site investigation (Audited) HK\$'000	Total (Audited) HK\$'000
Segment assets	832,635	180,364	1,012,999
<i>Reconciliation:</i>			
Corporate and other unallocated assets			1,203
Total assets			1,014,202
Segment liabilities	446,612	139,053	585,665
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			4,217
Total liabilities			589,882

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE, OTHER INCOME AND GAINS

Disaggregation of revenue

Six months ended
30 June 2018
(Unaudited)
HK\$'000

Type of services

Foundation construction and ancillary services
Drilling and site investigation services

445,268
93,445

538,713

Timing of revenue recognition

Over time

538,713

Other income and gains

Six months ended 30 June
2018 2017
(Unaudited) (Unaudited)
HK\$'000 HK\$'000

Bank interest income
Rental income from leasing of machinery
Exchange gains, net
Others

650 583
– 636
– 318
714 –

1,364 1,537

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	31,720	33,770
Less: Amount included in contract cost	(4,001)	(256)
	27,719	33,514
Employee benefit expense (including directors' remuneration)	128,765	136,858
Less: Amount included in contract cost	(93,600)	(96,413)
	35,165	40,445
Minimum lease payments under operating leases	4,838	3,929
Loss on disposal of items of property, plant and equipment	824	832
Impairment of goodwill	398	—
Foreign exchange differences, net	31	(318)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the period	6,556	9,853
Current – Elsewhere		
Charge for the period	1,146	482
Deferred	(468)	(528)
Total tax charge for the period	7,234	9,807

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$30,184,000 (2017: HK\$49,701,000) and the number of ordinary shares in issue during both periods.

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2018 and 2017.

8. DIVIDENDS

The Board does not propose the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment with a total cost of HK\$10,520,000 (2017: HK\$54,928,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. TRADE RECEIVABLES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Trade receivables	120,190	112,123

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing. At 30 June 2018, the Group had certain concentration risk that may arise from the exposure to the five largest customers which accounted for 67% (31 December 2017: 77%) of the Group's total trade receivables. At 30 June 2018, the Group had certain concentration risk that may arise from the exposure to the largest customer which accounted for 20% (31 December 2017: 21%) of the Group's total trade receivables.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Current to 30 days	91,462	81,489
31 to 60 days	16,715	13,640
61 to 90 days	4,383	3,232
Over 90 days	7,630	13,762
	120,190	112,123

11. DUE FROM A RELATED COMPANY

The amount due from a related company represented construction contracting income certified from Gold Famous Development Limited ("Gold Famous"). Gold Famous is an indirect wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok") of which Dr. James Sai-Wing Wong, a controlling shareholder of the Company, is also a director of and has a beneficial interest in. Mr. James Sing-Wai Wong is a common director of the Company and Hon Kwok.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. TRADE PAYABLES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Trade payables	87,105	97,328

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Current to 30 days	78,353	89,790
31 to 60 days	4,589	4,920
61 to 90 days	759	253
Over 90 days	3,404	2,365
	87,105	97,328

The trade payables are non-interest bearing and normally settled on 30-day terms.

13. SHARE CAPITAL

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Authorised:		
3,000,000,000 (31 December 2017: 3,000,000,000) ordinary shares of HK\$0.10 each	300,000	300,000
Issued and fully paid:		
1,500,000,000 (31 December 2017: 1,500,000,000) ordinary shares of HK\$0.10 each	150,000	150,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. BUSINESS COMBINATION

On 5 January 2018, the Group acquired a 100% interest in Everest Engineering Company Limited from a third party. Everest Engineering Company Limited is engaged in basement construction works. The acquisition was made to expand the foundation services of the Group. The purchase consideration for the acquisition was in the form of cash, with HK\$400,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Everest Engineering Company Limited as at the date of acquisition were as follows:

	Fair value recognised on acquisition (Unaudited) HK\$'000
Cash and cash equivalents	11
Other payables	(9)
	<hr/>
Total identifiable net assets at fair value	2
Goodwill on acquisition	398
	<hr/>
	400
	<hr/>
Satisfied by:	
Cash	400
	<hr/>

An analysis of the cash flows in respect of the acquisition of Everest Engineering Company Limited was as follows:

	HK\$'000
Cash consideration	(400)
Cash and cash equivalents acquired	11
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(389)
	<hr/>

The goodwill was impaired in the reporting period and the impairment of goodwill was not deductible for income tax purpose.

Since the acquisition, Everest Engineering Company Limited did not contribute any revenue and had incurred a loss of HK\$16,000 to the Group's consolidated profit for the period ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. CONTINGENT LIABILITIES

As at 30 June 2018, the Group provided corporate guarantees and indemnities to certain banks and an insurance company for an aggregate amount of HK\$172,943,000 (31 December 2017: HK\$261,701,000) for the issue of performance bonds in its ordinary course of business. As at 31 December 2017, certain of these performance bonds were also secured by time deposits amounting to HK\$3,598,000.

16. OPERATING LEASE ARRANGEMENTS

The Group leases its warehouses and offices under operating lease arrangements with leases negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within one year	9,833	756
In the second to fifth years, inclusive	14,364	–
	24,197	756

17. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

		Six months ended 30 June 2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
	<i>Notes</i>		
Rental expenses to fellow subsidiaries	(i)	772	772
Rental expenses to a related company	(i)	96	96
Purchases from fellow subsidiaries	(ii)	–	241
Contracting income from a related company	(iii)	(54,302)	(14,326)

Notes:

- (i) Rental expenses charged by fellow subsidiaries and a related company are based on the market price.
- (ii) In the opinion of the directors, the above transactions were made according to the published prices and conditions similar to those offered to other major customers and suppliers.
- (iii) The contracting income received from a related company was negotiated between the concerned parties by reference to prevailing market rates. The transaction constitutes a connected transaction of the Group and was approved by the independent shareholders of the Company at a special general meeting held on 7 November 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

17. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	8,428	8,414
Post-employment benefits	201	184
Total compensation paid to key management personnel	8,629	8,598

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash equivalents, pledged time deposits, trade and retention monies receivable, trade and retention monies payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and balances with a fellow subsidiary and a related company approximately to their carrying amounts largely due to the short term maturities of these instruments.

Fair value hierarchy

At 30 June 2018 and 31 December 2017, the Group did not have any financial assets and liabilities measured at fair value.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

CORPORATE GOVERNANCE

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. On specific enquiries made, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

Compliance with the Corporate Governance Code

In the opinion of the Directors, the Company has complied with all relevant code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

Audit Committee

The audit committee of the Company (the “Audit Committee”) comprises all the three independent non-executive Directors namely Mr. Siu-Chee Kong (Chairman of the Audit Committee), Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui. Regular meetings have been held by the Audit Committee since its establishment and it meets at least twice each year to review and oversee the Group’s financial reporting process and internal control. The Company’s interim results for the six months ended 30 June 2018 have not been audited, but have been reviewed by the Audit Committee.

DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six-month period ended 30 June 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following interests and short positions of 5% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1	Interest through controlled corporations	1,117,500,000	74.50%
Chinney Alliance Group Limited		Beneficial owner	1,117,500,000	74.50%
Enhancement Investments Limited	1, 2	Interest through a controlled corporation	1,117,500,000	74.50%

Notes:

1. Dr. James Sai-Wing Wong and Enhancement Investments Limited are deemed to be interested in the same parcel of the 1,117,500,000 shares by virtue of Section 316 of the SFO; and
2. Enhancement Investments Limited is beneficially wholly-owned by Dr. James Sai-Wing Wong.

Save as disclosed above, as at 30 June 2018, no person had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2018.