The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's combined financial information as at the end of and for each of FY2015/16, FY2016/17 and FY2017/18, including the notes thereto, included in Appendix I to this document. The financial statements have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this document.

OVERVIEW

We are an established fitting-out contractor in Hong Kong with over 22 years of experience since the establishment of one of our principal operating subsidiaries, Hoi Sing Decoration in 1995. Our fitting-out services cover both (i) fitting-out works conducted on new buildings; and (ii) interior renovation works on existing buildings that involve upgrades, makeovers and demolition of existing works. Our fitting-out services are mainly provided for residential and commercial properties in Hong Kong on a project basis. To a lesser extent, we also engage in supply of fitting-out materials such as timber products upon customers' requests in Hong Kong.

During the Track Record Period, our revenue represented income derived from (i) fitting-out services and (ii) supply of fitting-out materials. Suppliers of goods and services which are specific to our business and are required on regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of fitting-out materials required for performing our fitting-out services such as finished furniture products, timber products, glass and metal; and (iii) suppliers of other miscellaneous services such as rental of machinery and equipment, transportation services and consultancy services.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including, in particular, the following:

The fitting-out industry is fragmented and competitive

According to the Ipsos Report, the fitting-out industry in Hong Kong is fragmented and competitive and there are no particular licensing requirements for carrying out fitting-out works in the private sectors. According to the Construction Industry Council, as of 1 April 2018, there were 680 companies registered as subcontractor under the category of renovation and fitting-out with the Construction Industry Council. Some of our competitors may have more resources, longer operating histories, stronger relationship with customers and reputable brand names and therefore we may face competition from other existing and/or new contractors in the tender process for fitting-out projects. If competition becomes more intense for whatever reasons, we may face significant downward pricing pressure thereby reducing our profit margins.

Our tender/quotation success rate on fitting-out services projects

During the Track Record Period, we secured new businesses through direct invitation for tender/quotation by customers. Our tender/quotation success rates for fitting-out services contracts were approximately 28.3%, 27.0% and 38.3% for FY2015/16, FY2016/17 and FY2017/18, respectively. Our tender/quotation success rate depends on various factors, such as our pricing and tender/quotation strategy, customers' tender/quotation evaluation standards, our competitors' pricing and tender/quotation strategy, and the level of competition. The number of tender/quotation invitations or contracts available for bidding in the future and our tender/quotation success rate will affect our financial position and performance.

Pricing of our projects

Our pricing is generally determined based on certain markups over our estimated costs. We need to estimate our time and costs involved in a project in order to determine our fee quotation or tender price and there is no assurance that the actual amount of time and costs would not exceed our estimation during the performance of our projects. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including but not limited to unforeseen site conditions, adverse weather conditions, accidents, non-performance by our subcontractors, unexpected significant increase in costs of construction materials agreed to be borne by us, and other unforeseen problems and circumstances, etc. For further details, please refer to the section headed "Business – Pricing strategy" in this document. Our pricing directly affects our revenue and cash flows.

Fluctuation in our direct costs

Our direct costs mainly comprise (i) subcontracting charges; (ii) direct materials costs; and (iii) staff costs. We engage suppliers in Hong Kong and the PRC. Our main purchases include subcontracting services as well as finished furniture products, timber products, glass and metal. Please refer to the section headed "Business – Our suppliers" in this document for further details on our suppliers and subcontractors.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of subcontracting charges and direct materials costs (being the major components of our direct costs) on our profit before income tax during the Track Record Period. The hypothetical fluctuation rates for subcontracting charges are set at 3.1% and 14.7%, which correspond to the approximate minimum and maximum percentage changes in the average daily wages of fitting-out workers in Hong Kong from 2013 to 2017 as stated in the Ipsos Report (see "Industry overview – Price trend of major fitting-out cost components – Average wages of fitting-out workers in Hong Kong" in this document) and are therefore considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rates for direct materials costs are set at 0.7% and 14.3%, which correspond to the approximate minimum and maximum percentage changes in the average import price of timber products and the average wholesale price of glass in Hong Kong from 2013 to 2017 as stated in the Ipsos Report (see "Industry overview – Price trend of major fitting-out cost components" in this document) and are therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our subcontracting charges	-3.1%	-14.7%	+3.1%	+14.7%
Increase/(decrease) in profit before income tax*(Note)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
FY2015/16	4,170	19,773	(4,170)	(19,773)
FY2016/17	6,295	29,852	(6,295)	(29,852)
FY2017/18	8,583	40,702	(8,583)	(40,702)
Hypothetical fluctuations in our direct materials costs	-0.7%	-14.3%	+0.7%	+14.3%
Increase/(decrease) in profit before income tax*(Note)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
FY2015/16	485	9,905	(485)	(9,905)
FY2016/17	578	11,806	(578)	(11,806)
FY2017/18	1,349	27,562	(1,349)	(27,562)

Note: Our profit before income tax was approximately HK$14.4 million, approximately HK$33.0 million and approximately HK$46.9 million for each of FY2015/16, FY2016/17 and FY2017/18 respectively.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Please refer to note 1 of the accountants' report set out in Appendix I to this document.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared in accordance with accounting policies which conform with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 2 to the accountants' report set out in Appendix I to this document.

Some of the accounting policies involve judgments, estimates, and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the key judgements made in applying our accounting policies are set forth in note 4 to the accountants' report set out in Appendix I to this document.

Revenue recognition

Fitting-out services

Revenue of products and services transferred over time is recognised progressively based on the value of performance completed to date as a percentage of total transaction price to depict the transfer of control of the goods or services to the customer. The Group recognises revenue over time only if it can reasonably measure its progress toward complete satisfaction of the performance obligation. However, if the Group cannot reasonably measure the outcome but expects to recover the costs incurred in satisfying the performance obligation, then it recognises revenue to the extent of the costs incurred.

The Group recognises its contract revenue recognition on a project is dependent on management's estimation of the progress of the satisfaction of performance obligations of a construction contract over time, measured by the value of performance completed to date of the individual contract as a percentage of total transaction price. Because of the nature of the activity undertaken by the Group, the Group reviews and revises the estimates of contract revenue, contract costs and variation order, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major subcontractors, suppliers and vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs and revises the budgeted construction costs as appropriate.

Significant judgement is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit taken. In addition, actual outcome in terms of total revenue or costs may be higher or lower than estimation at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustments to the amounts recorded to date.

Supply of fitting-out materials

Revenue of products transferred at a point in time is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the Group transfers control over the products to the customer.

Impairment of receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects either 12-month expected credit losses, or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss.

SUMMARY OF RESULTS OF OPERATIONS

The combined statements of profit or loss and other comprehensive income during the Track Record Period are summarised below, which have been extracted from the accountants' report set out in Appendix I to this document:

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	240,149	346,391	560,283
Direct costs	(216,377)	(304,154)	(498,849)
Gross profit	23,772	42,237	61,434
Other income and gains/(losses), net	94	(7)	56
Administrative and other operating expenses	(8,234)	(8,220)	(12,912)
Finance costs	(1,205)	(961)	(1,657)
Profit before income tax	14,427	33,049	46,921
Income tax expense	(2,567)	(5,910)	(8,327)
Profit and total comprehensive income for the year attributable to owners of the Company	11,860	27,139	38,594

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was derived from (i) the provision of fitting-out services; and (ii) the supply of fitting-out materials. For detailed breakdowns of our revenue during the Track Record Period by our business operations, property type (residential or non-residential), customers type, number of fitting-out projects by range of revenue recognised, please refer to the sections headed "Business – Overview" and "Business – Our projects undertaken during the Track Record Period" in this document.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of the change in the amount of our revenue during the Track Record Period.

Direct costs

The table below sets forth a breakdown of our direct costs during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Subcontracting charges	134,512	62.2	203,076	66.8	276,886	55.5
Direct materials	69,263	32.0	82,561	27.1	192,740	38.6
Staff costs	9,789	4.5	16,401	5.4	26,944	5.4
Rental of machinery and equipment	954	0.4	45	0.0	55	0.0
Other direct costs	1,859	0.9	2,071	0.7	2,224	0.5
Total	216,377	100.0	304,154	100.0	498,849	100.0

Our direct costs during the Track Record Period comprised:

(a) subcontracting charges, which are costs for engaging subcontractors for performing certain fitting-out services undertaken by us such as ceiling, painting, metal works, and installation of built-in furniture, timber flooring, kitchen cabinetries and timber doors;

(b) direct materials, which mainly represent costs for purchasing materials used for our fitting-out services and supply of fitting-out materials such as finished furniture products, timber products, glass and metal;

(c) staff costs, which are salaries and benefits provided to our staff who are directly involved in carrying out our fitting-out services;

(d) rental of machinery and equipment, which are rental expenses for scaffold used at our fitting-out works sites;

(e) other direct costs, which include various miscellaneous expenses such as transportation fee, safety consultancy fee and insurance premiums for certain of our fitting-out services projects.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our direct costs.

Other income and gains/(losses), net

The table below sets forth a breakdown of our other income and gains/(losses), net during the Track Record Period:

	FY2015/16	FY2016/17	FY2017/18
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	–	–	2
Net foreign exchange gains/(losses), net	75	(7)	22
Sundry income	19	–	32
Total	94	(7)	56

Our other income and gains/(losses), net during the Track Record Period mainly comprised:

(a) bank interest income, which represented interests earned on bank deposits during FY2017/18; and

(b) net foreign exchange gains/(losses), net, which mainly represented realised exchange differences arising from the purchase of fitting-out materials which were denominated in RMB.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our other income and gains/(losses), net.

Administrative and other operating expenses

The table below sets forth a breakdown of our administrative and other operating expenses during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Auditors' remuneration	60	0.7	246	3.0	246	1.9
Bank charges	115	1.4	182	2.2	202	1.6
Computer software expenses	154	1.9	259	3.2	446	3.5
Depreciation	326	4.0	435	5.3	436	3.4
Entertainment and travelling	647	7.9	680	8.3	1,189	9.2
Insurance	176	2.1	183	2.2	248	1.9
[REDACTED]	–	–	–	–	3,533	27.4
Repair and maintenance	272	3.3	82	1.0	308	2.4
Staff costs, including directors' remuneration	5,199	63.1	4,832	58.8	5,247	40.6
Rental of office premises	432	5.3	432	5.2	432	3.3
Utilities and telecommunication expenses	109	1.3	123	1.5	148	1.1
Other expenses	744	9.0	766	9.3	477	3.7
	8,234	100.0	8,220	100.0	12,912	100.0

Our administrative and other operating expenses during the Track Record Period comprised:

(a) auditors' remuneration, which are fees to our auditors;

(b) bank charges, which are mainly annual renewal and handling fees for banking facilities maintained;

(c) computer software expenses, which represent expenses in relation to computer software used in our office;

(d) depreciation, which include depreciation of furniture and fixtures and motor vehicle;

(e) entertainment and travelling expenses, which mainly represent costs in relation to the relationship building with existing and potential customers;

(f) insurance, which represent insurance premiums for insurance policies that are not directly related to our fitting-out projects;

(g) **[REDACTED]** expenses, which represent expenses in relation to the **[REDACTED]**;

(h) repair and maintenance expenses, which mainly represent expenses incurred for general office maintenance and motor vehicle maintenance;

(i) staff costs (including directors' remuneration), which include salaries and benefits provided to our Directors and our management, administrative and back office staff;

(j) rental of office premises, which represented operating lease payments for our office;

(k) utilities and telecommunication expenses, which mainly include costs of electricity, water and telephone, etc.; and

(l) other expenses, which mainly include expenses incurred for stationary and printing.

Finance costs

Our finance costs during the Track Record Period represented interest expenses on bank borrowings and finance leases of our motor vehicles, details of which are disclosed in the paragraph headed "Indebtedness" in this section.

Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong for the Track Record Period. The taxation for the Track Record Period can be reconciled to the profit before income tax as follows:

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	14,427	33,049	46,921
Calculated at a tax rate of 16.5%	2,380	5,453	7,742
Tax effect of:			
Expenses not deductible for tax purposes	7	6	583
Tax losses not recognised	279	466	116
Utilisation of previous unrecognised tax losses	–	–	(80)
Temporary differences not recognised	(59)	5	26
Tax concession	(40)	(20)	(60)
Income tax expense for the year	2,567	5,910	8,327

Despite the respective amounts of income tax expense provided for each of FY2015/16, FY2016/17 and FY2017/18 as shown in the above table, we recorded cash outflow for tax payment of approximately HK$573,000, HK$1,862,000 and HK$12,908,000 during the respective years. This is because of (i) the timing difference between making tax provision and making actual tax payment as explained below; and (ii) the difference arising from the application of HKAS 11 and HKFRS 15, as the income tax expenses for each of FY2015/16, FY2016/17 and FY2017/18 as shown in the accountants' report set out in Appendix I to this document were provided based on our Group's accounts prepared with the early adoption of HKFRS 15, while the amounts of actual tax payments were determined based on our subsidiaries' accounts which were prepared based on HKAS 11.

Pursuant to the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) and according to the information pamphlet titled "A Brief Guide to Taxes Administered by the Inland Revenue Department 2015–2016" published by the Inland Revenue Department of the Government, profits tax is charged on the assessable profits for a year of assessment (which refers to the period of 12 months commencing on 1 April in any year). The assessable profits for a business which makes up annual accounts are calculated on the profits of the year of account ending in the year of assessment. In addition, in the year of assessment itself, a provisional tax is to be paid based on the profits assessed for the preceding year.

As such, for our Group (whose annual accounts are made up to 31 March each year), after each year of assessment (for example, after the year of assessment of 1 April 2014 to 31 March 2015), our Group would file profits tax return for its financial year with the year-end date falling within that year of assessment (i.e., the financial year ended 31 March 2015 in this example). Actual tax payment is usually made a few months after the filing of the profits tax return. Therefore, the actual profits tax payment made during FY2015/16 were in relation to financial year prior to the Track Record Period.

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year divided by profit before income tax) were as follows:

	FY2015/16	**FY2016/17**	**FY2017/18**
Effective tax rate	17.8%	17.9%	17.7%

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2017/18 compared with FY2016/17

Revenue

Our revenue increased from approximately HK$346.4 million for FY2016/17 to approximately HK$560.3 million for FY2017/18, representing an increase of 61.7%. The increase in our total revenue was mainly attributable to the increase in revenue of our fitting-out services which contributed to approximately 99.9% and 100.0% of our total revenue for each of FY2016/17 and FY2017/18 and such increase was because:

(i) The increase in the number of sizeable fitting-out services projects with revenue contribution of HK$50 million or above in FY2017/18, as demonstrated in the below table:

	FY2016/17 *Number of projects*	**FY2017/18** *Number of projects*
Revenue recognised		
HK$50 million or above	1	3
HK$10 million to below HK$50 million	12	9
HK$1 million to below HK$10 million	18	17
Below HK$1 million	38	35
Total	69	64

(ii) In particular, the increase in the revenue was mainly driven by the revenue contributed by some of our major fitting-out services projects undertaken or commenced during FY2017/18, included the fitting-out services for (i) residential properties of a private housing estate located in Nam Cheong, which contributed revenue of approximately HK$252.8 million (i.e. Project I and Project H under the table of "Business – Our projects undertaken during the Track Record Period – Major projects" for FY2017/18); and (ii) low density residential properties located in Kau To Shan, which contributed revenue of approximately HK$83.2 million (i.e. Project J under the table of "Business – Our projects undertaken during the Track Record Period – Major projects" for FY2017/18). Our Directors are of the view that the contract sum for these projects were higher than the previous residential properties projects as (a) the unit rate of the fitting-out materials used under these projects were higher; and (b) the number of residential units of Project I and Project H that are required for fitting-out services to be performed were higher.

Direct costs

Our direct costs increased from approximately HK$304.2 million for FY2016/17 to approximately HK$498.8 million for FY2017/18, representing an increase of 64.0%, which was higher than the increase in our revenue by approximately 2.3 percentage points (and thus resulted in our slightly lower gross profit margin for FY2017/18). Our direct costs mainly include subcontracting charges, direct material costs, staff costs, rental of machinery and equipment, and others. These costs may fluctuate substantially from project to project, because depending on the scope of fitting-out services to be performed or the number of residential units required for fitting-out services to be performed, the volume and/or types of fitting-out materials used may fluctuate, resulting in substantial fluctuations in the proportions of direct costs from project to project.

The following is a discussion of the changes in the key components of our direct costs in FY2016/17 compared to FY2017/18:

(i) Our subcontracting charges increased from approximately HK$203.1 million for FY2016/17 to approximately HK$276.9 million for FY2017/18, representing an increase of approximately 36.3%. Such increase was mainly attributable to (a) several relatively sizeable projects that we undertook or commenced during FY2017/18 (i.e. Project I and Project H under the table of "Business – Our projects undertaken during the Track Record Period – Major projects" for FY2017/18); and (b) the contra-charge amounts for marble works paid on behalf by Customer H under Project J as referred to in the table of "Business – Our projects undertaken during the Track Record Period – Major projects" for FY2017/18.

(ii) Our direct materials costs increased from approximately HK$82.6 million for FY2016/17 to approximately HK$192.7 million for FY2017/18, representing an increase of approximately 133.3%. Such increase was mainly due to the increase in volume and different types of fitting-out materials used for projects in FY2017/18 as compared to that in FY2016/17. In respect of Project I and Project H that we undertook or commenced during FY2017/18, the direct material costs increased as a result of (a) additional types of fitting-out materials required such as wardrobes and shower cubicles; and (b) the higher number of residential units that required fitting-out services to be performed as compared to other projects.

(iii) Our staff costs increased from approximately HK$16.4 million for FY2016/17 to approximately HK$26.9 million for FY2017/18, representing an increase of approximately 64.0%. Such increase was mainly due to the increase in our project management and safety supervision personnel to cope with our increased workload in FY2017/18 compared to FY2016/17.

Gross profit and gross profit margin

Our gross profit and gross profit margin for FY2016/17 and FY2017/18 respectively were as follows:

	FY2016/17	**FY2017/18**
Revenue *(HK$'000)*	346,391	560,283
Gross profit *(HK$'000)*	42,237	61,434
Gross profit margin	12.2%	11.0%

Our gross profit amounted to approximately HK$42.2 million and approximately HK$61.4 million for FY2016/17 and FY2017/18 respectively, representing an increase of approximately 45.5%, primarily due to the increase in revenue as discussed above. Our gross profit margin remained broadly stable at approximately 12.2% for FY2016/17 and approximately 11.0% for FY2017/18.

Other income and gains/(losses), net

Our other income and gains/(losses), net changed from a net loss of approximately HK$7,000 for FY2016/17 to a net gain of approximately HK$56,000 for FY2017/18. Such difference was mainly because net foreign exchange losses of HK$7,000 was recognised in FY2016/17 while gains of HK$22,000 was recognised in FY2017/18.

Administrative and other operating expenses

Our administrative and other operating expenses increased from approximately HK$8.2 million for FY2016/17 to approximately HK$12.9 million for FY2017/18, representing an increase of approximately 57.3%. Such increase was mainly due to (i) non-recurring **[REDACTED]** expenses of approximately HK$3.5 million incurred in FY2017/18 (FY2016/17: nil); and (ii) the increase in our staff costs as a result of the increase in salary and benefits paid to our Directors and the inclusion of salary and benefits of our financial controller who joined us in November 2017 during FY2017/18.

Finance costs

Our finance costs increased from approximately HK$1.0 million for FY2016/17 to approximately HK$1.7 million for FY2017/18, which was primarily due to the increase in the proceeds from the bank borrowings from approximately HK$113.4 million for FY2016/17 to approximately HK$124.8 million for FY2017/18 as shown under "Cash flows from financing activities".

Income tax expense

Despite the recognition of **[REDACTED]** expenses for FY2017/18, our profit before tax increased from approximately HK$33.0 million for FY2016/17 to approximately HK$46.9 million for FY2017/18 as a result of all of the aforesaid and in particular the increase in revenue and gross profit as well as the expenses in relation to the **[REDACTED]** which were not deductible for tax purposes.

Our income tax expense increased from approximately HK$5.9 million for FY2016/17 to approximately HK$8.3 million for FY2017/18 as a result of the combined effect of the increase in profit before tax and the tax effect of the non-deductible **[REDACTED]** expense incurred in FY2017/18.

Profit and total comprehensive income for the year

Despite the recognition of **[REDACTED]** expenses in FY2017/18 and the tax effect of the non-deductible **[REDACTED]** expenses as explained above, our profit and total comprehensive income increased from approximately HK$27.1 million for FY2016/17 to approximately HK$38.6 million for FY2017/18, representing an increase of approximately 42.4% as a result of all of the aforesaid and in particular the increase in revenue and gross profit.

FY2016/17 compared with FY2015/16

Revenue

Our revenue increased from approximately HK$240.1 million for FY2015/16 to approximately HK$346.4 million for FY2016/17, representing an increase of 44.3%. The increase in our total revenue was mainly attributable to the increase in revenue of our fitting-out services which contributed to approximately 99.4% and 99.9% of our total revenue for each of FY2015/16 and FY2016/17 and such increase in revenue was because:

(i) The increase in the number of relatively sizeable fitting-out services projects with revenue contribution of HK$1 million to below HK$50 million in FY2016/17, as demonstrated in the below table:

	FY2015/16	**FY2016/17**
	Number of projects	*Number of projects*
Revenue recognised		
HK$50 million or above	1	1
HK$10 million to below HK$50 million	7	12
HK$1 million to below HK$10 million	11	18
Below HK$1 million	51	38
Total	70	69

(ii) In particular, the increase in the revenue was mainly driven by the revenue contributed by some of our major fitting-out works projects undertaken or commenced during FY2016/17, included the fitting-out services for (i) low density residential properties located in Clearwater Bay, Sai Kung, which contributed revenue of approximately HK$82.3 million (i.e. Project B and Project F under the table of "Business – Our projects undertaken during the Track Record Period - Major projects" for FY2016/17); and (ii) residential properties of a private housing estate located in Yuen Long, which contributed revenue of approximately HK$26.4 million (i.e. Project G under the table of "Business – Our projects undertaken during the Track Record Period – Major projects" for FY2016/17).

Direct costs

Our direct costs increased from approximately HK$216.4 million for FY2015/16 to approximately HK$304.2 million for FY2016/17, representing an increase of 40.6%, which was lower than the increase in our revenue by approximately 3.7 percentage points (and thus resulted in our higher gross profit margin). Our direct costs mainly include subcontracting charges, direct material costs, staff costs, rental of machinery and equipment, and others. These costs may fluctuate substantially from project to project, because depending on the scope of fitting-out services to be performed or the number of residential units required for fitting-out services to be performed, the volume and/or types of fitting-out materials used may fluctuate, resulting in substantial fluctuations in the proportions of direct costs from project to project.

The following is a discussion of the changes in the key components of our direct costs in FY2015/16 compared to FY2016/17:

(i) Our subcontracting charges increased from approximately HK$134.5 million for FY2015/16 to approximately HK$203.1 million for FY2016/17, representing an increase of approximately 51.0%. Such increase was mainly due to the increase in amount of works outsourced to subcontractors as a result of our growth in business in FY2016/17 as illustrated by the increase in our revenue as discussed above, in particular the increase in the number of relatively larger scale projects undertaken during FY2016/17.

(ii) Our direct materials costs increased from approximately HK$69.3 million for FY2015/16 to approximately HK$82.6 million for FY2016/17, representing an increase of approximately 19.2%. The less-than-proportionate increase in our direct material costs was mainly due to the increase in volume and types of fitting-out materials used for projects in FY2016/17 as compared to that in FY2015/16, as we benefited from our price bargaining power over our suppliers with the increase in our bulk purchase volume. In respect of Project B and Project F that we undertook during FY2016/17, low density residential properties generally required less direct materials such as wooden furniture and timber doors, which was mainly due to the number of units are lower as compared to other projects.

(iii) Our staff costs increased from approximately HK$9.8 million for FY2015/16 to approximately HK$16.4 million for FY2016/17, representing an increase of approximately 67.3%. Such increase was mainly due to the increase in our project management and safety supervision personnel to cope with our increased workload in FY2016/17 compared to FY2015/16.

Gross profit and gross profit margin

Our gross profit and gross profit margin for FY2015/16 and FY2016/17 respectively were as follows:

	FY2015/16	FY2016/17
Revenue *(HK$'000)*	240,149	346,391
Gross profit *(HK$'000)*	23,772	42,237
Gross profit margin	9.9%	12.2%

Our gross profit amounted to approximately HK$23.8 million and approximately HK$42.2 million for FY2015/16 and FY2016/17 respectively, representing an increase of approximately 77.3%, and our gross profit margin increased from approximately 9.9% in FY2015/16 to approximately 12.2% in FY2016/17. Our Directors are of the view that our Group benefited from our price bargaining power over our suppliers with the increase in our bulk purchase volume which enabled us to achieve higher gross profit margin.

Other income and gains/(losses), net

Our other income and gains/(losses), net changed from a net income of approximately HK$94,000 for FY2015/16 to a net loss of approximately HK$7,000 for FY2016/17. Such difference was mainly because net foreign exchange gains of approximately HK$75,000 was recognised in FY2015/16 while losses of approximately HK$7,000 was recognised in FY2016/17.

Administrative and other operating expenses

Our administrative and other operating expenses amounted to approximately HK$8.2 million for FY2015/16 and approximately HK$8.2 million for FY2016/17 respectively, which remained relatively stable.

Finance costs

Our finance costs decreased from approximately HK$1.2 million for FY2015/16 to approximately HK$1.0 million for FY2016/17, which was primarily due to the decrease in effective interest rates of bank borrowings for FY2016/17 as compared to FY2015/16.

Income tax expense

For each of FY2015/16 and FY2016/17, our income tax expenses amounted to approximately HK$2.6 million and HK$5.9 million respectively, representing an increase of approximately 126.9%. Such increase was primarily due to the increase in our profit before tax from approximately HK$14.4 million in FY2015/16 to approximately HK$33.0 million in FY2016/17, representing an increase of approximately 129.2%, mainly due to our increases in revenue and gross profit as discussed above.

Profit and total comprehensive income for the year

As a result of the aforesaid and in particular the increase in our revenue and gross profit as discussed above, our profit and total comprehensive income for the year attributable to owners of our Company increased from approximately HK$11.9 million in FY2015/16 to approximately HK$27.1 million in FY2016/17, representing an increase of approximately 127.7%.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, cash generated from our operations and borrowings. Our primary liquidity requirements are to finance our working capital needs, and fund our capital expenditures and growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the proceeds from the **[REDACTED]** to finance a portion of our liquidity requirements.

As at 30 April 2018, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had cash and bank balances of approximately HK$27.7 million and we had banking facilities of approximately HK$7.0 million available for cash drawdown.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Net cash from operating activities	20,234	4,610	5,487
Net cash used in investing activities	–	(2)	(6)
Net cash (used in)/generated from financing activities	(13,611)	13,819	(8,875)
Net increase/(decrease) in cash and cash equivalents	6,623	18,427	(3,394)
Cash and cash equivalents at beginning of year	5,110	11,733	30,160
Cash and cash equivalents at end of year	11,733	30,160	26,766

Cash flows from operating activities

Our operating cash inflows is primarily derived from our revenue from the provision of fitting-out services, whereas our operating cash outflows mainly includes payment for purchase of direct materials, subcontracting charges, staff costs, as well as other working capital needs.

Net cash generated from operating activities primarily consisted of profit before income tax adjusted for depreciation, interest expenses and interest income and the effect of changes in working capital such as changes in contract assets, trade and other receivables, amount due from/to a director, amounts due from/to related companies, contract liabilities, trade and other payables, and income tax paid.

The following table sets forth a reconciliation of our profit before income tax to net cash from operating activities:

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	14,427	33,049	46,921
Adjustments for:			
Depreciation	326	435	436
Interest expenses	1,205	961	1,657
Interest income	–	–	(2)
Operating profit before changes in working capital	15,958	34,445	49,012
Increase in contract assets	(17,914)	(5,214)	(26,733)
Increase in trade and other receivables	(7,161)	(13,338)	(1,305)
(Increase)/Decrease in amount due from a director	–	(11,748)	11,748
(Increase)/Decrease in amounts due from related companies	(6,989)	20,199	–
Increase in contract liabilities	–	–	16,009
Increase/(Decrease) in trade and other payables	37,682	(9,820)	(31,629)
(Decrease)/Increase in amount due to a director	(769)	(8,052)	1,293
Cash generated from operations	20,807	6,472	18,395
Tax paid	(573)	(1,862)	(12,908)
Net cash from operating activities	20,234	4,610	5,487

For FY2015/16, we recorded profit before income tax of approximately HK$14.4 million and net cash from operating activities of approximately HK$20.2 million. The difference was mainly due to the amount and timing of receipts from our customers as well as the amount and timing of payments to our suppliers as at 31 March 2016.

For FY2016/17, we recorded profit before income tax of approximately HK$33.0 million and net cash from operating activities of approximately HK$4.6 million. The difference was mainly due to (i) the cash advances by us to our Director (i.e. Mr. Man) for his personal use; and (ii) substantial net cash outflows for working capital needs due to major fitting-out projects undertaken or commenced during the year.

For FY2017/18, we recorded profit before income tax of approximately HK$46.9 million and net cash from operating activities of approximately HK$5.5 million. The difference was mainly due to substantial net cash outflows for working capital needs due to major fitting-out projects undertaken or commenced during the year, as well as substantial cash outflow for tax payment during the year.

Cash flows from investing activities

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Interest received	–	–	2
Purchases of property, plant and equipment	–	(2)	(8)
Net cash used in investing activities	–	(2)	(6)

During the Track Record Period, our cash inflows from investing activities includes interest received, whereas our cash outflows from investing activities primarily include cash used in the purchase of property, plant and equipment.

For FY2015/16, there was no cash generated from or used in investing activities. For FY2016/17 and FY2017/18, we recorded net cash used in investing activities of approximately HK$2,000 and HK$6,000 respectively, which was primarily attributable to purchase of furniture and fixtures.

Cash flows from financing activities

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Interest paid	(1,205)	(961)	(1,657)
Proceeds from bank borrowings	82,671	113,393	124,776
Repayments of bank borrowings	(94,477)	(98,198)	(121,565)
Repayments of finance leases liability	(600)	(415)	(429)
Dividends paid	–	–	(10,000)
Net cash (used in)/generated from financing activities	(13,611)	13,819	(8,875)

During the Track Record Period, our cash outflows from financing activities includes interest paid, repayments of bank borrowings, repayments of finance leases liability and dividends paid.

For FY2015/16, we recorded net cash used in financing activities of approximately HK$13.6 million, which was mainly attributable to the repayments of bank borrowings, partially offset by the proceeds from bank borrowings.

For FY2016/17, we recorded net cash generated from financing activities of approximately HK$13.8 million, which was mainly attributable to the proceeds from bank borrowings, partially offset by the repayments of bank borrowings.

For 2017/18, we recorded net cash used in financing activities of approximately HK$8.9 million, which was primarily due to the dividends paid and the repayments of bank borrowings, partially offset by the proceeds from bank borrowings.

Capital expenditures

For each of FY2015/16, FY2016/17 and FY2017/18, our Group incurred capital expenditures of approximately HK$1.4 million, HK$2,000 and HK$8,000 respectively, as set out below:

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Furniture and fixtures	–	2	8
Motor vehicles	1,444	–	–
	1,444	2	8

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources and banking facilities presently available to our Group, including our existing cash and cash equivalents, cash generated from our operations, available banking facilities, and the estimated **[REDACTED]** to be received by us from the **[REDACTED]**, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this document.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**	**As at 30 April 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)
Current assets				
Contract assets	62,510	67,724	94,457	93,714
Trade and other receivables	24,479	37,817	39,122	27,752
Amount due from a director	–	11,748	–	–
Amount due from related companies	20,199	–	–	6
Cash and bank balances	11,733	30,160	26,766	27,663
Total current assets	118,921	147,449	160,345	149,135
Current liabilities				
Contract liabilities	–	–	16,009	–
Trade and other payables	80,167	80,347	38,718	40,638
Amount due to a director	8,052	–	1,293	1,293
Bank borrowings	15,198	30,393	33,604	35,941
Finance lease liability	415	429	–	–
Current income tax liabilities	2,492	6,540	1,959	2,420
Total current liabilities	106,324	117,709	91,583	80,292
Net current assets	12,597	29,740	68,762	68,843

As at 31 March 2016, 2017 and 2018, our net current assets amounted to approximately HK$12.6 million, approximately HK$29.7 million and approximately HK$68.8 million respectively. The increase in our net current assets was mainly due to the increase in our current assets as a result of our business growth and our profitable operation during the Track Record Period, with the combined effect of the decrease in our current liabilities.

As at 30 April 2018, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK$68.8 million which was relatively stable as compared with our net current assets as at 31 March 2018.

DISCUSSION ON SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Further discussions of the fluctuations in the key components of our net current assets are set forth in the following paragraphs.

Contract assets and liabilities

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

The following table sets out the movement of contract assets and liabilities:

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018
	HK$'000	*HK$'000*	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses	604,000	738,155	768,865
Less: Progress billings received and receivables	(541,490)	(671,431)	(674,408)
	62,510	67,724	94,457
Contract assets	62,510	67,724	94,457
Contract liabilities	–	–	(16,009)
Balance at end of the year	62,510	67,724	78,448

Trade and other receivables

Our trade and other receivables as at 31 March 2016, 2017 and 2018 amounted to approximately HK$24.5 million, approximately HK$37.8 million and approximately HK$39.1 million respectively. The following table sets forth a breakdown of our trade and other receivables:

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	21,454	28,013	21,701
Retention receivables	2,896	8,943	4,754
Other receivables, deposits and prepayments	129	861	12,667
	24,479	37,817	39,122

Trade receivables

Our trade receivables increased from approximately HK$21.5 million as at 31 March 2016 to approximately HK$28.0 million as at 31 March 2017 and decreased to approximately HK$21.7 million as at 31 March 2018. Such fluctuation was primarily due to the fluctuation of the amount settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers as well as the different credit periods.

Retention receivables

When undertaking fitting-out services projects, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Retention money is normally equivalent to 10% of each progress payment and in aggregate subject to a maximum retention of 5% of the total contract sum. Normally, the retention money is released upon the expiry of the defects liability period. The fluctuation of our retention receivables as at 31 March 2016, 2017 and 2018 was mainly due to different duration and different size of the fitting-out services projects undertaken by us during the Track Record Period.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments increased from approximately HK$0.1 million as at 31 March 2016 to approximately HK$0.9 million as at 31 March 2017, and further increase to approximately HK$12.7 million as at 31 March 2018. The relatively substantial increase to approximately HK$12.7 million as at 31 March 2018 was mainly due to (i) the prepayment of expenses in relation to the **[REDACTED]** of approximately HK$3.4 million; and (ii) deposit paid for the purchase of flooring materials of approximately HK$9.0 million.

Concentration

As at 31 March 2016, 2017 and 2018, there were 2, 2 and 3 customer(s) which individually contributed over 10% of our trade and other receivables, respectively. The aggregate amounts of trade and other receivables from these customers amounted to 82.0%, 90.6% and 60.4% of our total trade and other receivables as at 31 March 2016, 2017 and 2018 respectively. For further information regarding our customer concentration risk and our Directors' view as to the sustainability of our business model in view of our customer concentration, please refer to the section headed "Business – Our customers – Customer concentration" in this document.

Trade receivables turnover days

The following table sets forth our trade receivables turnover days during the Track Record Period:

	FY2015/16	**FY2016/17**	**FY2017/18**
Trade receivables turnover days *(Note)*	29.2 days	26.1 days	16.2 days

Note: Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including retention receivables, other receivables, deposits and prepayments) divided by revenue during the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

The credit period that we granted to customers generally ranged from 21 to 30 days. Our trade receivables turnover days were approximately 29.2 days for FY2015/16, approximately 26.1 days for FY2016/17 and approximately 16.2 days for FY2017/18. Such fluctuation was mainly due to the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers as well as the different credit periods granted by us.

Trade receivables ageing analysis and subsequent settlement

The ageing analysis of our trade receivables based on invoice date is as follows:

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	15,753	23,199	16,389
31–60 days	–	330	450
61–90 days	174	36	2
Over 90 days	5,527	4,448	4,860
	21,454	28,013	21,701

The ageing analysis of our trade receivables which were past due but not impaired is as follows:

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	15,753	23,199	16,389
0–30 days past due	–	330	450
31–60 days past due	174	36	2
61–90 days past due	414	–	4,251
Over 90 days past due	5,113	4,448	609
	21,454	28,013	21,701

As shown in the above table, approximately 73.4%, 82.8% and 75.5% of our trade receivables as at 31 March 2016, 2017 and 2018 were neither past due nor impaired.

Up to the Latest Practicable Date, 68.0% of our trade receivables as at 31 March 2018 had been settled:

	Trade receivable as at 31 March 2018	**Subsequent settlement up to the Latest Practicable Date**	
	HK$'000	*HK$'000*	*%*
Neither past due nor impaired	16,389	10,482	64.0
0–30 days past due	450	11	2.4
31–60 days past due	2	–	–
61–90 days past due	4,251	4,250	100.0
Over 90 days past due	609	6	1.0
	21,701	14,749	68.0

Approximately 98.5%, 99.4% and 75.7% of our revenue for each of FY2015/16, FY2016/17 and FY2017/18 was generated from the projects with Customer A, Customer B and Customer C, being our top five customers during the Track Record Period whose holding companies are among the top ten property developers in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange, which carries little risk of default in the opinion of our Directors. Our credit terms offered to customers generally ranged from 21 to 30 days. For our credit risk management, please refer to the section headed "Business – Risk management and internal controls systems – Credit risk management" in this document.

We assess at end of each reporting period whether there is any objective evidence that trade receivables are impaired. We determine the provision for impairment of trade receivables on a case-by-case basis having regard to a number of factors, including the ageing of the receivable balance, results of follow-up procedures, customers' credit history, customers' financial position, and the current market condition.

No provision for impairment loss was recognised in respect of our trade receivables because our Directors are of the view that all trade receivables can be recovered having taken into account, among other factors, that:

(i) our Directors confirm that there has been no dispute or disagreement with regard to the value or stage of completion of projects between our Group and our customers;

(ii) with respect to trade receivables which were neither past due or past due within 60 days as at 31 March 2018, our Directors consider that the subsequent settlement rates as shown in the above table are in good standing and that the amounts that remain outstanding are recoverable; and

(iii) with respect to trade receivables which were past due over 60 days as at 31 March 2018, our Directors consider that the subsequent settlement rates as shown in the above table are in good standing. We had actively followed up with the relevant customers and our Directors consider that such trade receivables are recoverable having regard to our continuing business relationship with the relevant customers, their business scale, their past payment records and there was no apparent financial and cash flows issues of the relevant customers as indicated to our Directors. Our Directors confirm that there were no disputes from such customer on the outstanding amounts payable to us. Our Directors confirm that further active follow-up actions, including written payment reminders and active communications with those customers, will continue until full settlement of the outstanding balance.

Trade and other payables

Our trade and other payables as at 31 March 2016, 2017 and 2018 amounted to approximately HK$80.2 million, approximately HK$80.3 million and approximately HK$38.7 million respectively. The following table sets forth a breakdown of our trade and other payables:

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	78,739	67,851	34,856
Dividend payables	–	10,000	–
Accruals and other payables	1,428	2,496	3,862
	80,167	80,347	38,718

Trade payables

Our trade payables mainly comprised payables to subcontractors and materials suppliers.

Our trade payables decreased from approximately HK$78.7 million as at 31 March 2016 to approximately HK$67.9 million as at 31 March 2017 and further decreased to approximately HK$34.9 million as at 31 March 2018. Such decrease was mainly because we expedited the process of settling our trade payables in order to enhance business relationship with various suppliers, which was evidenced by the decrease in trade payables turnover days below.

Accruals and other payables

Our accruals and other payables mainly include accruals for salaries and allowances of staff and audit fee.

Our accruals and other payables increased from approximately HK$1.4 million as at 31 March 2016 to approximately HK$2.5 million as at 31 March 2017 and further increased to approximately HK$3.9 million as at 31 March 2018. Such increase was mainly due to the increase in accruals for salaries and allowances of staff due to the increase in number of our employees across the Track Record Period.

Trade payables turnover days

The following table sets out our trade payables turnover days during the Track Record Period:

	FY2015/16	**FY2016/17**	**FY2017/18**
Trade payables turnover days *(Note)*	101.6 days	88.0 days	37.6 days

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including accruals and other payables) divided by cost of sales for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Our trade payables turnover days decreased from approximately 101.6 days for FY2015/16 to approximately 88.0 days for FY2016/17, and further decreased to approximately 37.6 days for FY2017/18, which was primarily because we expedited the process of settling our trade payables in order to enhance business relationship with various suppliers.

Trade payables ageing analysis and subsequent

The following table sets forth an ageing analysis of trade payables based on the invoice dates:

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	55,620	54,770	27,475
31–60 days	7,546	4,236	9
61–90 days	10,325	1,431	4,704
Over 90 days	5,248	7,414	2,668
	78,739	67,851	34,856

Up to the Latest Practicable Date, 82.0% of our trade payables as at 31 March 2018 had been settled.

Amount due from a director

Details of the amount due from a director are summarised in note 18 to the accountants' report set out in Appendix I to this document.

The amount due from a director is non-trade in nature, unsecured, non-interest bearing and repayable on demand. During the Track Record Period, such amounts represented cash advanced by our Group to Mr. Man for his personal use.

Amounts due from related companies

Details of the amounts due from related companies are summarised in note 19 to the accountants' report set out in Appendix I to this document.

Amounts due from related companies represented amounts due from Haicheng Huizhou and Haicheng Sichuan of approximately HK$16.1 million and 4.1 million, respectively as at 31 March 2016. All amounts due from related companies were settled during FY2016/17. For details of Haicheng Huizhou and Haicheng Sichuan, please refer to the paragraph headed "Related party transactions" in this section.

Amounts due from related companies are non-trade nature, unsecured, interest-free and repayable on demand. During the Track Record Period, such amounts represented cash advanced by our Group to the related companies for their working capital purpose.

INDEBTEDNESS

The following table sets forth our Group's indebtedness as at the respective dates indicated. As of 30 April 2018, being the latest practicable date for this indebtedness statement, save as disclosed in this subsection headed "Indebtedness", we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, contingent liabilities or guarantees. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 30 April 2018 and up to the date of this document. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**	**As at 30 April 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)
Non-current liabilities				
Finance lease liability	429	–	–	–
Current liabilities				
Bank borrowings	15,198	30,393	33,604	35,941
Finance lease liability	415	429	–	–
Amount due to a director	8,052	–	1,293	1,293
	24,094	30,822	34,897	37,234

Banking facilities

As at 31 March 2016, 2017 and 2018 and 30 April 2018, our Group had banking facilities with credit limit amounting to approximately HK$25.0 million, HK$31.7 million, HK$43.2 million and HK$43.0 million respectively which were secured by (i) unlimited personal guarantee and indemnity granted by Mr. Man and Mrs. Man; (ii) unlimited corporate guarantee granted by Hoi Sing Holdings; (iii) personal property owned by Mr. Man; and (iv) proceeds in relation to certain trade receivables of our subsidiaries. The guarantees and securities in relation to the aforementioned items (i), (ii) and (iii) will be released and replaced by corporate guarantees of our Company upon **[REDACTED]**.

These banking facilities include facilities for invoice financing, revolving loan facilities, term loan facilities and installment loan facilities.

The unutilised banking facilities as at 31 March 2016, 2017 and 2018 and 30 April 2018 amounted to approximately HK$9.8 million, HK$1.3 million, HK$9.6 million and HK$7.0 million respectively.

Bank borrowings

As at 31 March 2016, 2017 and 2018 and 30 April 2018, our Group had bank borrowings repayable as follows:

	As at 31 March 2016	**As at 31 March 2017**	**As at 31 March 2018**	**As at 30 April 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Within 1 year	15,198	30,393	33,604	35,941

As at 31 March 2016, 2017 and 2018 and 30 April 2018, the effective interest rates of the bank borrowings ranged from HKD Prime Rate minus 0.5% to HKD Prime Rate plus 0.5% per annum, and flat rate of 4.2% and flat rate of 4.8%.

Finance lease liability

During the Track Record Period, we purchased motor vehicles by way of finance lease arrangements.

At 31 March 2016, 2017 and 2018 and 30 April 2018, our Group had obligations under finance leases repayable as follows:

	As at 31 March 2016		As at 31 March 2017		As at 31 March 2018		As at 30 April 2018	
	Present value of the minimum lease payment	**Total minimum lease payments**	**Present value of the minimum lease payment**	**Total minimum lease payments**	**Present value of the minimum lease payment**	**Total minimum lease payments**	**Present value of the minimum lease payment**	**Total minimum lease payments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000* (unaudited)
Within one year	415	437	429	437	–	–	–	–
More than one year but not more than two years	429	437	–	–	–	–	–	–
More than two years but not more than five years	–	–	–	–	–	–	–	–
	844	874	429	437	–	–	–	–
Less: total future interest expenses		(30)		(8)		–		–
Present value of lease obligations		844		429		–		–

As at 31 March 2016 and 2017, the effective interest rate was 1.79% per annum for our finance leases facilities.

Our finance leases were secured by motor vehicle. As at 31 March 2016 and 2017, the net book value of our motor vehicle under finance leases amounted to approximately HK$1.1 million and approximately HK$0.7 million respectively, representing 100% of the total net book value of our motor vehicles as at 31 March 2016 and 2017. As at 31 March 2018, the finance leases payables were fully settled and there were no new finance lease facilities drawn since then.

Amount due to a director

Our Group had an amount due to Mr. Man of approximately HK$8.1 million, nil, approximately HK$1.3 million and approximately HK$1.3 million as at 31 March 2016, 2017 and 2018 and 30 April 2018 respectively. The amount due to Mr. Man was cash advanced by Mr. Man to our Group for working capital purpose. The amount due to Mr. Man was non-trade nature, unsecured, non-interest bearing and repayable on demand. All outstanding balance will be fully settled upon the **[REDACTED]**.

Operating lease commitments

Group as lessee

As at 31 March 2016, 2017 and 2018 and 30 April 2018, the total future minimum lease payments payable by our Group (as lessee) under non-cancellable operating lease is as follows:

	As at 31 March 2016 *HK$'000*	As at 31 March 2017 *HK$'000*	As at 31 March 2018 *HK$'000*	As at 30 April 2018 *HK$'000* (unaudited)
Within one year	435	468	432	888
In the second to firth years inclusive	828	396	–	1,012
	1,263	864	432	1,900

The non-cancellable operating leases represented the lease of office premises located at Tsuen Wan from Hoi Sing Holdings, which was considered as a related party transaction during the Track Record Period. After the **[REDACTED]**, the lease will continue and such transaction will constitute exempt continuing connected transaction of our Company for the purpose of Chapter 14A of the Listing Rules. For details, please see the section headed "Connected transaction" in this document.

Contingent liabilities

Our Group had no significant contingent liabilities as at the end of the Track Record Period and as at the Latest Practicable Date.

Off-balance sheet arrangements and commitments

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements or commitments.

KEY FINANCIAL RATIOS

	FY2015/16 or as at 31 March 2016	FY2016/17 or as at 31 March 2017	FY2017/18 or as at 31 March 2018
Revenue growth	N/A	44.2%	61.7%
Net profit growth	N/A	128.8%	42.2%
Gross profit margin	9.9%	12.2%	11.0%
Net profit margin before interest and tax	6.5%	9.8%	8.7%
Net profit margin	4.9%	7.8%	6.9%
Return on equity	89.2%	89.2%	55.9%
Return on total assets	9.9%	18.3%	24.0%
Current ratio	1.1	1.3	1.8
Quick ratio	1.1	1.3	1.8
Inventories turnover days	N/A	N/A	N/A
Trade receivables turnover days	29.2	26.1	16.2
Trade payables turnover days	101.6	88.0	37.6
Gearing ratio	181.3%	101.3%	50.6%
Net debt to equity ratio	93.0%	2.2%	11.8%
Interest coverage	13.0	35.4	29.3

Revenue growth

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our revenue.

Net profit growth

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our net profit.

Gross profit margin

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our gross profit margin.

Net profit margin before interest and tax

Our net profit margin before interest and tax increased from approximately 6.5% for FY2015/16 to approximately 9.8% for FY2016/17, which was mainly due to the increase in our gross profit margin as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section.

Our net profit margin before interest and tax decreased from approximately 9.8% for FY2016/17 to approximately 8.7% for FY2017/18, which was mainly due to the increase in our administrative and other operating expenses as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section.

Net profit margin

Our net profit margin increased from approximately 4.9% for FY2015/16 to approximately 7.8% for FY2016/17, which was mainly due to (i) the increase in our net profit margin before interest and tax as mentioned above and (ii) the decrease in the finance costs.

Our net profit margin decreased from approximately 7.8% for FY2016/17 to approximately 6.9% for FY2017/18, which was mainly due to (i) the decrease in our net profit margin before interest and tax as mentioned above; (ii) the tax effect of the non-deductible **[REDACTED]** expenses recognised in FY2017/18; and (iii) the increase in the finance costs.

Return on equity

Return on equity is calculated as profit for the year divided by the ending total equity as at the respective reporting dates.

Our return on equity remained stable at approximately 89.2% for FY2015/16 and approximately 89.2% for FY2016/17 while decreased to approximately 55.9% for FY2017/18, which was mainly due to the increase in our total equity (by approximately 126.8%) outweighing the increase in profit for the year (by approximately 61.7%).

Return on total assets

Return on total assets is calculated as profit for the year divided by the ending total assets as at the respective reporting dates.

Our return on total assets increased from approximately 9.9% for FY2015/16 to approximately 18.3% for FY2016/17, and further increased to approximately 24.0% for FY2017/18. The increase in our return on total assets over the Track Record Period was mainly due to the increase in the profit for the year as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio increased from approximately 1.1 times as at 31 March 2016 to approximately 1.3 times as at 31 March 2017, which was mainly due to the increase in our current assets as a result of our profitable operations.

Our current ratio increased from approximately 1.3 times as at 31 March 2017 to approximately 1.8 times as at 31 March 2018. Such increase was mainly due to the increase in our current assets as a result of our profitable operations, as well as the decrease in trade and other payables as at 31 March 2018 as discussed in the paragraph headed "Trade and other payables" in this section.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates. Due to our business nature, we did not have any inventories during the Track Record Period. As such, our quick ratio was the same as our current ratio.

Inventories turnover days

Due to the nature of our business model, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including retention receivables and other receivables, deposits and prepayments) divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Please refer to the section "Financial information – Net current assets – Trade and other receivables" for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including trade accruals) divided by direct costs for the year, then multiplied by the number of days of the year (i.e. 365 days for a full year).

Please refer to the paragraph headed "Net current assets – Trade and other payables" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including bank borrowings, finance lease liabilities and amount due to a director) divided by the total equity as at the respective reporting dates.

Our gearing ratio was approximately 181.3% as at 31 March 2016, approximately 101.3% as at 31 March 2017 and approximately 50.6% as at 31 March 2018. The decrease in our gearing ratio during the Track Record Period was mainly due to repayment of amount due to a director and the increase in our total equity, despite the increasing amount of total bank borrowings.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

Our net debt to equity ratio decreased from approximately 93.0% as at 31 March 2016 to approximately 2.2% as at 31 March 2017, mainly due to the increase in our cash and bank balances as at 31 March 2017.

Our net debt to equity ratio increased from approximately 2.2% as at 31 March 2017 to approximately 11.8% as at 31 March 2018, mainly due to the increase in our bank borrowings as at 31 March 2018.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years.

Our interest coverage increased from approximately 13.0 times as at 31 March 2016 to approximately 35.4 times as at 31 March 2017, mainly due to our increase in net profit margin before interest and tax for FY2016/17 as explained above and the decrease in our finance cost mainly due to the decrease in the effective interest rates of the bank borrowings for FY2016/17 as compared to FY2016/15.

Our interest coverage decreased from approximately 35.4 times as at 31 March 2017 to approximately 29.3 times as at 31 March 2018, mainly due to the increase in finance costs as a result of the increase in proceeds from bank borrowings during FY2017/18.

FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial and capital risk management

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to "Business – Risk management and internal control systems" and note 3 of the accountants' report set out in Appendix I to this document.

We manage our capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to our Shareholder through the optimisation of the debt and equity balance. Our Directors review the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, we may adjust the amount of dividends paid to Shareholders, conducting share buybacks, issue new Shares, and/or raising new debts, depending on our capital structure and needs from time to time.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets, which was prepared to illustrate the effect of the **[REDACTED]** on the audited combined net tangible assets of our Group attributable to owners of our Company as of 31 March 2018 as if the **[REDACTED]** had taken place on 31 March 2018, was approximately HK$**[REDACTED]** per Share and HK$**[REDACTED]** per Share, respectively, based on the lower end and the upper end of the indicative **[REDACTED]** range of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**. Please refer to Appendix II to this document for the bases and assumptions in calculating the unaudited pro forma adjusted net tangible assets figure.

[REDACTED] EXPENSES

Our Directors estimate that the total amount of expenses in relation to the **[REDACTED]** is approximately HK$**[REDACTED]**. Out of the amount of approximately HK$**[REDACTED]**, approximately HK$**[REDACTED]** is directly attributable to the issue of the Shares and is expected to be accounted for as a deduction from equity upon **[REDACTED]**. The remaining amount of approximately HK$**[REDACTED]**, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK$**[REDACTED]** that shall be charged to profit or loss, nil, nil and approximately HK$**[REDACTED]** million, has been charged for FY2015/16, FY2016/17 and FY2017/18 respectively, and approximately HK$**[REDACTED]** is expected to be incurred for FY2018/19. Expenses in relation to the **[REDACTED]** are non-recurring in nature. Our Group's financial performance and results of operations for FY2018/19 will be adversely affected by the estimated expenses in relation to the **[REDACTED]**.

DIVIDEND

For each of FY2015/16, FY2016/17 and FY2017/18, we declared dividends of nil, HK$10.0 million and nil respectively to our then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 9 May 2018. As at 31 March 2016, 2017 and 2018, our Company had no reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 29 to the accountants' report set out in Appendix I to this document. During the Track Record Period, material transactions with related parties mainly include the following:

a. Supply of materials to our Group by related party

	FY2015/16	FY2016/17	FY2017/18
	HK$'000	*HK$'000*	*HK$'000*
Haicheng Huizhou	20,274	30,385	–

Haicheng Huizhou is a limited liability company established in the PRC on 15 December 2009. It is wholly owned by Great Gold Development, a limited liability company incorporated in Hong Kong on 12 May 2004. Great Gold Development was previously owned as to 70% by Mr. Man and 30% by Mrs. Man, respectively at the time of incorporation until March 2017.

Great Gold Development is an investment holding company which wholly-owns Haicheng Huizhou, Great Gold Huizhou and Haicheng Sichuan. Haicheng Huizhou, Great Gold Huizhou and Haicheng Sichuan were limited liability companies established in the PRC on 15 December 2009, 18 June 2007 and 28 January 2008, respectively. Great Gold Huizhou and Haicheng Huizhou were principally engaged in the supply of finished furniture products and timber products in the PRC while Haicheng Sichuan was principally engaged in provision of fitting-out services in the PRC.

Subsequently in early March 2017, the entire issued share capital of Great Gold Development was sold to an independent third party. Mr. Man and Mrs. Man disposed of Great Gold Development as they wished to focus on the Group's business in Hong Kong and no longer wished to continue the furniture supply business undertaken by Great Gold Huizhou and Haicheng Huizhou and the fitting-out business undertaken by Haicheng Sichuan in the PRC.

b. Sales of materials to related party by our Group

	FY2015/16	FY2016/17	FY2017/18
	HK$'000	*HK$'000*	*HK$'000*
Hoi Sing International	926	261	–

Hoi Sing International is a limited liability company incorporated in Hong Kong on 25 March 2014. It was owned by Mr. Man, Mr. Ho and an independent third party as to 50%, 30% and 20% respectively at the time of incorporation. Mr. Man, Mr. Ho and the independent third party were also directors of Hoi Sing International. In March 2016, Mr. Ho transferred his entire interest in Hoi Sing International to Mr. Man Hoi Wang, Michael, the son of Mr. Man and Mrs. Man while the independent third party transferred his entire interest in Hoi Sing International to Mrs. Man. Mr. Ho and the independent third party subsequently resigned from their position as director of Hoi Sing International in August 2016 and Mr. Man Hoi Wang, Michael was appointed as a director of Hoi Sing International in August 2016. Mr. Man and Mrs. Man resigned from their position as director of Hoi Sing International in January 2017 and they transferred their entire interest in Hoi Sing International to Mr. Man Hoi Wang, Michael in February 2017.

Prior to Mr. Man Hoi Wang, Michael becoming the sole shareholder, the principal business activities of Hoi Sing International mainly included the retail trading of timber flooring. Subsequently, Mr. Man Hoi Wang, Michael redeveloped the business into retail trading of cosmetic products. Hoi Sing International was disposed to Mr. Man Hoi Wang Michael as its retail business was not in line with the Group's business as a fitting-out contractor.

c. Provision of fitting-out services to related party by our Group

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Mr. Man	39	–	116
Mr. Chung Po Wang *(Note)*	305	52	–
	344	52	116

Note: Mr. Chung Po Wang was a director of Hoi Sing Decoration and resigned in December 2016 due to personal reason.

Our Directors confirmed that the above-mentioned related party transactions under items (a), (b) and (c) above were conducted on arm's length basis and would not distort our results during the Track Record Period, as supported by the fact that the fees charged to/by these related parties were comparable and within the range of fees charged to/by other independent customers or suppliers engaged by our Group for similar sales or purchases.

d. Rental of office premises to our Group by related party

	FY2015/16	**FY2016/17**	**FY2017/18**
	HK$'000	*HK$'000*	*HK$'000*
Hoi Sing Holdings	432	432	432

Hoi Sing Holdings is a limited liability company incorporated in Hong Kong on 29 January 2007 and is owned as to 50% by Mr. Man and 50% by Mrs. Man. The principal business of Hoi Sing Holdings is property investment. During the Track Record Period, we rented an office premises from Hoi Sing Holdings. The rental transactions with Hoi Sing Holdings is expected to continue following the **[REDACTED]**.

Having regard to the then prevailing market rent as assessed by an independent valuer, our rental of office premises before 1April 2018 was below the then prevailing market rent. During the Track Record Period, the annual rental based on the then prevailing market rates as assessed by the independent valuer was estimated to be HK$493,200, HK$502,800 and HK$511,200 for FY2015/16, FY2016/17 and FY2017/18, respectively. Our Directors consider that such differences between the actual annual rental expense (i.e. HK$423,000 for each FY2015/16, FY2016/17 and FY2017/18) and the amounts as assessed by the independent valuer were immaterial to our Group's financial statements as a whole and therefore did not materially distort our financial results during the Track Record Period. Since 1 April 2018, the new monthly rental of HK$44,000 was arrived at between our Group and Hoi Sing International with regard to the prevailing market rent as assessed by the independent valuer. For further information, please refer to the section headed "Connected transaction" in this document.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the **[REDACTED]**, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 31 March 2018, and there had been no events since 31 March 2018 which would materially affect the information shown in our combined financial statements included in the accountants' report set out in Appendix I to this document.