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WINDMILL GROUP LIMITED

(海鑫集團有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8409)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of WINDMILL Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

For the six months ended 31 October 2018, operating results of the Company and its subsidiaries (collectively referred to as the “Group”) were as follows:

- Revenue reached to approximately HK\$141.1 million (2017: HK\$91.2 million), representing an increase of 54.7% as compared with that of the corresponding period in 2017;
- Profit for the six months ended 31 October 2018 amounted to approximately HK\$11.1 million (2017: profit of approximately HK\$7.4 million) representing an increase of approximately 50.0% as compared with that of corresponding period in 2017. The improvement was primarily attributable to an increase of revenue by approximately HK\$49.9 million from both installation and maintenance services;
- Basic and diluted earnings per share for the six months ended 31 October 2018 based on weighted average number of ordinary shares of approximately 800,000,000 shares (2017: approximately 800,000,000 shares) in issue was 1.39 HK cent per share (2017: 0.93 HK cent per share); and
- The Directors have resolved not to declare an interim dividend for the six months ended 31 October 2018 (2017: Nil).

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2018

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 31 October 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 October 2018

	Notes	Three months ended 31 October		Six months ended 31 October	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	69,362	43,758	141,120	91,249
Cost of sales		<u>(58,214)</u>	<u>(36,715)</u>	<u>(118,496)</u>	<u>(76,573)</u>
Gross profit		11,148	7,043	22,624	14,676
Other income		15	57	28	62
Administrative expenses		(4,281)	(2,818)	(8,275)	(5,495)
Finance costs		<u>(52)</u>	<u>(2)</u>	<u>(67)</u>	<u>(4)</u>
Profit before taxation		6,830	4,280	14,310	9,239
Income tax expense	5	<u>(1,589)</u>	<u>(855)</u>	<u>(3,215)</u>	<u>(1,822)</u>
Profit and total comprehensive income for the period attributable to owners of the Company	6	<u>5,241</u>	<u>3,425</u>	<u>11,095</u>	<u>7,417</u>
Earnings per share	7				
Basic and diluted (HK cent)		<u>0.66</u>	<u>0.43</u>	<u>1.39</u>	<u>0.93</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 October 2018

		31 October 2018	30 April 2018
	<i>Notes</i>	<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Plant and equipments		797	900
Deposit		<u>195</u>	<u>200</u>
		<u>992</u>	<u>1,100</u>
Current assets			
Trade and retention receivables	9	65,553	63,996
Amounts due from customers for contract work		—	64,476
Contract assets		59,611	—
Deposits, prepayments and other receivables		6,379	2,658
Bank balances and cash		13,716	32,481
Pledged bank deposits		<u>13,500</u>	<u>—</u>
		<u>158,759</u>	<u>163,611</u>
Current liabilities			
Trade and retention payables	10	15,532	41,460
Amounts due to customers for contract work		—	3,652
Contract liabilities		3,596	—
Receipts in advance, accruals and other payables		1,305	1,588
Tax payable		9,304	6,089
Obligation under a finance lease		51	101
Bank borrowings		<u>7,047</u>	<u>—</u>
		<u>36,835</u>	<u>52,890</u>

		31 October 2018	30 April 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Net current assets		<u>121,924</u>	<u>110,721</u>
Total assets less current liabilities		<u>122,916</u>	<u>111,821</u>
Non-current liabilities			
Long service payment obligations		283	283
Deferred tax liability		<u>50</u>	<u>50</u>
		<u>333</u>	<u>333</u>
Net assets		<u><u>122,583</u></u>	<u><u>111,488</u></u>
Capital and reserves			
Share capital	<i>11</i>	8,000	8,000
Reserves		<u>114,583</u>	<u>103,488</u>
Total equity		<u><u>122,583</u></u>	<u><u>111,488</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 October 2018

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2018 (audited)	8,000	50,585	10,148	42,755	111,488
Profit and total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,095</u>	<u>11,095</u>
At 31 October 2018 (unaudited)	<u>8,000</u>	<u>50,585</u>	<u>10,148</u>	<u>53,850</u>	<u>122,583</u>
At 1 May 2017 (audited)	8,000	50,585	10,148	18,670	87,403
Profit and total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,417</u>	<u>7,417</u>
At 31 October 2017 (unaudited)	<u>8,000</u>	<u>50,585</u>	<u>10,148</u>	<u>26,087</u>	<u>94,820</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 31 October 2018

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Corporate Information

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 25 August 2016. Its ultimate holding company and immediate holding company is Golden Page Investments Limited (“Golden Page”), which is incorporated in the British Virgin Islands (the “BVI”). The shares of the Company have been listed on GEM of the Stock Exchange on 18 April 2017.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business in Hong Kong is Unit 1603, 16/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.

The Company is an investment holding company while the principal subsidiary, Windmill Engineering Company Limited (“Windmill Engineering”), is mainly engaged in design, supply and installation of fire safety systems for buildings under construction or redevelopment, maintenance and repair of fire safety systems for built premises and trading of fire service accessories.

This unaudited condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Group.

Basis of Preparation

This unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provision of Chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The unaudited condensed consolidated interim financial information should be read in conjunctions with annual consolidated financial statements for year ended 30 April 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards, HKAS and interpretations (collectively, the “HKFRS”) issued by the HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES AND CHANGE IN ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information has been prepared on the historical cost basis.

The accounting policies used in this unaudited condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 April 2018 except as described Note 2.1 to 2.3 below.

In the current period, the Group has applied, for the first time, the following new HKFRSs issued by the HKICPA which are mandatory to the Group’s financial year beginning 1 May 2018:

HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKAS 28	As Part of Annual Improvements to HKFRSs 2014-2016 cycle

HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
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 HKAS 40	Transfers of Investment Property

Except as described below, the application of the above new and revised HKFRSs in the current interim period has had no material impact on the Group's financial performance and positions for the current and prior period and/or on the disclosures set out in the unaudited condensed consolidated interim financial information.

2.1 HKFRS 9 Financial Instruments

HKFRS 9 replaced HKAS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for the 1) classification and measurement of financial assets and financial liabilities; 2) impairment of financial assets and 3) general hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 May 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 May 2018.

2.1.1 Classification and measurements

At the date of initial application of HKFRS 9, the Group has reviewed and assessed its financial assets on the basis of the business model for managing these financial assets and their contractual cash flow characteristics, and has classified the financial assets and financial liabilities into the appropriate categories of HKFRS 9, as explained below.

Trade and retention receivables, deposits and other receivables and cash and cash equivalents carried at amortised cost:

They are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon application of HKFRS 9.

2.1.2 Impairment of financial assets

Under the new impairment requirements under HKFRS 9, the Group measured a 12-month expected credit loss (the "ECL") in respect of trade and retention receivables, deposits and other receivables and cash and cash equivalents for which credit risk has not increased significantly since initial recognition.

2.2 HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group recognises revenue mainly from the following major sources:

- Design, supply and installation services; and
- Maintenance and repair services

The directors of the Company concluded that the revenue from design, supply and installation services and maintenance and repair services should be recognised over time during the installation and repair process using the output method for measuring progress. The current accounting policy on revenue recognition is consistent with the previous accounting policy and therefore, the adoption of HKFRS 15 has no impact on the timing of revenue recognition.

The following table summarises the opening balance adjustments recognised for each line item in the condensed consolidated statement of financial position on initial application of HKFRS 15:

	At 30 April 2018	Effect from application of HKFRS 15	At 1 May 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Amounts due from customers for contract work	64,476	(64,476)	—
Contract assets	<u>—</u>	<u>64,476</u>	<u>64,476</u>
Liabilities			
Amounts due to customers for contract work	3,652	(3,652)	—
Contract liabilities	<u>—</u>	<u>3,652</u>	<u>3,652</u>

2.3 Change in accounting policies

HKFRS 9 Financial Instruments

Classification and measurement

All recognised financial assets that are within the scope of HKFRS 9 are to be subsequently measured at amortised cost or fair value, depending on the entity's business model for managing the financial assets and cash flow characteristics of the asset. The Group classifies its debt instruments as financial assets at amortised cost as follows:

The Group classifies its debt instruments as financial assets at amortised cost as follows:

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on principal outstanding are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains", together with foreign exchange gains and losses.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (representing deposits and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For the Group's financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of each reporting period with that assessed at the date of initial recognition. In making the assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort. The Group presumes that the credit risk on a financial asset has increased significantly when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the above requirements, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the end of each reporting period. A financial asset is determined to have a low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default and is estimated as the difference between all contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

HKFRS 15 Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. REVENUE

Revenue represent the amounts received and receivable arising on services provided and sales of goods in the normal course of business, net of discounts. An analysis of the Group’s revenue for the period is as follows:

	Three months ended		Six months ended	
	31 October		31 October	
	2018	2017	2018	2017
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from design, supply and installation services	57,120	35,548	119,698	73,579
Revenue from maintenance and repair services	12,186	8,142	21,343	17,566
Trading of fire service accessories	56	68	79	104
	<u>69,362</u>	<u>43,758</u>	<u>141,120</u>	<u>91,249</u>
Timing of revenue recognition				
At a point in time	56	68	79	104
Over time	<u>69,306</u>	<u>43,690</u>	<u>141,041</u>	<u>91,145</u>
	<u>69,362</u>	<u>43,758</u>	<u>141,120</u>	<u>91,249</u>

4. SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment focusing on the design, supply and installation of fire safety systems for buildings under construction or re-development and maintenance and repair of fire safety systems for built premises. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to Hong Kong Financial Reporting Standards, that is regularly reviewed by the directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance. The CODM monitors the revenue from the engagement in design, supply and installation of fire safety systems for buildings under construction or re-development and maintenance and repair of fire safety systems for built premises with no discrete information available to the CODM. The CODM reviews the profit for the period of the Group as a whole for performance assessment.

Geographical information

The Group's revenue from external customers based on the location of the operation is derived solely in Hong Kong (place of domicile). Non-current assets of the Group based on the location of assets are all located in Hong Kong. Accordingly, no segment analysis by geographical information is presented.

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total revenue of the Group are as follows:

	Three months ended		Six months ended	
	31 October		31 October	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Customer A	27,737	N/A ¹	27,737	N/A ¹
Customer B	8,421	6,498	19,227	12,596
Customer C	<u>4,538</u>	<u>5,781</u>	<u>19,032</u>	<u>12,313</u>

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. INCOME TAX EXPENSE

	Three months ended 31 October		Six months ended 31 October	
	2018 <i>HK\$'000</i> <i>(Unaudited)</i>	2017 <i>HK\$'000</i> <i>(Unaudited)</i>	2018 <i>HK\$'000</i> <i>(Unaudited)</i>	2017 <i>HK\$'000</i> <i>(Unaudited)</i>
Current tax:				
Hong Kong Profits Tax	<u>1,589</u>	<u>855</u>	<u>3,215</u>	<u>1,822</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the three months and six months ended 31 October 2018 and 2017 respectively.

Pursuant to the rules and regulation of the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

6. PROFIT FOR THE PERIOD

	Three months ended 31 October		Six months ended 31 October	
	2018 <i>HK\$'000</i> <i>(Unaudited)</i>	2017 <i>HK\$'000</i> <i>(Unaudited)</i>	2018 <i>HK\$'000</i> <i>(Unaudited)</i>	2017 <i>HK\$'000</i> <i>(Unaudited)</i>
Profit for the period has been arrived at after charging:				
Depreciation of plant and equipments	68	70	137	126
Listing expenses	1,593	—	3,647	—
Minimum lease payments paid under operating leases in respect of office premise and warehouse	<u>444</u>	<u>524</u>	<u>859</u>	<u>772</u>

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Three months ended 31 October		Six months ended 31 October	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Earnings				
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>5,241</u>	<u>3,425</u>	<u>11,095</u>	<u>7,417</u>
	2018 '000	2017 '000	2018 '000	2017 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>

The diluted earnings per share is the same as the basic earnings per share as there were no diluted potential ordinary shares outstanding during the three months and six months ended 31 October 2018 (2017: nil).

8. DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 31 October 2018 (2017: nil).

No dividend has been paid or proposed by the Company since the end of the reporting period.

9. TRADE AND RETENTION RECEIVABLES

	31 October 2018 HK\$'000 (Unaudited)	30 April 2018 HK\$'000 (Audited)
Trade receivables	45,739	48,583
Retention receivables	<u>19,814</u>	<u>15,413</u>
	<u><u>65,553</u></u>	<u><u>63,996</u></u>

The Group does not hold any collateral over these balances.

The Group allows a credit period of 30 - 60 days (30 April 2018: 30 - 60 days) to its customers. The following is an ageing analysis of trade receivables, presented based on the date of progress certificates or completion certificates which approximates the respective revenue recognition dates, at the end of the reporting period:

	31 October 2018 HK\$'000 (Unaudited)	30 April 2018 HK\$'000 (Audited)
0 to 30 days	28,364	42,177
31 to 60 days	1,158	3,432
61 to 90 days	921	1,460
91 to 180 days	<u>15,296</u>	<u>1,514</u>
	<u><u>45,739</u></u>	<u><u>48,583</u></u>

10. TRADE AND RETENTION PAYABLES

	31 October 2018 HK\$'000 (Unaudited)	30 April 2018 HK\$'000 (Audited)
Trade payables	9,734	35,291
Retention payables	<u>5,798</u>	<u>6,169</u>
	<u>15,532</u>	<u>41,460</u>

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	31 October 2018 HK\$'000 (Unaudited)	30 April 2018 HK\$'000 (Audited)
0 to 30 days	2,756	34,012
31 to 60 days	4,176	34
61 to 90 days	579	264
91 to 180 days	1,270	730
Over 180 days	<u>953</u>	<u>251</u>
	<u>9,734</u>	<u>35,291</u>

Trade payables represented payables to suppliers and subcontractors. The credit terms granted by suppliers and subcontractors were stipulated in the relevant contracts and the payables were usually due for the settlement within 30 - 60 days (30 April 2018: 30 - 60 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time-frame.

11. SHARE CAPITAL

Authorised and issued share capital of the Company are as follows:

	Number of ordinary shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 30 April 2018 (audited) and 31 October 2018 (unaudited)	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 30 April 2018 (audited) and 31 October 2018 (unaudited)	<u>800,000,000</u>	<u>8,000</u>

12. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had provided the following guarantees:

	31 October 2018 <i>HK\$'000</i> <i>(Unaudited)</i>	30 April 2018 <i>HK\$'000</i> <i>(Audited)</i>
Guarantees in respect of performance bonds in favour of its clients	<u>3,725</u>	<u>3,725</u>

In the opinion of the Directors, it was not probable that a claim would be made against the Group under the guarantees. Therefore, no provision for such guarantee was made for the three months and six months ended 31 October 2018 (30 April 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

We are a registered fire service installation contractor, qualified to undertake works in respect of the installation, maintenance, repair or inspection of fire safety systems in Hong Kong. Fire safety systems mainly consist of fire alarm systems, water and gas expression systems, fire hydrant and hose reel systems, emergency lighting systems and portable fire equipment.

Our services mainly include (i) design, supply and installation of fire safety systems for building under construction or re-development (referred to as “installation services”); (ii) maintenance and repair of fire safety systems for built premises (referred to as “maintenance services”); and (iii) trading of fire service accessories including branded fire services equipment under a distributorship agreement with an internationally branded fire service equipment supplier (referred to as “others”).

It is expected that the total revenue of Hong Kong fire safety industry will grow continually in the coming years. For details of the fire safety industry in Hong Kong, please refer to the section headed “Industry Overview” in the prospectus of the Company dated 31 March 2017 (the “Prospectus”).

In light of growing business opportunities, the Group intends to further expand and increase its capacity in providing our services. To achieve this, the Group will continue to identify suitable business opportunities with potential customers and the Group has also committed to undertake new installation and maintenance projects.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the six months ended 31 October 2018 recorded amounted to approximately HK\$141.1 million which represented an increase of approximately HK\$49.9 million or 54.7% from approximately HK\$91.2 million for the six months ended 31 October 2017. The increase in total revenue was mainly due to an increase from installation services and maintenance services amounted to approximately HK\$46.1 million and HK\$3.8 million respectively.

Revenue

Analysis of revenue is as follows:

	Six months ended 31 October			
	2018		2017	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
Installation services	119,698	84.8	73,579	80.6
Maintenance services	21,343	15.1	17,566	19.3
	141,041	99.9	91,145	99.9
Others	79	0.1	104	0.1
Total	141,120	100.0	91,249	100.0

Installation services

Revenue increased by approximately 62.6% from approximately HK\$73.6 million for the six months ended 31 October 2017 to approximately HK\$119.7 million for the six months ended 31 October 2018. The increase by approximately HK\$46.1 million was mainly due to the increase in the number of sizable projects during the six months ended 31 October 2018 as compared to the corresponding period of the previous year.

Maintenance services

Revenue increased by approximately 21.0% from approximately HK\$17.6 million for the six months ended 31 October 2017 to approximately HK\$21.3 million for the six months ended 31 October 2018. The increase by approximately HK\$3.7 million was mainly due to the increase in revenue from repair and maintenance to fire safety system of the premises of various government departments during the six months ended 31 October 2018 as compared to the corresponding period of the previous year.

Others

For the six months ended 31 October 2018, revenue recorded amounted to approximately HK\$0.1 million (2017: HK\$0.1 million).

Cost of sales

Our cost of sales increased by approximately 54.7% from approximately HK\$76.6 million for the six months ended 31 October 2017 to approximately HK\$118.5 million for the six months ended 31 October 2018. The increase was mainly attributed to the increase in subcontracting costs resulting from more projects undertaken by the Group during the six months ended 31 October 2018.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$7.9 million or 53.7% from approximately HK\$14.7 million for the six months ended 31 October 2017 to approximately HK\$22.6 million for the six months ended 31 October 2018. During the six months ended 31 October 2018, the gross profit margin was approximately 16.0% (2017: 16.1%).

Other income

The Group recorded other income of approximately HK\$28,000 for the six months ended 31 October 2018 (2017: HK\$62,000).

Administrative expenses

Administrative expenses mainly represented the salaries and benefits of the administrative and management staff, rental expenses, insurance, legal and professional fees, depreciation of plant and equipments and other miscellaneous administrative expenses. Our administrative expenses increased by approximately HK\$2.8 million or 50.9% from approximately HK\$5.5 million for the six months ended 31 October 2017 to approximately HK\$8.3 million for the six months ended 31 October 2018. The increase was mainly attributable to the listing expenses relating to the application for transfer of listing to main board for the six months ended 31 October 2018.

Finance costs

Our finance costs increased by approximately 15.75 times from approximately HK\$4,000 for the six months ended 31 October 2017 to approximately HK\$67,000 for the six months ended 31 October 2018. The increase was primarily attributed to our increased level of bank borrowings.

Income tax expense

Our income tax expense increased by approximately 77.7% from approximately HK\$1.8 million for the six months ended 31 October 2017 to approximately HK\$3.2 million for the six months ended 31 October 2018. The increase was primarily attributed to the increase in taxable profits.

Profit for the period attributable to owners of the Company

As a result of the foregoing, the profit attributable to owners of the Company increased from approximately HK\$7.4 million for the six months ended 31 October 2017 to approximately HK\$11.1 million for the six months ended 31 October 2018.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 October 2018	As at 30 April 2018
Current ratio	4.3	3.1
Gearing ratio*	5.8%	0.1%

* Calculated based on total debts at the end of the period/year divided by total equity at the end of the period/year. Total debts are defined as obligation under a finance lease and bank borrowings.

The current ratio of the Group as at 31 October 2018 was 4.3 times as compared to that of 3.1 times as at 30 April 2018. The increase in current ratio was mainly due to the increase in trade and retention receivables. The gearing ratio of the Group as at 31 October 2018 was 5.8%, which is increased of 5.7% as at 30 April 2018. The increase in gearing ratio was mainly due to the increase in bank borrowings.

The Group's finance department closely monitors the Group's cash flow position to ensure the Group has sufficient working capital available to meet the operational needs. The finance department takes into account the trade receivables, trade payables, pledged bank deposit, bank borrowings, bank balances and cash, administrative and capital expenditures to prepare the cash flow forecast to forecast the Group's future financial liquidity.

The Group generally finance its operations through a combination of owner's equity, internally generated cash flows, bank borrowings and obligation under a finance lease. After the listing, the Group expects to finance the capital expenditure and operational requirements through internally generated cash flows, net proceeds from the share offer of the Company's shares in listing, other reserve and bank borrowing.

CAPITAL COMMITMENTS

The Group had no capital commitments as at 31 October 2018 (30 April 2018: Nil).

PLEDGE OF ASSETS

As at 31 October 2018, the Group pledged its bank deposit to banks of HK\$13.5 million as collateral to secure bank facilities granted to the Group. Save for the above disclosed, the Group did not have any charges on its assets.

CONTINGENT LIABILITIES

As at 31 October 2018, performance bonds of approximately HK\$3.7 million (30 April 2018: HK\$3.7 million), were given by the bank in favour of some of our customers as a security for the due performance and observance of our obligations under the contracts entered into between us and our customers. If the Group fails to provide satisfactory performance to our customers to whom performance bonds have been given, such customers may demand the bank to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such bank accordingly. The performance bonds will be released upon completion of the contract work. The performance bonds were granted under the banking facilities. As at 31 October 2018, in the opinion of the Directors, it was not probable that a claim would be made against our Group under the guarantees, and hence no provision for such guarantees was made in respect of the aforesaid performance bonds.

EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

ACHIEVEMENT OF BUSINESS OBJECTIVES AS COMPARED WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the six months ended 31 October 2018 is set out below:

<u>Business objectives</u>	<u>Actual business progress up to 31 October 2018</u>
Expand and increase our capacity in providing our services	The Group has identified suitable business opportunities with potential customers and the Group has also committed to undertake new installation and maintenance projects
Expand our manpower for project execution and strengthen the expertise and skills of our staff	Recruited one assistant project manager Recruited one senior project engineer Recruited one project engineer Recruited one maintenance engineer Recruited one senior procurement officer Recruited two assistant engineers Recruited one assistant maintenance manager Recruited two maintenance technicians

Business objectives**Actual business progress up to 31 October 2018**

Purchase enterprise resource planning system (“ERP system”)

The Group is in the progress of identifying suitable IT service provider to design an ERP system

Increase our Group’s marketing resources to enhance brand awareness of our Group

The Group is in the progress of identifying suitable professionals to design and print corporate brochures

USE OF PROCEEDS

In view of the growth in the fire safety service industry and the strong prospects for both public and private development projects, the Group intended to expand its business capacity and scale to capture more sizeable and profitable projects. On 17 April 2018, after careful consideration and detailed evaluation of the operation of the Company, the Board resolved to change in the original use of proceeds and re-allocate HK\$9.3 million of the unused net proceeds from the share offer to finance net cash outflows required in early stage of execution of projects. The details of the original allocation of the net proceeds, the revised allocation of the net proceeds, the utilisation of the net proceeds and the remaining balance (after revised allocation) as at 31 October 2018 are set out as follows:

Item No.	Purposes	Original Allocation at GEM Listing (HK\$ million)	Amount re-allocated on 17 April 2018 (HK\$ million)	Actual amount utilized as at 30 April 2018 (HK\$ million)	Actual amount	Remaining	Expected timeline for unutilised net proceeds
					utilized subsequent to 30 April 2018 and up to 31 October 2018 (HK\$ million)	unutilized balance as at 31 October 2018 (HK\$ million)	
(i)	Performance bonds	11.0	(9.3)	(1.7)	—	—	—
(ii)	To finance net cash outflows required in early stage of execution of projects	6.1	9.3	(12.3)	(3.1)	—	—
(iii)	Salary payment to new staff	6.5	—	(3.8)	(2.1)	0.6	30 April 2019
(iv)	Purchase of ERP system	1.9	—	(0.3)	(0.2)	1.4	30 April 2019
(v)	Increase our Group’s marketing resources	0.4	—	(0.1)	(0.1)	0.2	30 April 2019
(vi)	Develop central pre-fabrication piping workshop	5.9	—	(0.3)	(0.4)	5.2	30 April 2019
	Total	<u>31.8</u>	<u>—</u>	<u>(18.5)</u>	<u>(5.9)</u>	<u>7.4</u>	

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 31 October 2018.

CAPITAL STRUCTURE

The Group's shares were successfully listed on GEM on 18 April 2017 (the "Listing Date"). There has been no change in the capital structure of the Group since that Listing Date. The capital of the Group only comprises of obligation under a finance lease and bank borrowings, net of bank balances and cash, issued share capital and reserves.

SIGNIFICANT INVESTMENTS

As at 31 October 2018, there was no significant investment held by the Group (30 April 2018: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 31 October 2018, the Group's monetary assets and transactions were mainly denominated in HK\$. The Group's exposure to exchange rate fluctuation was not significant and therefore the Group currently does not have a foreign currency hedging policy.

EMPLOYEES AND EMOLUMENT POLICY

The Group recognises the importance of good relationship with employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group continues to provide training for new staff and existing staff to enhance their technical knowledge. The Directors believe such initiatives have contributed to increasing productivity and efficiency.

The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability and the staff performance, the Group may also provide a discretionary bonus to employees as an incentive for their contributions to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

A remuneration committee is set up for reviewing the Group's emolument policy and structure of all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company adopted a share option scheme (the "Share Option Scheme") to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

As at 31 October 2018, the Group employed 47 employees, the total staff costs amounted to approximately HK\$8.9 million (2017: HK\$8.4 million). The Company maintains the Share Option Scheme for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this announcement, no option has been granted under the Share Option Scheme.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code set out in Appendix 15 to the GEM Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors, all Directors declared that they have complied with the required standards as set out in the Model Code throughout the six months ended 31 October 2018.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 October 2018, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules as follows:

(i) The Company

Name of Director	Capacity/ Nature of Interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Li Shing Kuen Alexander (“Mr. Li”) <i>(Note)</i>	Interests in controlled corporation	Long position	420,060,000	52.51%

(ii) Associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the associated corporation
Mr. Li	Golden Page Investments Limited (<i>Note</i>)	Beneficial owner	Long position	3	100%

Note: The entire issued share capital of Golden Page Investments Limited (“Golden Page”) is wholly and beneficially owned by Mr. Li who is deemed to be interested in 420,060,000 shares held by Golden Page under the SFO.

Save as disclosed above, as at 31 October 2018, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS’ RIGHT TO ACQUIRE SHARES

At no time during the six months ended 31 October 2018 was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares, or underlying shares, or debentures, of the Company or its associated corporations (with the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 October 2018, the following persons (other than Directors or chief executive of the Company) were interested in 5% or more of the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules on the Stock Exchange:

Name of Shareholder	Capacity/ Nature of interest	Long/ Short position	Number of shares held	Approximate percentage of shareholding in the Company
Golden Page (<i>Note 1</i>)	Beneficial Owner	Long position	420,060,000	52.51%
Smart Million (BVI) Limited ("Smart Million")	Beneficial Owner	Long position	179,940,000	22.49%
Marvel Paramount Investments Limited ("Marvel Paramount") (<i>Note 2</i>)	Interests in controlled corporation	Long position	179,940,000	22.49%
Mr. Ma Ting Wai Barry ("Mr. Ma")	Interests in controlled corporation (<i>Note 3</i>)	Long position	179,940,000	22.49%
Ms. Leung Wing Ci Winnie ("Ms. Leung")	Interests of spouse (<i>Note 4</i>)	Long position	179,940,000	22.49%

Notes:

1. The entire issued share capital of Golden Page is wholly and beneficially owned by Mr. Li who is deemed to be interested in the shares held by Golden Page under the SFO.
2. Smart Million is 66.67% beneficially owned by Marvel Paramount. By virtue of the SFO, Marvel Paramount is deemed to be interested in all such shares held by Smart Million.
3. Marvel Paramount is wholly and beneficially owned by Mr. Ma. By virtue of the SFO, Mr. Ma is deemed to be interested in all the shares in which Marvel Paramount is interested or deemed to be interested under the SFO.
4. Ms. Leung is the spouse of Mr. Ma. By virtue of the SFO, Ms. Leung is deemed to be interested in all the shares in which Mr. Ma is interested or deemed to be interested under the SFO.

Save as disclosed above, as at 31 October 2018, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and a connected entity of a Director had a material interest, subsisted at the end of the year or at any time during the six months ended 31 October 2018.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 October 2018.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 27 March 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. Further details of the Share Option Scheme are set in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the Prospectus.

For the six months ended 31 October 2018, no share option was granted, exercised, cancelled or lapsed and there is no outstanding share option under the Share Option Scheme.

INTERESTS OF THE COMPLIANCE ADVISOR

As confirmed by the Group's compliance advisor, Dakin Capital Limited (the "Compliance Advisor"), save as the compliance advisor agreement entered into between the Company and the Compliance Advisor, none of the Compliance Advisor or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules during the six months ended 31 October 2018 except the code provision A.2.1.

Deviation from code provision of the CG Code

The code provision A.2.1 of the CG Code states that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Li is the chairman of the Board and our chief executive officer. Given that Mr. Li has been leading the operations and management of our Group since 1985 when our Group was founded by him and taking into consideration our current scale of operations and management structure, our Board believes that it is more appropriate to have Mr. Li performing both functions of our chief executive officer and leader of our Board for more efficient management and strategic planning of our Group. Therefore, our Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in the circumstances and currently does not propose to separate the functions of chairman and chief executive officer of the Company.

AUDIT COMMITTEE

The Company has established its audit committee (the “Audit Committee”) on 27 March 2017 with terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraphs C.3.3 and C.3.7 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are to, without limitation, to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee has three members comprising the Company’s three independent non-executive Directors, namely Mr. Pun Kin Wa, Mr. Tsang Man Biu and Mr. Lee Kwok Tung Louis. The chairman of the Audit Committee is Mr. Pun Kin Wa. The unaudited condensed consolidated results of the Group for the six months ended 31 October 2018 have not been audited by the auditor of the Company but have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement will be published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.windmill.hk). The interim report for the six months ended 31 October 2018 containing all the information required by the GEM Listing Rules will be published on the website of the Company and the Stock Exchange and despatched to the Company's shareholders in due course.

By order of the Board
WINDMILL Group Limited
Li Shing Kuen Alexander
Chairman and Chief Executive Officer

Hong Kong, 7 December 2018

As at the date of this announcement, the executive Directors are Mr. Li Shing Kuen Alexander and Mr. Poon Kwok Kay; the non-executive Director is Mr. Cheung Wai Hung; and the independent non-executive Directors are Mr. Pun Kin Wa, Mr. Tsang Man Biu and Mr. Lee Kwok Tung Louis.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting. This announcement will also be published on the website of the Company at www.windmill.hk.

This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of the announcement shall prevail over the Chinese text.