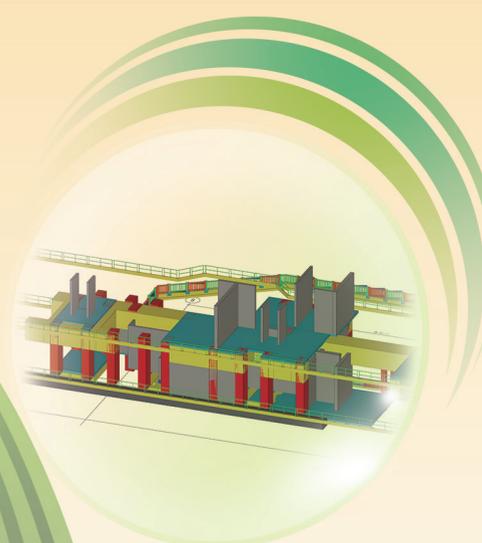




有利集團有限公司 Yau Lee Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 0406

BIM for Full Building Lifecycle
Industrialized Building Process
Modular Integrated Construction



This interim report is printed on environmentally friendly paper

2018
Interim Report

CORPORATE INFORMATION

Board of directors

Executive directors

Wong Ip Kuen (*Chairman*)
Wong Tin Cheung (*Vice Chairman*)
Wong Wai Man
Sun Chun Wai

Independent non-executive directors

Chan, Bernard Charnwut
Wu King Cheong
Yeung Tsun Man, Eric

Audit committee

Yeung Tsun Man, Eric (*Chairman*)
Chan, Bernard Charnwut
Wu King Cheong

Remuneration committee

Chan, Bernard Charnwut (*Chairman*)
Wong Tin Cheung
Wu King Cheong
Yeung Tsun Man, Eric

Nomination committee

Wu King Cheong (*Chairman*)
Chan, Bernard Charnwut
Yeung Tsun Man, Eric

Corporate governance committee

Chan, Bernard Charnwut (*Chairman*)
Wong Tin Cheung
Wu King Cheong
Yeung Tsun Man, Eric

Registered office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business

10th Floor, Tower 1
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Hong Kong

Websites: <http://www.yaulee.com>
<http://www.irasia.com/listco/hk/yaulee/>

Company secretary

Lam Kwok Fan

Principal bankers

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Hang Seng Bank Limited
Nanyang Commercial Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited

Independent auditor

PricewaterhouseCoopers

Solicitors

Gallant
T.H. Koo & Associates

Hong Kong share registrar and transfer office

Computershare Hong Kong Investor Services Ltd.
Room No. 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

HIGHLIGHTS

The Group reported revenue of HK\$2,461,439,000 (2017: HK\$2,582,911,000) for the six months ended 30 September 2018 (the “period”).

The gross profit for the period increased from HK\$212,136,000 to HK\$244,839,000.

Profit for the period was HK\$11,312,000 (2017: HK\$19,061,000).

Basic and diluted earnings per share was approximately HK2.53 cents (2017: HK4.34 cents).

The net asset value attributable to equity holders of the Company as at 30 September 2018 was HK\$1,356,038,000 (31 March 2018: HK\$1,475,823,000), equivalent to HK\$3.10 (31 March 2018: HK\$3.37) per share based on the 438,053,600 (31 March 2018: 438,053,600) ordinary shares in issue.

The Board of Directors (the “Board”) of Yau Lee Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2018 were as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2018

		Six months ended	
		30 September	
		2018	2017
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	2,461,439	2,582,911
Cost of sales	8	(2,216,600)	(2,370,775)
Gross profit		244,839	212,136
Other income and gains, net	7	6,399	39,891
Selling and distribution costs	8	(10,834)	(9,246)
Administrative expenses	8	(203,982)	(196,750)
Other operating expenses	8	(2,707)	(5,674)
Operating profit		33,715	40,357
Finance costs	9	(15,495)	(13,667)
Share of profit/(loss) of associates		59	(7)
Share of loss of joint ventures		(276)	(3)
Profit before income tax		18,003	26,680
Income tax expense	10	(6,691)	(7,619)
Profit for the period		11,312	19,061
Attributable to:			
Equity holders of the Company		11,077	19,007
Non-controlling interests		235	54
		11,312	19,061
Interim dividend	11	6,571	6,571
Earnings per share (basic and diluted)	12	HK2.53 cents	HK4.34 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	11,312	19,061
Other comprehensive (loss)/income		
<i>Item that may be reclassified to profit or loss:</i>		
Currency translation differences	<u>(79,714)</u>	<u>10,017</u>
Total comprehensive (loss)/income for the period	<u>(68,402)</u>	<u>29,078</u>
Attributable to:		
Equity holders of the Company	(68,637)	29,024
Non-controlling interests	235	54
Total comprehensive (loss)/income for the period	<u>(68,402)</u>	<u>29,078</u>

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2018

		30 September 2018	31 March 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	<i>13</i>	1,207,791	1,281,052
Investment properties	<i>13</i>	233,188	234,577
Leasehold land and land use rights	<i>13</i>	69,010	76,701
Intangible assets		10,926	11,454
Goodwill		15,905	15,905
Associates		1,344	1,285
Joint ventures		28,520	8,330
Deferred income tax assets		6,386	6,200
Available-for-sale financial assets		–	11,800
Financial assets at fair value through other comprehensive income		11,800	–
Other non-current assets		9,578	1,069
		1,594,448	1,648,373
Current assets			
Cash and bank balances	<i>14</i>	622,634	781,757
Trade debtors, net	<i>15</i>	664,504	802,263
Due from customers on construction contracts		–	818,355
Contract assets		949,155	–
Prepayments, deposits and other receivables		459,922	429,739
Inventories		96,477	95,357
Completed properties held for sale		166,917	176,017
Property under development for sale		339,498	305,444
Due from associates		–	114
Due from joint ventures/joint operations		39,446	30,097
Prepaid income tax		1,816	1,828
		3,340,369	3,440,971
Total assets		4,934,817	5,089,344

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2018

	30 September 2018	31 March 2018
Note	HK\$'000	HK\$'000
EQUITY		
Share capital	16 87,611	87,611
Other reserves	411,010	490,724
Retained profits	857,417	897,488
	<hr/>	<hr/>
Attributable to equity holders of the Company	1,356,038	1,475,823
Non-controlling interests	3,980	3,745
	<hr/>	<hr/>
Total equity	1,360,018	1,479,568
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Non-current liabilities		
Long-term borrowings	17 1,014,366	1,242,526
Deferred income tax liabilities	10,692	12,957
	<hr/>	<hr/>
	1,025,058	1,255,483
	<hr/> <hr/>	<hr/> <hr/>
Current liabilities		
Short-term bank loans	17 851,383	867,831
Current portion of long-term borrowings	17 465,493	137,204
Derivative financial liabilities	228	–
Payables to suppliers and subcontractors	18 237,455	321,929
Accruals, retention payables, deposits received and other liabilities	524,114	629,084
Income tax payable	12,205	4,528
Obligation in respect of joint ventures	1,565	1,558
Due to customers on construction contracts	–	365,428
Contract liabilities	425,567	–
Due to joint operations	2,799	2,799
Due to other partners of joint operations	28,932	23,932
	<hr/>	<hr/>
	2,549,741	2,354,293
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities	3,574,799	3,609,776
	<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities	4,934,817	5,089,344
	<hr/> <hr/>	<hr/> <hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to equity holders of the Company							Sub-total	Non-controlling interests	Total
	Share capital	Share premium	Capital redemption reserve	Currency translation reserve	Property revaluation reserve	Other reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2017	87,611	413,776	359	1,017	43,226	(8,481)	857,569	1,395,077	328	1,395,405
Profit for the period	-	-	-	-	-	-	19,007	19,007	54	19,061
Other comprehensive income:										
Currency translation differences	-	-	-	10,017	-	-	-	10,017	-	10,017
Transactions with non-controlling interests	-	-	-	-	-	9,573	-	9,573	3,255	12,828
2017 final dividend (Note 11)	-	-	-	-	-	-	(6,045)	(6,045)	-	(6,045)
As at 30 September 2017	87,611	413,776	359	11,034	43,226	1,092	870,531	1,427,629	3,637	1,431,266
As at 31 March 2018	87,611	413,776	359	32,271	43,226	1,092	897,488	1,475,823	3,745	1,479,568
Adjustment on adoption of HKFRS 9 (Note 3(a))	-	-	-	-	-	-	(38,714)	(38,714)	-	(38,714)
Adjustment on adoption of HKFRS 15 (Note 3(a))	-	-	-	-	-	-	(5,863)	(5,863)	-	(5,863)
Restated balance as at 1 April 2018	87,611	413,776	359	32,271	43,226	1,092	852,911	1,431,246	3,745	1,434,991
Profit for the period	-	-	-	-	-	-	11,077	11,077	235	11,312
Other comprehensive loss:										
Currency translation differences	-	-	-	(79,714)	-	-	-	(79,714)	-	(79,714)
2018 final dividend (Note 11)	-	-	-	-	-	-	(6,571)	(6,571)	-	(6,571)
As at 30 September 2018	87,611	413,776	359	(47,443)	43,226	1,092	857,417	1,356,038	3,980	1,360,018

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Operating profit	33,715	40,357
Interest income	(9,827)	(7,213)
Dividend income from investments	(1,200)	–
Gain on disposal of property, plant and equipment, net	(79)	(285)
Fair value gain on investment properties, net	(1,000)	(1,434)
Amortisation of intangible assets	528	528
Amortisation of leasehold land and land use rights	997	963
Depreciation	46,491	47,097
Provision for impairment of/(write-back of impaired) receivables, net	146	(1,499)
	<hr/>	<hr/>
Operating profit before working capital changes	69,771	78,514
Trade debtors, net	71,888	276,558
Inventories	(1,120)	(23,103)
Prepayments, deposits and other receivables	(31,947)	(25,543)
Contract assets/due from customers on construction contracts	(135,020)	98,804
Property under development for sale	(34,054)	(20,964)
Completed properties held for sale	9,100	–
Net change in balances with joint ventures/joint operations/other partners of joint operations	(4,121)	(111)
Payables to suppliers and subcontractors	(84,295)	(73,232)
Accruals, retention payables, deposit received and other liabilities	(102,631)	(143,065)
Contract liabilities/due to customers on construction contracts	57,826	42,703
	<hr/>	<hr/>
Net cash (used in)/from operations	(184,603)	210,561
Hong Kong profits tax refunded	–	132
Overseas tax paid	(460)	(691)
	<hr/>	<hr/>
Net cash (used in)/from operating activities	(185,063)	210,002
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UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 September 2018

	Six months ended	
	30 September	
<i>Note</i>	2018	2017
	HK\$'000	HK\$'000
Cash flows from investing activities		
Investment in joint ventures	(20,459)	–
Purchase of property, plant and equipment	(19,759)	(42,656)
Proceeds from disposal of property, plant and equipment	588	881
Dividend received from an associate	114	495
Dividend received from investments	1,200	–
Interest received	3,269	3,189
	<hr/>	<hr/>
Net cash used in investing activities	(35,047)	(38,091)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Cash flows from financing activities		
Repayment of bank loans	(73,778)	(435,532)
Drawdown of bank loans	160,420	257,103
Decrease in restricted deposits	35,876	23,897
Capital element of finance lease payments	(2,930)	(5,536)
Interest element of finance lease payments	(15)	(168)
Dividend paid	(6,571)	(6,045)
Interest paid	(15,480)	(13,499)
	<hr/>	<hr/>
Net cash from/(used in) financing activities	97,522	(179,780)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net decrease in cash and cash equivalents	(122,588)	(7,869)
Cash and cash equivalents at beginning of period	620,759	552,451
Exchange (loss)/gain on cash and cash equivalents	(659)	4,176
	<hr/>	<hr/>
Cash and cash equivalents at end of period	497,512	548,758
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Analysis of cash and cash equivalents		
	<i>14</i>	
Cash and bank balances	394,036	516,595
Time deposits	103,476	32,163
	<hr/>	<hr/>
	497,512	548,758
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Yau Lee Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in contracting of building construction, plumbing, renovation, maintenance and fitting-out projects, electrical and mechanical installation, building materials supply, property investment and development and hotel operations. The Group is also engaged in other activities which mainly include computer software development and architectural and engineering services.

The Company is a limited liability company incorporated in Bermuda on 25 June 1991. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”).

Condensed consolidated interim financial information is presented in thousands of Hong Kong dollars (“HK\$’000”), unless otherwise stated. Condensed consolidated interim financial information has been approved for issue by the Board of Directors on 20 November 2018.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The unaudited condensed consolidated interim financial information has been prepared under historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties which are carried at fair value.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Certain comparative figures have been reclassified to conform to the presentation of current period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the audited consolidated financial statements for the year ended 31 March 2018.

(a) New standards, amendments to standards and interpretations adopted by the Group

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 1	First-time Adoption of HKFRS
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKAS 40	Transfers of Investment Property
HK (IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Consideration

(i) *HKFRS 9 Financial Instruments*

Classification and measurement

Following the adoption of HKFRS 9 and in accordance with the transitional provisions, comparative figures of the Group's financial statements have not been restated. The reclassifications and the adjustments arising from the new standards are therefore not restated in the balance sheet as at 31 March 2018, but are recognised in the opening balance sheet on 1 April 2018.

The Group has elected to present changes in the fair value of the investments in other comprehensive income (previously classified as available-for-sale financial assets) as they are not expected to be sold in the short to medium term. Under this election, changes in fair value are recognised in other comprehensive income and are not eligible to be recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

As a result, the comparatives continue to be accounted as available-for-sale financial asset while its opening balances were reclassified to financial assets at fair value through other comprehensive income with no adjustments on carrying amount on the date of initial adoption (i.e. 1 April 2018).

Impairment

The Group's financial assets classified at amortised cost, including trade and other receivables are subject to the new expected credit loss model for impairment assessment. The adoption of new impairment model as at 1 April 2018 has resulted in reduction in carrying value of trade and other receivables of HK\$38,714,000.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(a) New standards, amendments to standards and interpretations adopted by the Group (Continued)

(ii) *HKFRS 15 “Revenue from contracts with customers”*

In prior reporting periods, the Group accounted for revenue from construction and engineering contracts over the period of the contracts when the outcome of construction contracts can be estimated reliably and by reference to the stage of completion of the contract activities at the end of the reporting periods. The stage of completion is measured by reference to work performed as a percentage of total contract value.

Under HKFRS 15, revenue from construction and engineering contracts is recognised over time as the Group satisfies the performance obligation over time, by reference to contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract (input method for measuring progress).

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

The Group has elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of applying this standard for uncompleted contracts with customers as at 31 March 2018 as an adjustment to the opening balances of retained profits as at 1 April 2018 with the exemption to restate comparative figures.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(a) New standards, amendments to standards and interpretations adopted by the Group (Continued)

(iii) Impact of adoption of HKFRS 9 and HKFRS 15

The following tables show the impact on each individual line item in the consolidated balance sheet as at 1 April 2018. Line items that were not affected by the changes have not been included.

Unaudited Condensed Consolidated Balance Sheet (extract)

	At 31 March 2018 <i>(as previously reported)</i> HK\$'000	Adoption of HKFRS 9 <i>(Note(a)(i))</i> HK\$'000	Adoption of HKFRS 15 <i>(Note(a)(ii))</i> HK\$'000	At 1 April 2018 <i>(restated)</i> HK\$'000
Non-current assets				
Financial assets at fair value through other comprehensive income	–	11,800	–	11,800
Available-for-sale financial assets	11,800	(11,800)	–	–
Deferred income tax assets	6,200	–	186	6,386
Current assets				
Contract assets	–	–	814,135	814,135
Due from customers on construction contracts	818,355	–	(818,355)	–
Provision for impairment	(12,645)	(38,714)	–	(51,359)
Non-current liabilities				
Deferred income tax liabilities	12,957	–	(1,871)	11,086
Current liabilities				
Contract liabilities	–	–	367,741	367,741
Due to customers on construction contracts	365,428	–	(365,428)	–
Income tax payable	4,528	–	1,387	5,915
Equity				
Retained profits	897,488	(38,714)	(5,863)	852,911

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(a) New standards, amendments to standards and interpretations adopted by the Group (Continued)

(iii) Impact of adoption of HKFRS 9 and HKFRS 15 (Continued)

The amount by which each financial statement line item is affected by the application of HKFRS 9 and HKFRS 15 as compared to HKAS 18 (previously in effect) as at 30 September 2018 is as follows:

Unaudited Condensed Consolidated Balance Sheet (extract)

	At 30 September 2018			
	Before adoption of HKFRS 9 and HKFRS 15 HK\$'000	Effects of adopting HKFRS 9 HK\$'000	Effects of adopting HKFRS 15 HK\$'000	As reported HK\$'000
Non-current assets				
Financial assets at fair value through other comprehensive income	–	11,800	–	11,800
Available-for-sale financial assets	11,800	(11,800)	–	–
Deferred income tax assets	6,200	–	186	6,386
Current assets				
Contract assets	–	–	949,155	949,155
Due from customers on construction contracts	934,696	–	(934,696)	–
Provision for impairment	(12,136)	(38,863)	–	(50,999)
Non-current liabilities				
Deferred income tax liabilities	12,563	–	(1,871)	10,692
Current liabilities				
Contract liabilities	–	–	425,567	425,567
Due to customers on construction contracts	429,646	–	(429,646)	–
Income tax payable	10,366	–	1,839	12,205
Equity				
Retained profits	877,524	(38,863)	18,756	857,417

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(a) New standards, amendments to standards and interpretations adopted by the Group (Continued)

(iii) Impact of adoption of HKFRS 9 and HKFRS 15 (Continued)

Unaudited Condensed Consolidated Income Statement (extract)

	Six months ended 30 September 2018			
	Before adoption of HKFRS 9 and HKFRS 15 <i>HK\$'000</i>	Effects of adopting HKFRS 9 <i>HK\$'000</i>	Effects of adopting HKFRS 15 <i>HK\$'000</i>	As reported <i>HK\$'000</i>
Revenue	2,345,281	–	116,158	2,461,439
Cost of sales	(2,125,513)	–	(91,087)	(2,216,600)
Gross profit	219,768	–	25,071	244,839
Administrative expenses	(203,833)	(149)	–	(203,982)
Income tax expense	(6,239)	–	(452)	(6,691)

The adoption of HKFRS 9 and HKFRS 15 had no impact to the net cash flow from operating, investing and financing activities on the unaudited condensed consolidated cash flow statement.

Other than HKFRS 9 and HKFRS 15, the adoption of the other amendments to standards and interpretations does not have any significant impact on the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(b) New standards, amendments to standards and interpretations have been issued but are not yet effective

The following new standards, amendments to standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2019 and have not been early adopted by the Group are as follows:

		Effective for accounting periods beginning on or after
Amendments to HKAS 19	Employee Benefits	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation and Modification of Financial Liabilities	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3. ACCOUNTING POLICIES (CONTINUED)

(b) New standards, amendments to standards and interpretations have been issued but are not yet effective (Continued)

Further information about those new standards, amendments to standards and interpretations that are not yet effective but are expected to have impact to the Group is set out below:

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$25,017,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements 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 consolidated financial statements for the year ended 31 March 2018.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2018.

There have been no changes in any risk management policies since the financial year end.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

6. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in contracting of building construction, plumbing, renovation, maintenance and fitting-out projects, electrical and mechanical installation, building materials supply, property investment and development and hotel operations.

	Six months ended	
	30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Construction	1,811,386	1,903,801
Electrical and mechanical installation	486,780	570,418
Building materials supply	80,220	48,976
Property investment and development	12,254	1,308
Hotel operations	55,013	47,123
Others	15,786	11,285
	2,461,439	2,582,911

For the six months ended 30 September 2018, the Group recognised revenue from contracts with customers (including construction, electrical and mechanical installation, property investment and development, hotel operations and others) over time except for revenue from building materials supply of HK\$80,220,000 and property sales of HK\$10,861,000 which were recognised at a point in time.

The chief operating decision makers have been identified as the Executive Directors. In accordance with the Group's internal financial reporting provided to the Executive Directors, who are responsible for allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are as follows:

- Construction – Contracting of building construction, plumbing, renovation, maintenance and fitting-out projects
- Electrical and mechanical installation – Provision of electrical, mechanical, ventilation and air conditioning, fire, plumbing and environmental engineering services
- Building materials supply – Supply of construction and building materials
- Property investment and development
- Hotel operations

Other operations of the Group mainly comprise computer software development and architectural and engineering services which are not of a sufficient size to be reported separately.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Construction HK\$'000	Electrical and mechanical installation HK\$'000	Building and materials supply HK\$'000	Property investment and development HK\$'000	Hotel operations HK\$'000	Others HK\$'000	Total HK\$'000
For the six months ended 30 September 2018							
Total sales	1,842,975	724,827	228,419	12,254	55,013	48,679	2,912,167
Less: Inter-segment sales	(31,589)	(238,047)	(148,199)	-	-	(32,893)	(450,728)
External sales	<u>1,811,386</u>	<u>486,780</u>	<u>80,220</u>	<u>12,254</u>	<u>55,013</u>	<u>15,786</u>	<u>2,461,439</u>
Segment results	1,183	15,116	(4,686)	2,153	12,885	(5,176)	21,475
Share of profit of associates	-	59	-	-	-	-	59
Share of loss of joint ventures	-	-	(276)	-	-	-	(276)
	<u>1,183</u>	<u>15,175</u>	<u>(4,962)</u>	<u>2,153</u>	<u>12,885</u>	<u>(5,176)</u>	<u>21,258</u>
Unallocated income							12,240
Finance costs							(15,495)
Profit before income tax							18,003
Income tax expense							(6,691)
Profit for the period							<u>11,312</u>
At 30 September 2018							
Segment assets	1,955,402	639,454	816,466	760,709	565,234	167,834	4,905,099
Interests in associates	-	1,319	-	-	-	25	1,344
Unallocated assets							<u>28,374</u>
Total assets							<u>4,934,817</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Construction <i>HK\$'000</i>	Electrical and mechanical installation <i>HK\$'000</i>	Building materials supply <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 September 2017							
Total sales	1,929,401	873,449	233,224	1,308	47,123	38,399	3,122,904
Less: Inter-segment sales	<u>(25,600)</u>	<u>(303,031)</u>	<u>(184,248)</u>	<u>-</u>	<u>-</u>	<u>(27,114)</u>	<u>(539,993)</u>
External sales	<u>1,903,801</u>	<u>570,418</u>	<u>48,976</u>	<u>1,308</u>	<u>47,123</u>	<u>11,285</u>	<u>2,582,911</u>
Segment results	(13,445)	1,780	42,464	1,910	7,949	(10,001)	30,657
Share of loss of associates	-	(7)	-	-	-	-	(7)
Share of loss of joint ventures	-	-	(3)	-	-	-	(3)
	<u>(13,445)</u>	<u>1,773</u>	<u>42,461</u>	<u>1,910</u>	<u>7,949</u>	<u>(10,001)</u>	<u>30,647</u>
Unallocated income							9,700
Finance costs							<u>(13,667)</u>
Profit before income tax							26,680
Income tax expense							<u>(7,619)</u>
Profit for the period							<u>19,061</u>
At 31 March 2018							
Segment assets	1,921,254	781,250	898,963	737,532	574,601	148,291	5,061,891
Interests in associates	-	1,260	-	-	-	25	1,285
Unallocated assets							<u>26,168</u>
Total assets							<u>5,089,344</u>

There has been no material change in total liabilities from the amount disclosed in the last annual financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

7. OTHER INCOME AND GAINS, NET

	Six months ended 30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income		
Dividend income from investments	1,200	–
Bank interest income	3,269	3,189
Interest income from subcontractors	6,558	4,024
Management service income from a joint operation	191	12
Sundry income	5,513	4,504
	<u>16,731</u>	<u>11,729</u>
	-----	-----
Other (losses)/gains, net		
Fair value gain on investment properties, net	1,000	1,434
Gain on disposal of property, plant and equipment, net	79	285
Exchange (loss)/gain, net	(11,411)	26,443
	<u>(10,332)</u>	<u>28,162</u>
	-----	-----
	<u>6,399</u>	<u>39,891</u>
	=====	=====

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

8. EXPENSES BY NATURE

	Six months ended	
	30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of construction	1,712,167	1,836,679
Cost of properties sold	9,100	–
Cost of inventories sold	127,253	148,189
Staff cost (including directors' emoluments)	431,657	436,978
Depreciation		
Owned property, plant and equipment	44,745	43,561
Leased property, plant and equipment	1,746	3,536
	46,491	47,097
Operating lease rentals of		
Land and buildings	6,001	6,085
Other equipment	25,286	31,202
	31,287	37,287
Amortisation of leasehold land and land use rights	997	963
Amortisation of intangible assets	528	528
Provision for impairment of/(write-back of impaired) receivables, net	146	(1,499)
Auditor's remuneration	2,821	2,847
Direct operating expenses arising from investment properties		
– Generate rental income	166	165
– Not generate rental income	22	14
Selling and distribution costs	10,834	9,246
Others	60,654	63,951
Total cost of sales, selling and distribution costs, administrative and other operating expenses	2,434,123	2,582,445

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

9. FINANCE COSTS

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
Interest on overdrafts and short-term bank loans	17,857	11,883
Interest on long-term bank loans	15,235	14,218
Interest element of finance lease payments	51	238
	<hr/>	<hr/>
Total borrowing costs incurred	33,143	26,339
Less: Classified as cost of construction	(13,141)	(9,962)
Capitalised in property under development for sale	(4,507)	(2,710)
	<hr/>	<hr/>
	15,495	13,667
	<hr/> <hr/>	<hr/> <hr/>

10. INCOME TAX EXPENSE

Hong Kong profits tax was calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the six months ended 30 September 2018.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged to the unaudited condensed consolidated income statement represents:

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong profits tax provision for the period	6,643	1,371
Overseas tax provision for the period	135	689
Under-provision in prior years	–	417
Deferred income tax relating to the origination and reversal of temporary differences	(87)	5,142
	<hr/>	<hr/>
	6,691	7,619
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

13. CAPITAL EXPENDITURE

	Property, plant and equipment	Investment properties (Note)	Leasehold land and land use rights
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book amount as at 1 April 2017	1,207,674	228,075	71,233
Additions	46,417	–	–
Fair value gain on investment properties, net	–	1,434	–
Currency translation differences	18,444	1,685	2,783
Disposals	(596)	–	–
Depreciation/amortisation charge (Note 8)	(47,097)	–	(963)
	<u>1,224,842</u>	<u>231,194</u>	<u>73,053</u>
Net book amount as at 30 September 2017	<u>1,224,842</u>	<u>231,194</u>	<u>73,053</u>
Net book amount as at 1 April 2018	1,281,052	234,577	76,701
Additions	19,759	–	–
Fair value gain on investment properties, net	–	1,000	–
Currency translation differences	(46,020)	(2,389)	(6,694)
Disposals	(509)	–	–
Depreciation/amortisation charge (Note 8)	(46,491)	–	(997)
	<u>1,207,791</u>	<u>233,188</u>	<u>69,010</u>
Net book amount as at 30 September 2018	<u>1,207,791</u>	<u>233,188</u>	<u>69,010</u>

Note: The fair value of the Group's investment properties has been arrived at based on the valuations carried out by an independent firm of qualified property valuers not connected with the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

14. CASH AND BANK BALANCES

	30 September 2018	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	394,036	596,804
Time deposits	103,476	23,955
Restricted deposits (<i>Note a</i>)	125,122	160,998
	622,634	781,757
	622,634	781,757

Notes:

- (a) Restricted deposits are funds which are pledged as security for the banking facilities of the Group.
- (b) Cash and cash equivalents include the following for the purpose of the condensed consolidated cash flow statement:

	30 September 2018	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	394,036	596,804
Time deposits with original maturity of less than three months	103,476	23,955
	497,512	620,759
	497,512	620,759

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

15. TRADE DEBTORS, NET

Trade debtors, net included trade debtors and retention receivables less provision for impairment.

The trade debtors are due from 30 days to 150 days after invoicing depending on the nature of services or products. As at 30 September 2018, trade debtors of HK\$112,153,000 (31 March 2018: HK\$140,108,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The aging analysis of the trade debtors, net by overdue day(s) is as follows:

	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Current	<u>552,351</u>	<u>662,155</u>
1-30 days	34,824	21,441
31-90 days	11,800	17,855
91-180 days	4,457	10,559
Over 180 days	<u>61,072</u>	<u>90,253</u>
	<u>112,153</u>	<u>140,108</u>
	<u>664,504</u>	<u>802,263</u>

16. SHARE CAPITAL

	Number of shares		Amount	
	30 September 2018	31 March 2018	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Ordinary shares of HK\$0.2 each				
Authorised:				
At beginning and end of the period/year	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning and end of the period/year	<u>438,053,600</u>	<u>438,053,600</u>	<u>87,611</u>	<u>87,611</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

17. BORROWINGS

The maturity of borrowings is as follows:

	Bank loans		Obligations under finance lease	
	30 September 2018 <i>HK\$'000</i>	31 March 2018 <i>HK\$'000</i>	30 September 2018 <i>HK\$'000</i>	31 March 2018 <i>HK\$'000</i>
Within 1 year	1,315,643	1,000,910	1,233	4,125
Between 1 and 2 years	105,008	421,173	-	67
Between 2 and 5 years	909,358	821,286	-	-
	<u>2,330,009</u>	<u>2,243,369</u>	<u>1,233</u>	<u>4,192</u>

The bank borrowings are secured by certain property, plant and equipment, investment properties, property under development for sale and restricted deposits of the Group.

18. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

The aging analysis of payables to suppliers and subcontractors by overdue day(s) is as follows:

	30 September 2018 <i>HK\$'000</i>	31 March 2018 <i>HK\$'000</i>
Current	221,635	279,010
1-30 days	9,326	34,410
31-90 days	1,162	2,585
91-180 days	307	292
Over 180 days	5,025	5,632
	<u>15,820</u>	<u>42,919</u>
	<u>237,455</u>	<u>321,929</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

19. COMMITMENTS AND CONTINGENT LIABILITIES

The Group has the following outstanding commitments and contingent liabilities:

- (a) In the normal course of its business, the Group is subject to various claims under its construction contracts. As at 30 September 2018, the Group has various liquidated damages claims on certain contracts for which the respective extension of time claims have been forwarded and filed to the clients. The amount of the ultimate liquidated damages, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.
- (b) In 2010 a subsidiary of the Company instigated legal proceedings against a subcontractor, claiming a sum of approximately HK\$10,000,000 in respect of the subcontractor's failure to perform certain contractual duties and for recovery of over-payments made to the subcontractor. The subcontractor's director was also joined in as co-defendant, for liabilities owed under a personal guarantee for the subcontractor's liabilities. The subcontractor also filed a counterclaim, for payment allegedly payable under the subcontract, at around HK\$5,000,000. The trial of the case was concluded in early June 2016. Judgment handed down on 15 August 2016 awarded the subsidiary the full aggregate amount as claimed under various heads, at HK\$9,020,775, together with interests and legal costs. However, a Notice of Appeal was filed in September 2016 by the subcontractor for appeal against some of the awarded claims which has yet been set down in the List of Appeal.

The total outstanding indebtedness, as at 31 January 2017, amounts to HK\$15,379,062 (principal sum and interests accrued). During the year, the subsidiary received a payment of HK\$4,116,237 which is recognised in income statement. For the remaining balance of the judgment debt, the subsidiary is currently pursuing enforcement proceedings for the recovery of the same.

- (c) The Group has provided performance bonds amounting to approximately HK\$688,984,000 (31 March 2018: HK\$645,458,000) in favour of the Group's customers.
- (d) As at 30 September 2018, the Group has capital expenditure contracted for but not yet incurred in relation to plant and equipment and joint ventures of approximately HK\$1,046,000 (31 March 2018: HK\$9,315,000) and RMB91,000,000 (31 March 2018: RMB28,000,000) respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

19. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

- (e) The future aggregate minimum lease rental payable under non-cancellable operating leases is as follows:

	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Land and buildings		
Within one year	9,832	10,020
One year to five years	15,185	18,853
	25,017	28,873

20. FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

The Group has future aggregate minimum lease receipts under non-cancellable operating leases in respect of its investment properties as follows:

	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Within one year	4,966	4,273
One year to five years	5,299	2,330
	10,265	6,603

21. RELATED PARTY TRANSACTIONS

Key management compensation

Key management includes the Directors (Executive and Independent Non-Executive Directors) of the Group. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 September 2018 HK\$'000	2017 HK\$'000
Salaries and fees	8,798	7,952
Pension costs – defined contribution scheme	443	402
Others	554	567
	9,795	8,921

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Review of Operation

For the first half year ended 30 September 2018, the Group generated revenue of HK\$2,461 million, representing a decrease of 5% as compared to the prior-year period. The decline was mainly attributable to less revenue from Singapore and Hong Kong construction businesses. Following the completion of the Anderson Road housing project early this year, the level of work done recognized during the period was low. It is because work done from the two new projects awarded last year were not much as they are still in early stages. Once this kind of project transition period pass, we expect the revenue would be up. The revenue of electrical and mechanical segment also dropped by 17% due to slow progress in certain projects and delay in commencement of works in some new jobs. We anticipated the fall short could be made up during the rest of the year. In respect of the hotel business, it is still on a rising trend. Revenue increased for three consecutive reporting periods and was up by 17% compared to prior-year period. Both of the occupancy rate and room rate rose.

Consolidated gross profit for the period increased 15% to HK\$245 million, as compared to the corresponding period last year. The margin of construction sector improved as lost generated from overseas projects was not recurrent in this period. However, we would strive to improve the current margin further which in fact was somewhat affected by the relatively low turnover in the period.

Operating expenses remained steady and up by around HK\$4 million only. Staff salaries are still the major cost issue in the industry. We would keep close monitoring of it and mitigate the impact through enhancing productivity and streamlining workflow.

In the past six months, some foreign currencies weakened against Hong Kong dollar. Renminbi and Singapore dollar, the Group's two major trade currencies depreciated notably. The corresponding downward foreign currency revaluation impact the Group's financial position. In the first six months ended 30 September 2018, the Group earned an after-tax profit of HK\$11 million whilst the profit was HK\$19 million in prior-year period. However, the operation profits adjusted for foreign currency revaluation loss increased when comparing to prior period on a like-for-like basis.

As at 30 September 2018, the value of contracts in hand was around HK\$21,387 million. New orders increased substantially in last six months, up 933% or HK\$4,948 million period on period. Major growths were in construction and prefabrication segments. On construction, we were awarded two new-built projects amounted to HK\$3,552 million, one from Architectural Services Department ("ASD") and the other one from the Hong Kong Housing Authority. The ASD project is a design and construction of quarters for Fire Services Department at Tseung Kwan O. It is Hong Kong's first pilot project to adopt Modular Integrated Construction (concrete type) ("MiC"). Our technical competence differentiates us from others and would boost our competitiveness in long term. Besides, our maintenance and fit-out team did a good job too. They have secured almost HK\$1,100 million new contracts including two District maintenance term contracts. On electrical and mechanical installation, new contracts of HK\$807 million were signed and a project of HK\$552 million is known to be secured but yet to be signed and included. Total order intake, taking into accounts the known-to-be secured one has been up by 29% as compared to the corresponding period last year on a comparable basis. To conclude, the Group won a good amount of new orders in all core segments during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Movement of Contracts

For the six months ended 30 September 2018

	31 March 2018 <i>HK\$'million</i>	Contracts		30 September 2018 <i>HK\$'million</i>
		Secured <i>HK\$'million</i>	Completed <i>HK\$'million</i>	
Building construction, renovation and maintenance	17,341	4,648	(5,578)	16,411
Electrical and mechanical installation	7,288	807	(1,721)	6,374
Building materials supply	1,664	569	(93)	2,140
Others	22	6	(2)	26
Less: Inter-segment contracts	<u>(3,990)</u>	<u>(552)</u>	<u>978</u>	<u>(3,564)</u>
	<u>22,325</u>	<u>5,478</u>	<u>(6,416)</u>	<u>21,387</u>

Financial Position

The Group's finance and treasury functions have been centrally managed and controlled at the headquarters in Hong Kong. As at 30 September 2018, the Group's total cash and bank balances was HK\$623 million (31 March 2018: HK\$782 million) and total borrowings was HK\$2,331 million (31 March 2018: HK\$2,248 million) during the period. The increase in borrowings was primarily to finance existing construction projects. The current ratio (total current assets: total current liabilities) as at 30 September 2018 was 1.3 (31 March 2018: 1.5). The amount of bank loans and other facilities fall due beyond one year was HK\$1,014 million (31 March 2018: HK\$1,243 million).

All the bank borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and consider engaging relevant hedging arrangements when appropriate. As at 30 September 2018, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of HK\$5,509 million (31 March 2018: HK\$5,173 million), of which HK\$2,792 million (31 March 2018: HK\$2,701 million) had been utilised. The Group considers it has sufficient committed and unutilised banking facilities to meet its current business operation, property development requirement and capital expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Human Resources

As at 30 September 2018, the Group had approximately 2,900 (31 March 2018: 2,800) employees. There are approximately 2,100 (31 March 2018: 2,100) employees in Hong Kong, Macau and Singapore and 800 (31 March 2018: 700) in Mainland China. Yau Lee aims to be a good and attractive employer as we understand people are key to long-term success. The Group offers competitive remuneration packages and employees are rewarded on a performance related basis. The Group is firmly committed to training and staff development. We work continuously to ensure employees can realise their full potentials and thus to foster their development to the Group.

Outlook

Thankfully, the building construction market in Hong Kong continue to flourish, amid worsening prospects for global growth that the International Monetary Fund (“IMF”) cut its global economic growth forecast for 2018 and 2019 lately.

The Legislative Council approved a five-year high of HK\$251 billion for government projects including renovation works of five hospitals in the 2017-2018 legislative year after tighter rules on filibustering. Also, the Government introduced a number of initiatives to tackle the housing problems, one of which is to change land usage of nine pieces of private housing sites to public housing. Business opportunities in public housing and public facilities, the Group’s core markets, are abundant. Furthermore, the Greater Bay Area which brings valuable opportunities to Hong Kong boosts various local developments for sustainable growth and competitive edges. Institutions like MTR, Airport Authority and Science Park etc. devise on-going development plan to leverage the unprecedented opportunities. The pipeline of relevant projects in our key markets remains strong. To grasp these exciting opportunities, contractors got to be not only price-conscious but possess innovative prowess that help clients to deliver innovative and sustainable developments.

The construction industry has been facing the challenges like high construction costs, labor shortage, safety and environmental issues for many years. As such, the Government promotes proactively the adoption of technology and innovative construction methods to improve productivity and cost-effectiveness. MiC and Building Information Modeling technology (“BIM”) are the two initiatives set out in the Agenda of 2017 Policy Address aiming to enhancing productivity and cost-effectiveness. Yau Lee’s greatest strength is its ongoing development of the very latest sustainable construction techniques and ultra-efficient building technology. We never rest on its laurels but anticipate trend, aligning our expertise with customers’ needs. During last year, we developed and advanced successfully our prefabrication technologies which enlarged substantially the level of off-site fabrication to a very high degree. We are honored that the new technologies have been approved and adopted in our new ASD project i.e. the Fire Services Department’s quarters at Tseung Kwan O. It is the first pilot project to adopt MiC in Hong Kong. The project will adopt MiC and the concept of “factory assembly followed by on-site installation”, in which most of the labor-intensive and time-consuming processes would be completed in our Huizhou factory. This construction technology would enhance productivity by reducing the duration of site work by approximately four months or longer subject to project design. Cost could be reduced in long run. Besides, on-site safety, wastage and quality control of project could be greatly enhanced.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook (Continued)

In light of the Government's plan to solve the land and housing problems, the current challenges of construction industry especially the shortage of labor would last if not worsen. MiC, prefabrication, digital technology and artificial intelligence are the future of the industry. As the forerunner in construction innovations, our business would be benefited from our outstanding track record and leadership position.

In respect of the prefabrication industrialization in Mainland China, the Group so far signed six joint venture agreements to develop precast manufacturing and supply and consultancy businesses in eight cities. We are pleased to report that our first joint venture factory located in Hubei Yichang was open in October this year. On the Production Inauguration Ceremony, we received a lot of compliments and positive feedback on the production technologies and outputs from the honorable guests including local government officials and prospective customers like property developers and contractors. All were keen to know more about the technologies and resulting benefits that would achieve. Right now, the factory is busy in the production for the first contract. We anticipated more businesses would be obtained afterwards.

Another two factories are under constructions which are expected to be open in the second quarter of next year. Also, we have been negotiating actively with prospective partners in another fourteen cities. More cooperation agreements may be signed before end of the fiscal year.

Backed by the Group's technical excellence and innovation capabilities, we are well positioned for the future. However, growing uncertainties in external economic environment like trade frictions and interest rate hikes may escalate business costs. The Group would stay alert and get well prepared for the challenges. We remain focus on the optimization of shareholder returns and attractive organic and strategic growth opportunities.

OTHER INFORMATION

INTERIM DIVIDEND

On 20 November 2018, the Board has resolved to declare the payment of an interim dividend of HK1.50 cents (2017: HK1.50 cents) per ordinary share in respect of the six months ended 30 September 2018 to shareholders registered on the register of members on 21 December 2018. The interim dividend will be payable on or before 15 January 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 December 2018 (Wednesday) to 21 December 2018 (Friday), both days inclusive, during which period no transfer of shares shall be effected. To qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room No. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 18 December 2018 (Tuesday).

DIRECTORS' INTERESTS

At the date of this report, the interests of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Shares of HK\$0.2 each in the Company

Director	Number of shares held (long position)	
	Corporate interest	Percentage
Mr. Wong Ip Kuen	267,214,599	61.00%

The shares referred to above are registered in the names of All Fine Investment Company Limited and Billion Goal Holdings Limited with respective registered holding of 230,679,599 shares and 36,535,000 shares. Mr. Wong Ip Kuen owns the entire issued share capital of All Fine Investment Company Limited and Billion Goal Holdings Limited. All Fine Investment Company Limited and Billion Goal Holdings Limited are incorporated in the Cook Islands and the British Virgin Islands respectively. Mr. Wong Ip Kuen is a director of both All Fine Investment Company Limited and Billion Goal Holdings Limited.

OTHER INFORMATION (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

During the six months ended 30 September 2018, none of the Directors and chief executives (including their spouses and minor children) had any interests in, or had been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations (within the meaning of the SFO).

At no time during the period was the Company, its subsidiaries, its associates, its joint ventures or its joint operations, a party to any arrangement to enable the Directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

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

As at 30 September 2018, the register of substantial shareholders maintained under Section 336 of Part XV of the SFO showed that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the Directors and chief executives as disclosed above.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, the Company's listed securities during the six months ended 30 September 2018.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee, together with management, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's unaudited interim results.

CORPORATE GOVERNANCE

The Board believes that corporate governance is fundamental to corporate long-term success and the enhancement of shareholder value. The Company has adopted the principles and practices of the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in the Appendix 14 of The Rules Governing the Listing of Securities on The SEHK ("Listing Rules"). The Company strives to improve the transparency of its corporate governance practices and maximise the return to its shareholders through prudent management, investment and treasury policies. Detailed disclosure of the Company's corporate governance practices is available in the 2018 Annual Report.

OTHER INFORMATION (CONTINUED)

COMPLIANCE WITH LISTING RULES

In the opinion of the Directors, the Company has complied with the requirements of the Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 September 2018 except for the Code provision A.2.1.

Code provision A.2.1 requires the roles of chairman and chief executive officer be separated and not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. However, the roles of the chairman and the chief executive officer of the Company are not separated and are performed by the same individual, Mr. Wong Ip Kuen. The current structure will enable the Company to make and facilitate the implementation of decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the requirements of the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding the securities transactions of the Directors of the Company. Having made specific enquiries to all Directors of the Company, they have confirmed that they complied with the required standard set out in the Model Code during the six months ended 30 September 2018.

By order of the Board
Wong Ip Kuen
Chairman

Hong Kong, 20 November 2018