*You should read this section in conjunction with the Group's audited consolidated financial information, including the notes thereto, as set out in the Accountants' Report in Appendix I to this listing document. The Group's audited consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**"). You should read the entire Accountants' Report and should not merely rely on the information contained in this section.*

The discussion and analysis in this section of the listing document contain certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by the Group in light of the Group's experience and interpretation of historical trends, current conditions and expected future developments as well as other factors that the Group believes are appropriate under the relevant circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties, some of which are beyond our control. For further information, please refer to the section headed "Risk Factors" in this listing document.

OVERVIEW

The Group is a subcontractor principally engaged in the design, supply and installation of facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors. The Group provides one-stop design, supply and installation services for curtain walls, aluminium windows and doors, and works closely with customers and architects in its Design, Supply and Installation Projects to offer tailor-made designs and products to suit the project requirements. During the Track Record Period, the Group generally undertook Design, Supply and Installation projects as a subcontractor. 89.5% or above of the Group's revenue was derived from the projects located in Hong Kong during the Track Record Period. The Group's principal customers are primarily main contractors and property developers.

For each of the three years ended 31 March 2018, the Group's total revenue amounted to approximately HK$367.8 million, HK$501.9 million and HK$421.1 million, respectively; gross profit amounted to approximately HK$57.1 million, HK$91.7 million and HK$117.2 million, respectively; and profit for the year amounted to approximately HK$31.3 million, HK$55.3 million and HK$50.1 million, respectively.

BASIS OF PREPARATION

The historical financial information has been prepared based on the accounting policies set out in "Note 4. Significant Accounting Polices" in the Accountants' Report in Appendix I to this listing document, which conforms with HKFRSs and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The Company and the companies now comprising the Group were wholly owned subsidiaries of Hanison. To rationalise the structure of the Group in the preparation for the Listing, the Company and the companies now comprising the Group underwent a series of reorganisation steps. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group. Please refer to "Note 2. Group Reorganisation and Basis of Preparation and Presentation of Historical Financial Information" of the Accountants' Report set out in Appendix I to this listing document.

The Group resulting from the Reorganisation continued to be controlled by Hanison (other than the acquisition of Waller Holdings and its subsidiary, Rich Victory, (collectively referred to "**Waller Holdings Group**") as disclosed in "Note 32. Acquisition of a Subsidiary" of the Accountants' Report set out in Appendix I to this listing document) and is regarded as a continuing entity. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting as mentioned below.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Track Record Period (other than the acquisition of the Waller Holdings Group), or since their respective date of incorporation, where there is a shorter period. The consolidated statements of financial position as at 31 March 2016 and 31 March 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group at the carrying amounts shown in the financial statements of the group entities, as if the current group structure had been in existence at those dates taking into account their respective date of incorporation/acquisition, where applicable.

KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATION AND FINANCIAL CONDITION

The Group's financial conditions and results of operations have been and will continue to be affected by a number of factors, including in the section headed "Risk Factors" in this listing document and those set out below.

Demand for facade and curtain wall systems

The Group's business performance is mainly affected by the number and availability of design, supply and installation projects for facade and curtain wall systems in Hong Kong and the PRC awarded to the Group, which in turn are affected by various factors, including but not limited to, the investment of property developers and the prospects of the PRC and the Hong Kong economy. The future growth and level of profitability of construction industry in the PRC and the Hong Kong are likely to depend upon the continued availability of the major construction projects. A downturn in the PRC and the Hong Kong construction industry is likely to result in the possibility of availability, postponement, delay or cancellation of construction projects and delay in recovery of receivables, which would have an adverse impact on the Group's business and profitability.

Furthermore, for the Group's major market in Hong Kong, the Hong Kong government's plan on land and housing development could delay property and infrastructure development and cause a corresponding reduction in the demand for curtain walls, aluminium windows and doors, which would have a direct impact on the Group's business operations and financial performance.

Non-recurring in nature of the projects

The projects undertaken by the Group are awarded on a project-by-project basis. The Group's customers are under no obligation to continue to award contracts to the Group and there is no assurance that the Group's existing customers will continue to engage the Group for new projects in the future. The Group generally has to go through a competitive tendering process to secure new projects. The result of such process is beyond the Group's control, and there is no assurance that the Group can secure new projects from future tender submissions.

As at the Latest Practicable Date, the Group had 31 Design, Supply and Installation Projects on hand and the last expected completion time of such projects is year 2021. The duration of the Group's Design, Supply and Installation Projects usually ranges from 12 to 24 months. The Group cannot guarantee that it can continuously secure new projects after the completion of all its Design, Supply and Installation Projects on hand.

Accuracy in the estimation of time and costs involved in projects before submitting tenders or providing fee quotations

The Group generally determines the price of tender or quotation based on the estimated project costs plus a mark-up margin. The price of a contract would be determined and fixed once it is awarded to the Group. The Group generally carries out internal assessment and budgeting estimates of the various costs, including but not limited to, operating costs, labour costs, procurement and subcontracting costs, when preparing the tender or quotation to customers. The Group's pricing on its projects is generally evaluated on a project-by-project basis depending on several factors, including but not limited to, (i) the nature or type of the design and projects; (ii) the costs budget; (iii) the target completion date; (iv) the Group's projects on hand; (v) the availability of the Group's resources; and (vi) scale of the project.

However, the actual costs incurred and time spent for completing a project may vary from the estimation due to various factors, such as weather conditions, accidents, delay in obtaining approval and other unforeseen site conditions, departure of key project management and supervision personnel involved, substandard performance by the Group's subcontractors, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a design, supply and installation project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect the Group's financial performance and liquidity.

Supply and cost of materials

The Group's cost of materials charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately HK$119.2 million, HK$139.6 million and HK$114.0 million, respectively, representing approximately 38.4%, 34.0% and 37.5% of the Group's total cost of sales during each of the three years ended 31 March 2018, respectively.

The supply and cost of materials are affected by macroeconomic conditions, production quantity and cost of such materials. Fluctuation in foreign exchange rates may also affect the Group's cost of materials since some of the Group's suppliers are located in the PRC. There is no assurance that the supply and cost of materials will remain stable. In the event that the cost of materials increases due to external factors, which are out of the Group's control, the Group's operations and profitability may be materially and adversely affected.

Performance and availability of subcontractors

As the Group does not employ any direct labour to carry out the installation works for its Design, Supply and Installation Projects, the Group subcontracted all the site installation works to external subcontractors for each of the three years ended 31 March 2018. For each of the three years ended 31 March 2018, the Group's subcontracting and other charges charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately HK$95.3 million, HK$99.7 million and HK$84.0 million, respectively, representing approximately 30.7%, 24.3% and 27.6% of the Group's total cost of sales for the corresponding year, respectively.

The Group is liable for the works performed by its subcontractors. The Group maintains a list of approved subcontractors, which is reviewed by the project team on an annual basis. The Group will select the subcontractor for the relevant project based on, including but not limited to, the tender price, technical capability, relevant work credentials and prior working relationship with the Group.

However, there is no guarantee in the availability of subcontractors or the work performance of the chosen subcontractors. In the event that the Group is not able to secure suitable subcontractors at an acceptable fee or the works performed by the Group's subcontractors are not up to standard, the Group may incur extra costs and hence its financial performance and reputation may be affected materially and adversely.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Group's financial position and results of operations as included in this listing document is based on the consolidated financial statements prepared using the significant accounting policies set out in "Note 4. Significant Accounting Policies" of the Accountants' Report in Appendix I to this listing document, which conform with the HKFRSs.

In the application of the Group's accounting policies, which are described in "Note 4. Significant Accounting Policies" of the Accountants' Report, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

Below is the critical judgement, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the significant effect on the amounts recognised in the historical financial information. The Group also has other accounting policies that the Directors consider to be significant, the details of which are set out in "Note 4. Significant Accounting Policies" of the Accountants' Report in Appendix I to this listing document.

Deferred taxation on investment properties

For the purpose of measuring deferred tax arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred tax on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Key sources of estimation uncertainty

Management had made the following estimations that have the most significant effect on the amounts recognised in the historical financial information and a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investment properties

Investment properties are carried in the consolidated statements of financial position at 31 March 2018 at their fair value of HK$60.3 million. The fair value was based on valuation of these properties conducted by an independent property valuer. In determining the fair values of the Group's investment properties, the valuer applied a market value basis which involves, inter-alia, significant unobservable inputs and significant judgements, representing appropriate market rent and capitalisation rate.

Estimated impairment of trade debtors

On assessing any impairment of the Group's trade debtors, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade debtors. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Impairment on trade debtors is made based on estimation of the future cash flows discounted at the original effective interest rates. If the financial condition of the customers of the Group deteriorates, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 March 2016, 31 March 2017 and 31 March 2018, the carrying amount of trade debtors was HK$5.0 million, HK$5.4 million and HK$62.0 million, respectively.

Provisions

Significant estimates are involved in the determination of provisions related to warranty costs and rectification work. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the reporting date, whether it is more likely than not that such warranty services and rectification work will result an outflow of resources and whether the amount of the obligation can be reliably estimated with reference to the relevant correspondences and contracts with customers. The management estimates the cost for warranty services and rectification work with regard to the Group's experience in addressing such matters. As at 31 March 2016, 31 March 2017 and 31 March 2018, the Group recognised provision related to warranty costs and rectification work amounting to HK$42.2 million, HK$115.1 million and HK$106.1 million, respectively.

RESULTS OF OPERATIONS

The Group's consolidated 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 listing document. The following sections should be read in conjunction with the Accountants' Report set out in Appendix I to this listing document.

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	367,768	501,938	421,146
Cost of sales	(310,645)	(410,266)	(303,966)
Gross profit	57,123	91,672	117,180
Other income	1,515	1,405	1,799
Other gains (losses)	445	1,866	(7,315)
Administrative expenses	(22,134)	(26,847)	(40,134)
Finance costs	(1,810)	(1,046)	(2,646)
Listing expenses	-	-	**[REDACTED]**
Profit before taxation	35,139	67,050	64,950
Taxation	(3,875)	(11,713)	(14,838)
Profit for the year	31,264	55,337	50,112
Other comprehensive (expense) income:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of a foreign operation	(1,714)	(3,232)	6,541
Total comprehensive income for the year	29,550	52,105	56,653

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

The Group is a subcontractor principally engaged in the design, supply and installation of facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors. The Group provides one-stop design, supply and installation services for curtain walls, aluminium windows and doors, and works closely with customers and architects in its Design, Supply and Installation Projects to offer tailor-made designs and products to suit the project requirements. During the Track Record Period, the Group generally undertook Design, Supply and Installation Projects as a subcontractor and approximately 89.5% or above of the Group's revenue was derived from projects located in Hong Kong.

The following table sets forth a breakdown of the Group's revenue during the Track Record Period by contract type:

	Year ended 31 March					
By contract type	**2016**		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Design, supply and installation for curtain walls, aluminium windows, doors and other products for new buildings *(notes i and ii)*	245,410	66.7	347,555	69.2	242,888	57.7
Design, supply and installation for aluminium windows, doors and other products for new buildings *(note ii)*	116,913	31.8	153,869	30.7	162,161	38.5
Design, supply and installation for renovation works for existing buildings	2,435	0.7	191	–	14,737	3.5
Repairing, maintenance and others *(note iii)*	3,010	0.8	323	0.1	1,360	0.3
Total	367,768	100.0	501,938	100.0	421,146	100.0

Notes:

i The contract type involves aluminium windows, doors and other products in addition to curtain walls. The curtain walls are the principal products for the contract type and the principal revenue from this contract type is also from curtain walls.

ii Other products represent balustrade, louvre, cladding, window wall, canopy and grille.

iii Others mainly represent mock up.

The following table sets forth a breakdown of the Group's revenue by geographical location of the projects during the Track Record Period:

	Year ended 31 March					
By geographical location	**2016**		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Hong Kong	342,941	93.2	483,397	96.3	377,094	89.5
PRC	24,827	6.8	18,541	3.7	44,052	10.5
Total	367,768	100.0	501,938	100.0	421,146	100.0

During the Track Record Period, for the Group's revenue derived from and the projects undertaken in Hong Kong, some of the Group's contracts were nominated subcontractor contracts which were awarded as a result of the Group being chosen by the respective project's ultimate developer whereas some of them were domestic subcontractor contracts which were awarded as a result of the Group being chosen by the main contractors. The following table sets forth a breakdown of the Group's revenue in Hong Kong during the Track Record Period:

	Year ended 31 March					
Revenue derived from projects in Hong Kong	**2016**		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Nominated subcontractor contracts (Hong Kong)	316,795	92.4	427,813	88.5	331,842	88.0
Domestic subcontractor contracts (Hong Kong)	26,146	7.6	55,584	11.5	45,252	12.0
Total	342,941	100.0	483,397	100.0	377,094	100.0

During the Track Record Period, the Group's revenue was mostly contributed from the contract types of design, supply and installation for (i) curtain walls, aluminium windows, doors and other products for new buildings; and (ii) aluminium windows, doors and other products for new buildings which in aggregate accounted for approximately 98.5%, 99.9% and 96.2%, respectively, for each of the three years ended 31 March 2018.

Although the Group had established its footprint both in Hong Kong and the PRC, Hong Kong had been its principal market which contributed approximately 93.2%, 96.3% and 89.5%, respectively, of its total revenue for each of the three years ended 31 March 2018.

For the revenue derived from and the projects undertaken in Hong Kong, most of the contracts were nominated subcontractor contracts which accounted for approximately 92.4%, 88.5% and 88.0% of the revenue derived from projects in Hong Kong, respectively, for each of the three years ended 31 March 2018.

It concludes from the above that (i) the Group was principally engaged in the design, supply and installation for (a) curtain walls, aluminium windows, doors and other products for new buildings; and (b) aluminum windows, doors and other products for new buildings; (ii) Hong Kong is the Group's principal market; and (iii) most of its revenue derived from Hong Kong was from nominated subcontractor contracts.

The following table sets forth a breakdown of the Group's projects based on their respective range of revenue recognised during the Track Record Period:

	Year ended 31 March					
	2016		2017		2018	
	Number of projects [note]	*HK'000*	*Number of projects* [note]	*HK'000*	*Number of projects* [note]	*HK'000*
Revenue recognised						
Above HK$30 million	3	197,754	5	396,855	5	349,601
Above HK$10 million to HK$30 million	6	104,468	3	63,561	3	44,198
Above HK$1 million to HK$10 million	17	62,269	10	38,801	10	21,995
HK$1 million and below	22	3,277	20	2,721	25	5,352
	48	367,768	38	501,938	43	421,146
Average revenue recognised for each project		7,662		13,209		9,794

Note: For the purpose of this table, contracts with same project location and customer were categorised under the same project.

Projects with revenue recognised in an amount above HK$30 million accounted for approximately 53.8%, 79.1% and 83.0% of the total revenue recognised for each of the three years ended 31 March 2018, respectively.

The following table sets forth a detailed list of the projects contributing to the revenue during the Track Record Period:

		Year ended 31 March					
	Original contract sum (amounts of variation orders not yet included) [1]	**2016**		**2017**		**2018**	
	HK$'000	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Project locations[1]:							
Tong Chun Street	145,460	109,013[2]	29.6	3,237	0.6	276	0.1
Castle Road	76,715	49,525[2]	13.5	21,879	4.4	2,478	0.6
Conduit Road	61,244	39,216[2]	10.7	23,537	4.7	320	0.1
Tong Yin Street	136,220	8,353	2.3	129,419[2]	25.8	4,880	1.2
Chi Shin Street	140,780	6,014	1.6	104,605[2]	20.8	32,983[2]	7.8
So Kwun Wat	101,300	14,661	4.0	75,950[2]	15.1	10,278	2.4
Lai Ping Road	199,394	–	–	50,536[2]	10.1	151,547[2]	36.0
Kau To Shan	51,300	10,056	2.7	36,345[2]	7.2	3,900	0.9
Lung Cheung Road	99,880	–	–	–	–	63,398[2]	15.1
Lohas Park – Package 6	165,800	–	–	–	–	57,838[2]	13.7
An Tuo Hill	74,259	–	–	18,145	3.6	43,835[2]	10.4
Pak Shek Kok	77,435	–	–	–	–	20,832	4.9
Mount Nicholson Road	90,153	22,966	6.2	4,780	1.0	3,064	0.7
Grampian Road	27,380	25,114	6.8	683	0.1	-	-
Kadoorie Avenue	25,400	16,652	4.5	8,238	1.6	292	0.1
Haining	15,020	15,019	4.1	-	-	-	-
Others		51,179	14.0	24,584	5.0	25,225	6.0
Total		367,768	100.0	501,938	100.0	421,146	100.0

Following are detailed locations for the above projects as stated in the contracts:

Tong Chun Street	18 Tong Chun Street, Tseung Kwan O, N.T.
Castle Road	2 Castle Road (formerly known as phase 2, 33 Seymour Road), Hong Kong
Conduit Road	No. 31 Conduit Road, Mid-level, Hong Kong
Tong Yin Street	33 Tong Yin Street, TKOTL 125, Area 68A1, Tseung Kwan O, N.T.
Chi Shin Street	TKOTL 112, Area 65C1, Tseung Kwan O, New Territories
So Kwun Wat	TMTL 423, Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, N.T.
Lai Ping Road	STTL 567, Area 56A, Kau To, Shatin, N.T., Hong Kong
Kau To Shan	STTL 566 in Area 56A, Kau To Shan, Shatin, N.T.
Lung Cheung Road	NKIL No. 6532, Lung Cheung Road, Beacon Hill, Kowloon
Lohas Park – Package 6	Site N of TKOTL 70 RP Lohas Park Package 6
An Tuo Hill	深圳安托山項目北地塊 (translate as "Shenzhen An Tuo Hill North Land Slot")
Pak Shek Kok	TPTL 225, Pak Shek Kok, Tai Po, N.T.
Mount Nicholson Road	No. 8 Mount Nicholson Road, Hong Kong
Grampian Road	No. 11 Grampian Road, Kowloon NKIL 2602, S.A. & RP.
Kadoorie Avenue	109–135 Kadoorie Avenue, Homantin, Kowloon, Hong Kong
Haining	浙江省海寧市城南新區4–5號地塊 (translate as "Zhejiang Province Haining City South City New Zone Nos. 4–5 Land Slot")

Notes:

(1) For the purpose of this table, contracts with same project location and customer were categorised under the same project and their respective contract sums were aggregated accordingly.

(2) They represent projects with revenue recognised in an amount above HK$30 million.

Generally, higher proportion of revenue is recognised in the execution-peak time of a project as most of the works are carried out in this execution stage while lower proportion is recognised in both of the pre execution-peak time and the post execution-peak time of a project.

For the year ended 31 March 2017, the Group's revenue increased by approximately HK$134.2 million or 36.5% to approximately HK$501.9 million for the year ended 31 March 2017 from approximately HK$367.8 million for the year ended 31 March 2016. Such increase was mainly a combined effect of (i) the increase in revenue amounted to approximately HK$219.7 million which was derived from projects at Tong Yin Street and Chi Shin Street as these projects were roughly in their execution-peak time; (ii) the commencement of a new project at Lai Ping Road which started to contribute approximately HK$50.5 million of the revenue during the year ended 31 March 2017; and offset by (iii) the decrease in revenue derived from projects at Tong Chun Street and Castle Road in an aggregate amount of approximately HK$133.4 million as these projects were roughly in their post execution-peak time and the majority of the works had been carried out in the previous year(s). To this, the average revenue recognised for each project increased to approximately HK$13.2 million for the year ended 31 March 2017 from approximately HK$7.7 million for the year ended 31 March 2016.

For the year ended 31 March 2018, the Group's revenue decreased by approximately HK$80.8 million or 16.1% to approximately HK$421.1 million for the year ended 31 March 2018 from approximately HK$501.9 million for the year ended 31 March 2017. Such decrease was primarily a combined effect of (i) the decrease in revenue in an aggregate amount of approximately HK$317.5 million derived from projects at Conduit Road, Tong Yin Street, Chi Shin Street, So Kwun Wat and Kau To Shan as these projects are roughly in their post execution-peak time and most of the works had been carried out in the previous year(s); offset by (ii) the increase in revenue in an aggregate amount of approximately HK$101.0 million derived from the project at Lai Ping Road which was roughly in its execution-peak time; and (iii) the commencement of new projects at Lung Cheung Road, Lohas Park – Package 6 and Pak Shek Kok which started to contribute an aggregated amount of approximately HK$142.1 million during the year ended 31 March 2018. To this, the average revenue recognised for each project decreased to approximately HK$9.8 million for the year ended 31 March 2018 from approximately HK$13.2 million for the year ended 31 March 2017.

Cost of sales

Cost of sales primarily comprises (i) costs of inventories; and (ii) subcontracting and other charges, which in aggregate accounted for approximately 74.9%, 64.0% and 70.9% of the Group's total cost of sales for each of the three years ended 31 March 2018. The following table sets forth a breakdown of the cost of sales during the Track Record Period:

	Year ended 31 March					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Costs of inventories	137,194	44.2	162,690	39.7	131,710	43.3
Subcontracting and other charges	95,267	30.7	99,660	24.3	84,044	27.6
Provision for rectification works	37,258	12.0	80,049	19.5	20,323	6.7
Provision for warranty	2,327	0.7	19,427	4.7	19,109	6.3
Preliminary project costs	12,424	4.0	17,359	4.2	10,587	3.5
Project staff costs	26,175	8.4	31,081	7.6	36,731	12.1
Provision for inventory	–	–	–	–	1,462	0.5
Total	310,645	100.0	410,266	100.0	303,966	100.0

(i) Costs of inventories

Costs of inventories represent cost of materials, production labour costs and PRC fabrication plant overhead. Among the balance of costs of inventories, cost of materials amounted to approximately HK$119.2 million, HK$139.6 million and HK$114.0 million, for each of the three years ended 31 March 2018, respectively, representing approximately 38.4%, 34.0% and 37.5% of the Group's total cost of sales for the corresponding year, respectively.

Materials represent the charges paid and payable to the Group's suppliers for purchase of materials being installed/utilised in the Group's Design, Supply and Installation Projects. Materials utilised mainly represents aluminium, steel and glass. During the Track Record Period, all of the Group's major supplier were either located in Hong Kong or the PRC.

Generally, more materials will be used in the execution-peak time of a project whereas much less materials will be used in the post execution-peak time of a project.

For the year ended 31 March 2017, cost of materials increased by approximately HK$20.4 million or 17.1% to HK$139.6 million for the year ended 31 March 2017 from approximately HK$119.2 million for the year ended 31 March 2016. Such increase was mainly a combined effect of (i) the increase in materials used for the projects at Tong Yin Street and Chi Shin Street which the projects were roughly in their execution-peak time; and offset by (ii) the decrease in materials used for the project at Tong Chun Street which the project was nearly in its post execution-peak time during the year.

For the year ended 31 March 2018, cost of materials decreased by approximately HK$25.6 million or 18.3% to approximately HK$114.0 million for the year ended 31 March 2018 from approximately HK$139.6 million for the year ended 31 March 2017. Such decrease was mainly a combined effect of (i) the decrease in materials used for the projects at Tong Yin Street, Chi Shin Street, So Kwun Wat and Kau To Shan which were roughly in their post execution-peak time; and offset by (ii) the increase in materials used for the projects at Lai Ping Road, Lohas Park – Package 6 and An Tuo Hill which were roughly in their execution-peak time during the year.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's cost of materials on its profit during the Track Record Period. The hypothetical fluctuation rates are set at the range of 1% and 4.4% with reference to the historical price trend of aluminum, steel and glass in Hong Kong and the PRC from 2013 to 2017 (i.e. range of CAGR from 2013 to 2017 for costs of each of the materials) as shown in the Ipsos Report (please refer to the sections headed "Industry Overview – Key Costs in Facade and Curtain Wall Works Industry in Hong Kong" and "Key Costs in Facade and Curtain Wall Works Industry in China" of this listing document) which are considered to be reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in materials	**–1%**	**–4.4%**	**+1%**	**+4.4%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax for:				
the year ended 31 March 2016	1,192	5,243	(1,192)	(5,243)
the year ended 31 March 2017	1,396	6,143	(1,396)	(6,148)
the year ended 31 March 2018	1,140	5,016	(1,140)	(5,016)
Change in profit after tax for:				
the year ended 31 March 2016	995	4,378	(995)	(4,378)
the year ended 31 March 2017	1,166	5,129	(1,166)	(5,129)
the year ended 31 March 2018	952	4,188	(952)	(4,188)

Note: The Hong Kong Profits Tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year. No PRC Enterprise Income Tax is considered for the purpose as its effect to the Group is immaterial during the Track Record Period.

(ii) Subcontracting and other charges

Subcontracting and other charges mainly represent the charges paid and payable to the Group's subcontractors who provide installation services at project sites for the Group's projects.

Generally, more subcontracting and other charges will be incurred in the execution-peak time of a project as most of the installation works are carried out in this stage whereas much less installation works are carried out in the pre execution-peak time and post execution-peak time of a project. For each of the three years ended 31 March 2018, subcontracting and other charges amounted to approximately HK$95.3 million, HK$99.7 million and HK$84.0 million, respectively, representing approximately 30.7%, 24.3% and 27.6% of the Group's total cost of sales for the corresponding year, respectively.

For the year ended 31 March 2017, the subcontracting and other charges increased by approximately HK$4.4 million or 4.6% to approximately HK$99.7 million for the year ended 31 March 2017 from approximately HK$95.3 million for the year ended 31 March 2016. Such increase was mainly a combined effect of (i) the increase in subcontracting and other charges incurred for projects at Tong Yin Street and Chi Shin Street which were roughly in their execution-peak time, and the project at Lai Ping Road which the substantial amount of the installation works were carried out in the year; and offset by (ii) the decrease in subcontracting and other charges incurred for the projects at Tong Chun Street, Conduit Road, Mount Nicholson Road and Grampian Road which were roughly in their post execution-peak time in the year and most of installation works were carried out in the previous year(s).

For the year ended 31 March 2018, the subcontracting and other charges decreased by approximately HK$15.6 million or 15.7% to approximately HK$84.0 million for the year ended 31 March 2018 from approximately HK$99.7 million for the year ended 31 March 2017. Such decrease was mainly a combined effect of (i) the decrease in subcontracting and other charges incurred for projects at Tong Yin Street and Chi Shin Street as the projects were roughly in their post execution-peak time in the year and most of the installation works were carried out in the previous year(s); and offset by (ii) the increase in subcontracting and other charges for the project at Lai Ping Road which was in its execution-peak time with most of the installation works carried out during the year.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting and other charges on its profits during the Track Record Period. The hypothetical fluctuation rate is set at 6.0% with reference to the fluctuation in the average daily wage of direct labour in the facade and curtain wall industry in Hong Kong during 2013 to 2017 (i.e. CAGR from 2013 to 2017 for average wage of direct labours in Hong Kong) as shown in the Ipsos Report (please refer to the section headed "Industry Overview – Key Costs in Facade and Curtain Wall Works Industry in Hong Kong" of this listing document):

Hypothetical fluctuations in subcontracting and other charges	**–6%**	**+6%**
	HK$'000	*HK$'000*
Change in profit before tax for:		
the year ended 31 March 2016	5,716	(5,716)
the year ended 31 March 2017	5,980	(5,980)
the year ended 31 March 2018	5,043	(5,043)
Change in profit after tax for:		
the year ended 31 March 2016	4,773	(4,773)
the year ended 31 March 2017	4,993	(4,993)
the year ended 31 March 2018	4,211	(4,211)

Note: The Hong Kong profits tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year. No PRC Enterprise Income Tax is considered for the purpose as its effect to the Group is immaterial during the Track Record Period.

(iii) Provision for rectification works charged to the consolidated statement of profit or loss and other comprehensive income

Provision for rectification work relates to the estimated cost of work to be carried out for rectification of curtain walls, aluminium windows, doors and other products supplied to the Group's customers during the defects liability period, for a maximum period of two years, based on management's prior experience. These amounts have not been discounted for the purpose of measuring the provision for rectification work because the effect is not material. The amount of provision for rectification works charged to the consolidated statement of profit or loss and other comprehensive income is an amount of rectification works recognised, net of reversal for the year.

The following sets forth the percentage of provision for rectification works to revenue during each of the three years ended 31 March 2018:

	For the year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Provision for rectification work charged to profit or loss during the year	37,258	80,049	20,323
Percentage to revenue	10.1%	15.9%	4.8%

The provision for rectification work is calculated based on a percentage (which in turn is based on the percentage of the annual historical actual rectification work expenses to the contract amount) of the lower of the accumulated recognised sales amount or the contract sum. The amount is provided when the Group expects that it is likely that rectification works will be required. Normally, the Group starts to provide for the rectification work when the rectification work of a project, if any, can be foreseeable.

For the year ended 31 March 2016, the Group's provision for rectification work recognised was mainly for the projects at Tong Chun Street and Mount Nicholson Road with an aggregate amount of approximately HK$29.2 million which accounted for approximately 78.4% of the total provision for rectification work for the year. The percentage of provision for rectification work to revenue was approximately 10.1% for the year ended 31 March 2016.

For the year ended 31 March 2017, the Group's provision for rectification work charged to profit or loss increased by approximately HK$42.8 million or 114.9% to approximately HK$80.0 million for the year ended 31 March 2017 from approximately HK$37.3 million for the year ended 31 March 2016. Also, the percentage of provision for rectification work to revenue increased to approximately 15.9% for the year ended 31 March 2017 from approximately 10.1% for the year ended 31 March 2016. Such increase was due to more sizeable projects which their respective rectification works were foreseeable during the year and the Group had to provide sizeable rectification work accordingly (such as the projects at Conduit Road, Tong Yin Street, Chi Shin Street and So Kwun Wat and the related rectification work were provided in an aggregate of approximately HK$71.0 million for the year ended 31 March 2017).

For the year ended 31 March 2018, the Group's provision for rectification work charged to profit or loss decreased by approximately HK$59.7 million or 74.6% to approximately HK$20.3 million for the year ended 31 March 2018 from approximately HK$80.0 million for the year ended 31 March 2017. Also, the percentage of provision for rectification work to revenue decreased to approximately 4.8% for the year ended 31 March 2018 from approximately 15.9% for the year ended 31 March 2017. Such decrease was due to (i) less sizeable projects which their respective rectification works were foreseeable during the year and so a lower amount of provision was made (such as the projects at Lung Cheung Road, Lohas Park – Package 6 and Pak Shek Kok which just started contributing revenue for the year and it was then too early to estimate the likelihood and amount of the rectification work; and the aggregate revenue from these projects had already accounted for approximately 33.7% of the total revenue for the year ended 31 March 2018); and (ii) no provision for rectification work was made for the project at An Tuo Hill (which accounted for approximately 10.4% of the total revenue for the year ended 31 March 2018) as this project only involved supply of finished products without installation works and so, no provision for rectification was necessary. In this regard, the project at Lai Ping Road was the key project which its rectification works became foreseeable during the year and the provision in an amount of approximately HK$20.2 million was made during the year ended 31 March 2018.

(iv) Provision for warranty charged to the consolidated statement of profit or loss and other comprehensive income

The warranty provision represents management's best estimation of the Group's liability under the warranty period, for a period of maximum of 15 years from the end of the defect liability period for the Design, Supply and Installation Projects based on management's prior experience.

The following sets forth the percentage of warranty expenses to revenue during each of the three years ended 31 March 2018:

	For the year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Provision for warranty charged to profit or loss during the year	2,327	19,427	19,109
Percentage to revenue	0.6%	3.9%	4.5%

The amount of the warranty expense provided for in a year is the difference between the warranty provision as at the year ended of a year and that as at the year ended in the previous year after taking into account the utilisation amount and the imputed interests expense on provision for warranty provision during the year. The amount of the warranty provision as at the year ended is estimated based on a number of factors which include annual historical actual warranty costs, contract sum with warranty cover, accumulated recognised sales amount, warranty period of up to a maximum of 15 years for the project, inflation and the discounting effect on the future cash outflows.

The Group's provision for warranty charged to the consolidated statement of profit or loss and other comprehensive income was kept at a low level at approximately HK$2.3 million for the year ended 31 March 2016 and increased substantially by approximately HK$17.1 million or 734.9% to approximately HK$19.4 million for the year ended 31 March 2017, and then remained fairly stable at approximately HK$19.1 million for the year ended 31 March 2018. The percentage of provision for warranty to revenue also replicated this trend that it was kept at a low level at approximately 0.6% for the year ended 31 March 2016 and increased substantially to 3.9% for the year ended 31 March 2017, and then remained at a comparable level of approximately 4.5% for the year ended 31 March 2018.

For the year ended 31 March 2016, the warranty expenses was exceptionally low as (i) the actual warranty costs incurred for the year and thus the percentage of annual historical actual warranty costs to the contract amount with warranty cover was substantially lower; and (ii) the accumulated recognised sales amount and the contract sum secured by the Group as at the year ended 31 March 2016 were also comparatively lower. For the former, mainly because only a small working team with junior staff was engaged to handle the warranty matter and thus resulting the lower warranty costs. For the latter, the size of the Group's secured contract was usually lower prior to the year ended 31 March 2016. For the year ended 31 March 2016, the provision for warranty was mainly for the project at Tong Chun Street.

For the year ended 31 March 2017 and 2018, apart from the Group's strengthened ability to source some high value contracts, the high value of the contracts also started to contribute very substantial amount of revenue to the Group (such as the projects at Tong Yin Street, Chi Shin Street, So Kwun Wat, Lai Ping Road and Lohas Park – Package 6 which each of the original contract sum all exceeded HK$100 million and such contract value was rare for the Group before the year ended 31 March 2017). To cater for the expected demand in warranty works for the coming years, in the year ended 31 March 2017, the Group also expanded its warranty capacity by recruiting a number of senior staff to supervise and monitor the works for the warranty which in turn increased the actual warranty costs incurred. Furthermore, the above surge in the annual amount of the warranty costs had to be compounded with the annual inflation effect and had to be compounded for a period of up to 15 years (i.e. the warranty period). This resulted the warranty provision as at 31 March 2017 to be substantially higher than that as at 31 March 2016. The substantial increment was then charged to the consolidated statement of profit or loss and other comprehensive income as the provision for warranty for the year.

For the year ended 31 March 2017, the provision for warranty was mainly for the projects at Tong Chun Street, Tong Yin Street, Chi Shin Street, So Kwun Wat and Lai Ping Road.

For the year ended 31 March 2018, other than the five projects for the previous year as mentioned above, the provision for warranty was also mainly for the projects at Lai Ping Road, Lung Cheung Road and Lohas Park – Package 6.

(v) Preliminary project costs

Preliminary project costs mainly represent performance bond charges, insurance charges, and other miscellaneous costs, such as quality testing fee, transportation, expenses to produce mock-up of the products to ensure that the finished products will comply with the required specifications, outsourced design fee for some of the other products (such as balustrades, cladding and etc.), cleaning and etc. For each of the three years ended 31 March 2018, preliminary project costs amounted to approximately HK$12.4 million, HK$17.4 million and HK$10.6 million, respectively, representing approximately 4.0%, 4.2% and 3.5% of the total cost of sales for the corresponding year, respectively. The percentage of preliminary project costs to total cost of sales was fairly stable and thus, the fluctuation was roughly in line with that of the total cost of sales for the corresponding year.

(vi) Project staff costs

Project staff costs represent salaries of the project staff in Hong Kong. For each of the three years ended 31 March 2018, project staff costs amounted to approximately HK$26.2 million, HK$31.1 million and HK$36.7 million, respectively, representing approximately 8.4%, 7.6% and 12.1% of the total cost of sales for the corresponding year, respectively. Project staff costs increased during the Track Record Period mainly due to the increase in the number of the project staff and the salary increment of the project staff in Hong Kong.

(vii) Provision for inventory

Provision for inventory represents provision for the work-in-progress specifically for a project which the overall project was delayed.

Gross profit

It is common in the industry that most of the works will be carried out during the execution-peak time and thus most of the revenue will then be recognised, resulting most of the gross profit to be achieved accordingly during this period. Normally, the gross profit will be much lower during the pre execution-peak time as typically, less works are being performed in this stage; also, it is required to pay certain upfront costs, such as insurance expenses, performances bond changes and design fee which have to be recognised as cost of sales at that time, in advance of the payment certificate from its customer based on which the revenue will then be recognised. Furthermore, it is common that gross profit will also be lower in the post execution-peak time. In this regard, the gross profit margin fluctuation is generally a result of (i) a mix of the different gross profit margin in different execution stages (i.e. the pre execution-peak time, execution-peak time and post execution-peak time) of a project; and (ii) the projects mix (i.e. a mix of different overall gross profit margin for the project portfolio) during the Track Record Period.

For each of the three years ended 31 March 2018, (i) gross profit amounted to approximately HK$57.1 million, HK$91.7 million and HK$117.2 million, respectively; and (ii) gross profit margins were 15.5%, 18.3% and 27.8%, respectively.

For the year ended 31 March 2017, gross profit increased by approximately HK$34.5 million or 60.5% to approximately HK$91.7 million for the year ended 31 March 2017 from approximately HK$57.1 million for the year ended 31 March 2016. The gross profit margin of approximately 18.3% for the year ended 31 March 2017 was fairly comparable to that of 15.5% for the year ended 31 March 2016 which the increase was mainly attributed to (i) the mix of the differences in the execution stages of the projects in the two years; and (ii) a luxury grade residential house project which started to contribute substantial amount of revenue during the year ended 31 March 2017, it involved higher technical complexity and non-standardised designs and allowed the Group to earn a higher gross profit margin.

For the year ended 31 March 2018, gross profit increased by approximately HK$25.5 million or 27.8% to approximately HK$117.2 million for the year ended 31 March 2018 from approximately HK$91.7 million for the year ended 31 March 2017, however, revenue for the year decreased by approximately HK$80.8 million comparing with that for the year ended 31 March 2017. This was due to the substantial increase in gross profit margin to 27.8% for the year ended 31 March 2018 from 18.3% for the year ended 31 March 2017. Other than the mix of the differences in the execution stages of the projects which caused the gross profit margin fluctuations in the two years, another main reason was that certain projects which in aggregate accounted for majority of the total revenue in the year ended 31 March 2018 recorded substantially higher gross profit margins. The Group was able to earn much higher gross profit margins for these projects as they were luxury grade residential house projects which involved higher technical complexity and non-standardised designs.

Other income

Other income remained at low amount during the Track Record Period and mainly represents sales of scrap materials and rental income for the investment properties in Kings Wing Plaza 1, situated in Shatin, Hong Kong. Other income remained fairly stable for each of the two years ended 31 March 2017. For the year ended 31 March 2018, other income increased as there was rental income earned from its investment properties which were newly acquired in August 2017 whereas there was no rental income in the last two years.

Other gains (losses)

The following table sets forth a breakdown of the Group's other gains (losses) during the Track Record Period:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Exchange gains (losses)	445	1,866	(5,185)
Impairment loss recognised on trade debtors	–	–	(3,548)
Gain on change in fair value of investment properties	–	–	1,316
Gain on disposal of property, plant and equipment	–	–	102
	445	1,866	(7,315)

For the year ended 31 March 2017, other gains increased by approximately HK$1.4 million or 319.3% to approximately HK$1.9 million for the year ended 31 March 2017 from approximately HK$0.4 million for the year ended 31 March 2016. Such increase was mainly attributable to the increase in exchange gain from the general depreciation of Renminbi for purchase of raw materials in the PRC during the year.

For the year ended 31 March 2018, there was a negative fluctuation in an amount of approximately HK$9.2 million. The other gains in an amount of approximately HK$1.9 million for the year ended 31 March 2017 swung to the other losses in an amount of approximately HK$7.3 million for the year ended 31 March 2018. Such negative fluctuation was mainly attributable to a combined effect of (i) the exchange losses due to the general appreciation of Renminbi for purchase of raw materials in the PRC during the year; (ii) the one-off impairment loss recognised on trade debtors during the year; and offset by (iii) the gain on change in fair value of the investment properties acquired in August 2017.

Administrative expenses

The following table sets forth a breakdown of the Group's administrative expenses during the Track Record Period:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Staff cost	13,386	18,256	29,857
Office expenses	1,363	1,426	1,343
Operating lease rental expense	883	1,622	1,052
Legal and professional fee	123	86	105
Entertainment and travelling expenses	634	519	448
Auditor's remuneration	299	400	461
Depreciation	169	112	2,070
Management fee expenses paid to ultimate holding company	2,678	2,569	1,573
Others	2,599	1,857	3,225
	22,134	26,847	40,134

For the year ended 31 March 2017, administrative expenses increased by approximately HK$4.7 million or 21.3% to approximately HK$26.8 million for the year ended 31 March 2017 from approximately HK$22.1 million for the year ended 31 March 2016. Such increase was mainly attributable to (i) the increase in staff cost of approximately HK$4.9 million due to higher staff bonus provision as a result of better financial performance of the Group; and (ii) the increase in operating lease rental expense of approximately HK$0.7 million as a result of expansion of the Hong Kong rented office premises and increase in unit rental price for the rented office premises before the Group moving its offices to the self-owned property acquired in August 2017.

For the year ended 31 March 2018, administrative expenses increased by approximately HK$13.3 million or 49.5% to approximately HK$40.1 million for the year ended 31 March 2018 from approximately HK$26.8 million for the year ended 31 March 2017. Such increase was mainly attributable to (i) the discretionary share awards and share options under Hanison's share award scheme and Hanison's share option scheme[1] in an aggregated amount of approximately HK$12.5 million allocated to the Group, among which, approximately HK$12.1 million was included in the administrative expenses; and (ii) the increase in depreciation of approximately HK$2.0 million due to the acquisition of property, plant and equipment in August 2017 which mainly comprised the office units of a commercial property at Kings Wing Plaza 1 situated in Shatin, Hong Kong, being used as the Group's office premises.

Office expenses of the administrative expenses mainly represent printing and stationery, computer expenses, internet fee, postage and courier, telephone expenses and other office expenses such as electricity and water charges.

Management fee expenses paid to ultimate holding company represented the administrative and corporate expenses allocated to the Group from Hanison (being the Company's ultimate holding company before the Distribution) according to the extent of the time and resources spent by the relevant individuals' services provided to the Group.

Others of the administrative expenses mainly represent repair and maintenance, motor vehicles expenses, building management fee, land use tax (土地使用稅) and property tax (房產稅) for the use of the properties in the PRC's fabrication plant in Huizhou, the PRC and other miscellaneous administrative expenses.

1 For the share awards, the fair value of services received from the grantees determined by reference to the fair value of award shares granted at the grant date is expensed on a straight-line basis over the vesting period. The share awards were granted on 10 March 2017 and were vested on 30 June 2018. For the year ended 31 March 2017, approximately HK$0.9 million of the discretionary share awards under Hanison's share award scheme allocated to the Group was included in the management fee expenses paid to the ultimate holding company rather than the staff cost.
For the share options, they vest immediately at the date of grant, the fair value of the share options granted is recognised immediately in the consolidated statement of profit or loss and other comprehensive income. The share options were granted on 5 September 2017.
For further details of the share awards and share options allocated to the Group, please refer to "Note 36. Share-based Payment Transactions" of the Accountants' Report set out in Appendix I.
For details of Hanison's share award scheme and share option scheme, grant of share award scheme and grant of share options, please refer to Hanison annual report for the year ended 31 March 2018, Hanison's announcements dated 10 March 2017 and 5 September 2017, respectively.

Finance costs

The following table sets forth a breakdown of the Group's finance costs during the Track Record Period:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interests on:			
– bank loans	1,477	7	929
– other loans	–	293	60
– bank overdraft interest	–	1	-
– amount due to a fellow subsidiary	125	–	–
– Imputed interest expense on provisions	208	745	1,657
	1,810	1,046	2,646

Imputed interest expense on provisions represents the discounting effect on the future cash outflows for the warranty provision during the warranty period of up to maximum of 15 years.

For the year ended 31 March 2017, finance costs decreased by approximately HK$0.8 million or 42.2% to approximately HK$1.0 million for the year ended 31 March 2017 from approximately HK$1.8 million for the year ended 31 March 2016. Such decrease was mainly attributable to the decrease in interests on bank loans as a result of much shorter period of bank loans presence for the year ended 31 March 2017 than that for the year ended 31 March 2016. The Group's two bank loans were fully repaid at end of the year ended 31 March 2016 which one of them was originally drawn down at early of the year ended 31 March 2016 while another one was carried forward from the year ended 31 March 2015 and thus, incurring nearly a full year's interest expense for the two loans for the year ended 31 March 2016. However, a replacement bank loan was only drawn down in March 2017 leaving the interest to be minimal for the year ended 31 March 2017.

For the year ended 31 March 2018, finance costs increased by approximately HK$1.6 million or 153.0% to approximately HK$2.6 million for the year ended 31 March 2018 from approximately HK$1.0 million for the year ended 31 March 2017. Such increase was mainly attributable to (i) the increase in interest on bank loans, this was in turn due to that the abovementioned replacement bank loan drawn down in March 2017 was fully repaid in September 2017 and thus approximately six months of interests was incurred for the year ended 31 March 2018, compared with less than one month of interest incurred for the year ended 31 March 2017 in respect of the bank loan; and (ii) higher imputed interest expense on provisions for warranty provision.

Taxation

The Group's taxation mainly represents Hong Kong profits tax provided during each of the three years ended 31 March 2018. No PRC Enterprise Income tax were provided for the year ended 31 March 2016 as the assessable profit of the Group's PRC operation was wholly absorbed by the tax losses brought forward. Minimum PRC Enterprise Income Tax were provided for the year ended 31 March 2017 and 2018 as it had only minimal assessable profit for the relevant years.

The Group's taxation for the year can be reconciled to the profit before taxation in the consolidated statement of comprehensive income as follows:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	35,139	67,050	64,950
Tax at the applicable income tax rate of 16.5%	5,798	11,063	10,717
Tax effect of expenses not deductible for tax purpose	155	676	3,872
Tax effect of income not taxable for tax purpose	(245)	(11)	(285)
Utilisation of tax losses previously not recognised	(2,087)	–	–
Tax effect of tax losses not recognised	498	1	–
Tax effect of deductible temporary differences not recognised	–	–	1,253
Effect of different tax rate of a subsidiary operating in other jurisdiction	(169)	(16)	(719)
Others	(75)	–	–
	3,875	11,713	14,838

For the Track Record Period, Hong Kong profit tax was calculated at a flat rate of 16.5% of the estimated assessable profit.

For the year ended 31 March 2017, taxation of the Group increased by approximately HK$7.8 million or 202.3% to approximately HK$11.7 million for the year ended 31 March 2017 from approximately HK$3.9 million for the year ended 31 March 2016. Such increase was primarily due to (i) the increase in the amount of approximately HK$5.3 million if taxed at the applicable income tax rate of 16.5% resulting from the Group's increase in the profit before taxation; and (ii) that there was utilisation of tax losses previously not recognised of approximately HK$2.1 million for the year ended 31 March 2016 whereas there was none for the year ended 31 March 2017.

For the year ended 31 March 2018, taxation of the Group increased by approximately HK$3.1 million or 26.7% to approximately HK$14.8 million for the year ended 31 March 2018 from approximately HK$11.7 million for the year ended 31 March 2017. Such increase was primarily due to the increase in the tax effect of expenses not deductible for tax purpose of approximately HK$**[REDACTED]** for the year which mainly comprised listing expenses.

The following table sets forth the Group's effective tax rate during the Track Record Period:

	For the year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	35,139	67,050	64,950
Taxation charge	3,875	11,713	14,838
Effective tax rate *note*	11.0%	17.5%	22.8%

Note: Effective tax rate is calculated by dividing taxation charge for the year with profit before taxation for the respective year.

For the year ended 31 March 2017, the effective tax rate of the Group was higher than that for the year ended 31 March 2016 as there was no utilisation of tax losses for the year ended 31 March 2017 whereas there was approximately HK$2.1 million for the year ended 31 March 2016.

For the year ended 31 March 2018, the effective tax rate of the Group was higher than that for the year ended 31 March 2017 as the tax effect of expenses not deductible for tax purpose increased by approximately HK$3.9 million which was in turn mainly resulting from listing expenses.

Other comprehensive (expense) income – exchange differences arising on translation of a foreign operation

The amounts represent the exchange differences arising on translation of the net assets relating to the PRC operation denominated in Renminbi.

For the year ended 31 March 2017, Renminbi depreciated and accordingly, resulted in the exchange losses in the reserve for the year.

For the year ended 31 March 2018, the exchange differences arising on translation of the PRC operations increased by approximately HK$6.5 million which was mainly due to the appreciation of Renminbi for the year.

Profit for the year and total comprehensive income for the year

For the year ended 31 March 2017, the Group's profit for the year increased by approximately HK$24.1 million or 77.0% to approximately HK$55.3 million for the year ended 31 March 2017 from approximately HK$31.3 million for the year ended 31 March 2016. This was mainly a combined effect of (i) the increase in revenue and the related gross profit amount with improved gross profit margin; and offset by (ii) the increase in administrative expenses mainly due to the increase in staff cost arising from higher staff bonus provision as a result of better financial performance of the Group; and (iii) the increase in taxation with higher effective tax rate as there was no utilisation of tax losses for the year.

For the year ended 31 March 2017, the Group's total comprehensive income increased by approximately HK$22.6 million or 76.3% to approximately HK$52.1 million for the year ended 31 March 2017 from approximately HK$29.6 million for the year ended 31 March 2016. The trend replicated closely with that of the profit for the year as the exchange losses arising on translation of a foreign operation maintained at a comparatively low amount at approximately HK$1.7 million and approximately HK$3.2 million for the years 31 March 2016 and 2017, respectively.

For the year ended 31 March 2018, the Group's profit for the year decreased by approximately HK$5.2 million or 9.4% to approximately HK$50.1 million for the year ended 31 March 2018 from approximately HK$55.3 million for the year ended 31 March 2017. This was mainly due to a combined effect of (i) the substantial increase in administrative expense primarily as a result of the increase in staff cost due to the allocation of Hanison's share awards and share options to the Group; (ii) listing expenses incurred only for the year ended 31 March 2018; and offset by (iii) the increase in the gross profit amount mainly as a result of the substantial gross profit margin improvement in the year.

For the year ended 31 March 2018, the Group's total comprehensive income on the other hand increased by approximately HK$4.5 million or 8.7% to approximately HK$56.7 million for the year ended 31 March 2018 from approximately HK$52.1 million for the year ended 31 March 2017. This was mainly due to the material positive fluctuation for exchange differences arising on translation of a foreign operation for the year ended 31 March 2018 due to the appreciation of Renminbi for the year.

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below presents the summary of consolidated statements of financial position of the Group as at each of the three years ended 31 March 2018 extracted from the Accountants' Report as set out in Appendix I to this listing document.

Consolidated statements of financial position

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Investment properties	–	–	60,300
Property, plant and equipment	23,568	21,258	112,710
Prepaid lease payments	6,032	5,472	5,851
Deferred tax assets	56	58	6
	29,656	26,788	178,867
CURRENT ASSETS			
Inventories	28,723	33,006	26,593
Prepaid lease payments	213	201	207
Debtors, deposits and prepayments	12,399	12,957	69,872
Contract assets	45,789	56,296	66,933
Amount due from fellow subsidiaries	2,865	6,444	–
Amount due from immediate holding company	–	228,038	–
Bank balances and cash	47,814	47,055	40,646
	137,803	383,997	204,251
CURRENT LIABILITIES			
Trade and other payables	49,871	41,228	59,245
Provisions	17,106	39,039	29,895
Contract liabilities	126	3,530	3,313
Amount due to ultimate holding company	–	2,969	–
Amount due to immediate holding company	33,477	–	77,452
Amounts due to fellow subsidiaries	15,465	37,143	–
Bank and other loans	–	127,028	–
Taxation payable	3,031	8,336	8,238
	119,076	259,273	178,143
Net current assets	18,727	124,724	26,108
NON-CURRENT LIABILITIES			
Provisions	25,064	76,088	76,246
Deferred tax liabilities	–	–	37
	25,064	76,088	76,283
	23,319	75,424	128,692
CAPITAL AND RESERVES			
Share capital	11,000	11,000	–
Reserves	12,319	64,424	128,692
	23,319	75,424	128,692

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

On 14 August 2017, the Group acquired the office units of a commercial property in Kings Wing Plaza 1, situated in Shatin, Hong Kong. Part of the office was leased out for rental income purposes. The investment properties were valued at the fair value as approximately HK$60.3 million as at 31 March 2018 by an independent property valuer. The value was arrived at by reference to the income capitalisation method which is based on the capitalisation of the net income potential by adopting an appropriate capitalisation rate, which is derived from analysis of sale transactions and interpretation of prevailing investor requirements or expectations. For further details of the fair value measurements, please refer to "Note 16. Investment Properties" of the Accountants' Report set out in Appendix I.

Property, plant and equipment

Property, plant and equipment mainly consist of buildings, plant and machinery in the Group's fabrication plant in the PRC and other miscellaneous fixed assets. As at each of the three years ended 31 March 2018, the carrying value of property, plant and equipment were approximately HK$23.6 million, HK$21.3 million and HK$112.7 million, respectively.

As at 31 March 2017, property, plant and equipment slightly decreased by approximately HK$2.3 million to approximately HK$21.3 million as at 31 March 2017 from approximately HK$23.6 million as at 31 March 2016. This was mainly due to (i) the depreciation expenses and the negative exchange adjustments arising from the translation of year ended balance of the property, plant and equipment in its PRC operation recorded in Renminbi as its functional currency to HK dollar as its presentation currency of the Group; and offset by (ii) the additions of plant and machinery during the year ended 31 March 2017.

As at 31 March 2018, property, plant and equipment substantially increased by approximately HK$91.5 million to approximately HK$112.7 million as at 31 March 2018 from approximately HK$21.3 million as at 31 March 2017. This was mainly due to the acquisition of a commercial property at an amount of approximately HK$89.1 million for certain units in Kings Wing Plaza 1, situated in Shatin, Hong Kong, on 14 August 2017. For details of the acquisition, please refer to "Note 32. Acquisition of a Subsidiary" of the Accountants' Report set out in Appendix I to this listing document.

Prepaid lease payments

Prepaid lease payments represent the up-front payments to lease medium-term leasehold land interests in the PRC and are charged to the consolidated statements of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. The balances remained fairly stable as at each of the three years ended 31 March 2018.

Inventories

Inventories primarily consist of (i) raw materials of building materials used in the Design, Supply and Installation Projects, such as aluminium, steel products and glass; and (ii) work-in-progress of semi-processed products both located in the Group's fabrication plant and the outsourced factories. The following table sets out a breakdown of the inventories as at the dates indicated:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	15,479	22,723	14,850
Work-in-progress	13,244	10,283	11,743
	28,723	33,006	26,593
Inventories percentage to revenue[note]	7.8%	6.6%	6.3%

Note: Inventory percentage to revenue is calculated by dividing the inventory balance as at that year end with the revenue of the respective year.

It is common in the industry to incur comparatively substantial cash outflows in the early stage of a project, among others, to purchase raw materials just in time for their further processing and the subsequent utilisation and installation in the later stage which the revenue will be substantially recognised. The Group's inventories are purchased specifically on project-by-project basis. Once the fabrication process is completed, the finished products will be delivered to the construction sites for installation. In this regard, the Group's inventory turnover days are relatively short.

Inventories percentage to revenue ratio were fairly stable as at each of the three years ended 31 March 2018 with a slightly higher percentage for the year ended 31 March 2016. The higher percentage for the year ended 31 March 2016 was a result of a higher inventories level being processed for their subsequent utilisation and installation in the year ended 31 March 2017 which the revenue recognised was the highest during the Track Record Period.

The following table sets forth the Group's inventory turnover days during the Track Record Period:

	For the year ended 31 March		
	2016	**2017**	**2018**
	Day	*Day*	*Day*
Inventory turnover days	29.8	27.5	35.8

Note: Inventory turnover days is calculated based on the average of the beginning and ending balance of inventories divided by cost of sales for the year and multiplied by the number of days of the year (i.e. 365 days for a full year).

The inventory turnover days remained relatively stable at approximately 29.8 days, 27.5 days and 35.8 days for the years ended 31 March 2016, 2017 and 2018, respectively, and generally within the reasonable range of the processing time in the Group's fabrication plant and the outsourced factories.

Debtors, deposits and prepayments

The following table sets forth a breakdown of the Group's debtors, deposits and prepayments as at the end of the Track Record Period:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade debtors	4,989	5,359	62,026
Value-added tax ("**VAT**") receivables	3,058	4,249	3,080
Deposits and prepayments	3,945	2,719	3,020
Prepaid listing expenses	–	–	**[REDACTED]**
Other receivables	407	630	795
	12,399	12,957	69,872

Trade debtors

Trade debtors represent the amounts billed for work performed but not yet paid by the customers. The balances amounted to approximately HK$5.0 million, HK$5.4 million and HK$62.0 million as at 31 March 2016, 2017 and 2018, respectively.

The balances as at 31 March 2016 and 2017 remained relatively stable.

As at 31 March 2018, trade debtors increased substantially by approximately HK$56.7 million to approximately HK$62.0 million as at 31 March 2017 from approximately HK$5.4 million as at 31 March 2017. The increase was mainly due to substantial amount of the payment certificates issued in the last two months of the year ended 31 March 2018 whereas amount of payment certificates issued in the last two months of the last two years were not material. As at 31 March 2018, approximately HK$55.9 million (or 90.2%) of the outstanding trade balances aged within 60 days. That means substantial amount of the payment certificates were issued to the Group in the last two months of the year which was in turn due to the progress of the projects. Among this, approximately HK$44.5 million of the trade debtors with their payment certificates issued from 31 January to 31 March 2018 were arising from the projects at Lung Cheung Road, Lohas Park – Package 6 and Pak Shek Kok.

The Group allows a credit period of 30 to 90 days to customers.

The following table sets forth an ageing analysis of the trade debtors, based on invoice date, as at the end of the Track Record Period:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	2,841	3,276	31,170
31 – 60 days	1,472	–	24,768
61 – 90 days	8	–	–
Over 90 days	668	2,083	6,088
	4,989	5,359	62,026

The following table sets forth the ageing analysis of trade debtors which are past due but not impaired as at the end of the Track Record Period:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Past due but not impaired:			
31 – 60 days	694	–	–
61 – 90 days	8	–	–
Over 90 days	668	2,083	6,088
	1,370	2,083	6,088

Management closely monitors the credit quality of trade debtors and considers the trade debtors that are neither past due nor impaired to be of a good credit quality based on their historical repayments. For trade debtors that were past due but not impaired, they related to customers that have long-term business relationship with the Group. Based on past experience, the management of the Group believes that no impairment allowance is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The following table sets forth the movement in the impairment losses recognised on trade debtors:

	Year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Balance at the beginning of the year	927	–	–
Impairment losses recognised	–	–	3,548
Reversal of impairment losses recognised	(927)	–	–
Balance at the end of the year	–	–	3,548

For the year ended 31 March 2016, the customer fully settled the long outstanding balance during the year and thus, the Group made reversal of the impairment loss accordingly.

For the year ended 31 March 2018, the Group made an impairment loss on a trade debtor of approximately HK$3.5 million, which was due to the unsettled long outstanding balance. Except for the balance which the impairment had been made, all the remaining outstanding balance with this trade debtor as at 31 March 2018 had been subsequently settled in June 2018.

The following table sets forth the Group's trade debtors turnover days during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	Day	*Day*	*Day*
Trade debtors turnover days	7.5	3.8	29.2

Note: Trade debtors turnover days is calculated based on the average of the beginning and ending balance of trade debtors divided by revenue for the year and multiplied by the number of days of the year (i.e. 365 days for a full year).

For each of the three years ended 31 March 2018, the Group's trade debtors turnover days were approximately 7.5 days, 3.8 days and 29.2 days, respectively, and were below the low end of the Group's credit period range of 30 to 90 days as the Group's customers normally early settle the amount due. For the trade debtors' turnover days for the year ended 31 March 2018, although it was still below the 30 days credit period, it increased substantially to 29.2 days due to the substantial increase in trade debtors balance as at 31 March 2018.

Up to the Latest Practicable Date, approximately HK$61.0 million or 98.3% of the Group's trade debtors as at 31 March 2018 was settled.

Value-added tax receivables

VAT receivables as at each of three years ended 31 March 2018 can be used to offset for further VAT payable for the fabrication plant in the PRC.

As at 31 March 2016, 2017 and 2018, the Group recorded VAT receivables of approximately HK$3.1 million, HK$4.2 million and HK$3.1 million, respectively, which the balances were generally maintained at a comparatively stable low level, among which the balance as at 31 March 2017 increased slightly. Such increase was mainly due to the increase in purchase of raw materials by the Group's fabrication plant in the PRC which generally align with the higher cost of sales for the year ended 31 March 2017 compared with that of the other two years in the Track Record Period.

Deposits and prepayments

The balances mainly represent rental deposits, purchase deposits, prepaid medical insurance and other miscellaneous deposits and prepayments. The balance remained fairly stable and low at approximately HK$3.9 million, HK$2.7 million and HK$3.0 million as at 31 March 2016, 2017 and 2018, respectively.

Prepaid listing expenses

Prepaid listing expenses as at the year ended 31 March 2018 represent prepaid profession fees for the Spin-off.

Contract assets and contract liabilities

	As at 1 April	As at 31 March		
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	
Contract assets				
Provision of design, supply and installation of aluminium windows and curtain walls services	33,168	45,789	56,296	66,933

	As at 1 April	As at 31 March		
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	
Contract liabilities				
Provision of design, supply and installation of aluminium windows and curtain walls services	(916)	(126)	(3,530)	(3,313)

The balances of contract assets and contract liabilities mainly comprised retention money. As at 31 March 2016, 2017 and 2018, the retention money was approximately HK$36.0 million, HK$48.3 million and HK$53.7 million, respectively.

The Group has rights to considerations from customers for the provision of design, supply and installation of aluminium windows and curtain walls services. Contract assets arise when the Group has right to consideration for completion of design, supply and installation of aluminium windows and curtain walls services and not yet billed under the relevant contracts, and their right is conditioned on factors other than passage of time. Any amount previously recognised as a contract asset is reclassified to trade debtors when such right becomes unconditional other than the passage of time.

The amount of receipt in advance from a customer is netted off against retention money on a particular contract and presented as contract liabilities. For the contract liabilities as at 1 April 2015, 31 March 2016 and 2017, approximately HK$1.1 million, HK$0.5 million and HK$nil were recognised as revenue in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 March 2016, 2017 and 2018, respectively.

Retention money

The retention money is unsecured and interest-free and represented the monies withheld by customers of contract works fully recoverable within one to two years from the date of completion of respective design, supply and installation of aluminium windows and certain walls services projects in accordance with the terms specified in the relevant contracts.

Some of the Group's customers will withhold usually 10% of each interim payment as retention money until the accumulated retention money reaches 5% of the total contract sum. Upon satisfactory completion of the installation works of whole project as set out in the contract, the architect for the building project will issue a Practical Completion Certificate. Generally, upon the issuance of the Practical Completion Certificate, half of the retention money of such project will be released to the Group, while the remaining half will be released to the Group upon the issuance of the certificate that the identified defects in respect of the entire building project have been made good.

During the Track Record Period, the Group is responsible, at its own costs, for remedial works that may arise from defective works or materials used. The retention money does not have any significant financing component for financing benefit.

The retention money is to be settled at the end of the Track Record Period as follows:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	32,023	37,999	27,658
After one year	3,988	10,331	26,061
	36,011	48,330	53,719
Percentage of retention money to revenue[note]	9.8%	9.6%	12.8%

Note: Percentage of retention money to revenue is calculated by dividing the retention money as at that year end with the revenue of the respective year.

The withholding of retention money by the Group's customers based on their interim payments which in turn depends on the Group's amount of works done and revenue recognised implies that there is close relationship between retention money and revenue.

As at 31 March 2016 and 2017, percentage of retention money to revenue remained comparable at 9.8% and 9.6%, respectively, and approaching the 10% of the normal withholding percentage.

As at 31 March 2018, the percentage of retention money to revenue increased to 12.8%. Such increase was mainly due to that there were more projects with substantially higher amount of the retention money and with their respective amount of the retention money reached or almost reached their related cap amount for the year ended 31 March 2017 were carried forward to the year ended 31 March 2018, while these projects contributed comparatively much lower revenue in the year ended 31 March 2018 (such as projects at Tong Yin Street, Chi Shin Street and So Kwun Wat).

Contract liabilities

If the progress payment for the customers exceeds the revenue recognised to date under the output method, then the Group recognises a contract liability for the difference. The balance increased from approximately HK$0.1 million as at 31 March 2016 to approximately HK$3.5 million as at 31 March 2017 and remained fairly stable at approximately HK$3.3 million as at 31 March 2018. The high balances as at 31 March 2017 and 2018 was mainly due to receipt in advance from a customer who paid 30% of project contract sum as deposit to the Group. Since the Group only supplied aluminium products but not installation services on this project, and that the aluminium products were still under fabrication, no revenue was recognised for this project for the years ended 31 March 2017 and 2018 and therefore, the balance remained in the contract liabilities as at the year ended 31 March 2017 and 2018.

Trade and other payables

The following table sets forth a breakdown of the Group's trade and other payables as at the end of the Track Record Period:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade payable	7,106	4,210	5,560
Retention payable – amount payable within one year	7,436	11,051	14,392
Accrued costs for construction works	24,296	8,035	22,447
Accrued operating costs and charges	2,799	4,212	308
Accrued staff cost	8,234	13,720	15,288
Accrued listing expenses	–	–	**[REDACTED]**
Rental deposits received	–	–	444
	49,871	41,228	59,245

Trade payables and accrued costs for construction work

The Group's trade payable mainly represents the payables for materials and the subcontracting fee. The credit period on purchase of goods and payment of subcontractors' works is ranged from 0 to 90 days. The following table sets forth an ageing analysis of the trade payable, based on invoice date, as at the end of the Track Record Period:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	2,396	1,615	2,225
31 – 60 days	122	994	710
61 – 90 days	1,015	261	254
Over 90 days	3,573	1,340	2,371
	7,106	4,210	5,560

The accrued costs for construction work represents the subcontracting cost accrued as at the end of the Track Record Period for the installation works undertaken by the subcontractors but not yet been certified by the Group due to time lag. The subcontracting cost will be accrued taking into account the timing of the last monthly payment certification issued by the Group before the year end date and the next monthly payment certification to be issued which the issuance time gap for the two payment certificates is usually one month.

The following table sets forth the turnover days for the trade payables and the accrued costs for construction work during the Track Record Period:

	For the year ended 31 March		
	2016	**2017**	**2018**
	No. of days	*No. of days*	*No. of days*
Trade payables and the accrued costs for construction work turnover days	39.9	33.3	37.1

Note: Trade payables and the accrued costs for construction work turnover days is calculated based on the average of the beginning and ending balance of the summation of trade payables and the accrued costs for construction work divided by cost of materials and subcontracting and other charges in aggregate in the total cost of sales for the year and multiplied by the number of days of the year (i.e. 365 days for a full year).

For each of the three years ended 31 March 2018, the turnover days for the trade payables and the accrued costs for construction work remained relatively stable which were also within the range of 0 to 90 days credit period granted by the Group's suppliers and the subcontractors.

Retention payable – amount payable within one year

The retention payable represents the monies withheld by the Group which are payable to the Group's subcontractors upon expiry of the defects liability period. Generally, the Group provides a defects liability period to its customers, which begins on the date of the Practical Completion Certificate and normally ranges from 12 to 24 months, subject to the relevant terms of the contracts. During the defects liability period, the Group is responsible, at its own cost, for remedial works that may arise from defective works or materials used. In order to protect the Group's interest, the Group generally withholds 10% of each payment to its subcontractors as retention money. In general, the total amount of the retention money will not exceed 5% of the subcontracting fee. Subject to the terms of the relevant contracts, the retention money will generally be released after the end of the defects liability period.

The withholding of retention money by the Group based on its interim payments to the subcontractors in turn depends on the amounts of the subcontractors' works done and thus the subcontracting and other charges payable. This implies that there is close relationship between retention payable and subcontracting and other charges for the year.

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Retention payable – amount payable within one year	7,436	11,051	14,392
Percentage of retention payable to subcontracting and other charges	7.8%	11.1%	17.1%

As at 31 March 2016 and 2017, percentage of retention payable to subcontracting and other charges remained at 7.8% and 11.1%, respectively, which was either within or approximating the 10% of the normal withholding percentage.

As at 31 March 2018, the percentage of retention payable to subcontracting and other charges increased to 17.1%. Such increase was mainly due to that certain projects accumulated comparatively high balance of retention payable as at 31 March 2018 which had not yet been released to the relevant subcontraction as the respective defects liability period had yet to expire, while such projects incurred much lower contracting charges for the year ended 31 March 2018 than that for the previous year (such as the projects at Tong Yin Street, Chi Shin Street and So Kwun Wat).

Accrued operating costs and charges

The balance mainly represents accrued audit fee, accrued renovation cost for the rented office premise and others. Overall, the balance remained low as at each of the three years ended 31 March 2018 with a comparatively higher balance as at the year ended 31 March 2017 as there was a one-off accrued renovation cost for the rented office premise. As at 31 March 2018, the balance decreased as there was no accrued renovation cost for the rented office premise.

Accrued staff cost

The balance mainly represents accrued salary and provision of bonus.

As at 31 March 2017, the balance increased by approximately HK$5.5 million or 66.6% to approximately HK$13.7 million from approximately HK$8.2 million as at 31 March 2016. Such increase was mainly due to the increase in the provision of bonus by approximately HK$4.0 million.

As at 31 March 2018, the balance slightly increased by approximately HK$1.6 million or 11.4% to approximately HK$15.3 million from approximately HK$13.7 million as at 31 March 2017. Such increase was mainly due to the increase in accrued salary by approximately HK$0.9 million.

Provisions

The following table sets forth a breakdown of the Group's warranty provision and provision for rectification work as at the end of Track Record Period:

	As at the year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Warranty provision	5,476	24,314	42,164
Provision for rectification work	36,694	90,813	63,977
	42,170	115,127	106,141
Current liabilities	17,106	39,039	29,895
Non-current liabilities	25,064	76,088	76,246
	42,170	115,127	106,141

Warranty provision

As at 31 March 2017, the balance increased by approximately HK$18.8 million or 344.0%, to approximately HK$24.3 million from approximately HK$5.5 million as at 31 March 2016. This was due to the provision of warranty expense of approximately HK$19.4 million, utilisation of approximately HK$1.3 million and the imputed interests expense on provision for warranty provision of approximately HK$0.7 million during the year ended 31 March 2017.

As at 31 March 2018, the balance increased by approximately HK$17.9 million or 73.4%, to approximately HK$42.2 million from approximately HK$24.3 million as at 31 March 2017, which was due to the provision of warranty expense of approximately HK$19.1 million, utilisation of approximately HK$2.9 million and the imputed interests expense on provision for warranty provision of approximately HK$1.7 million during the year ended 31 March 2018.

The fluctuations of the balance for the warranty provision as at each of the three years ended 31 March 2018 was mainly due to the amount of provision of warranty expense charged to the consolidated statement of profit or loss and other comprehensive income for each of the corresponding year which had been discussed in the above paragraph headed "Provision for warranty charged to the consolidated statement of the profit or loss and other comprehensive income" in this section.

Provision for rectification work

As at 31 March 2017, the balance increased by approximately HK$54.1 million or 147.5% to approximately HK$90.8 million from approximately HK$36.7 million as at 31 March 2016. This was mainly due to that more sizeable projects with their respective rectification works became foreseeable but with comparatively less rectification works being carried out during the year ended 31 March 2017. This resulted the substantial balance of the provision for rectification work remained as at 31 March 2017. In this regard, the key projects contributing most of the year ended balance of the provision for rectification work as at 31 March 2017 were the projects at Tong Yin Street, Chi Shin Street, So Kwun Wat and Kau To Shan which in aggregate amounted to approximately HK$67.3 million or accounted for approximately 74.1% of the total balance as at 31 March 2017.

As at 31 March 2018, the balance decreased by approximately HK$26.8 million or 29.6% to approximately HK$64.0 million from approximately HK$90.8 million as at 31 March 2017. This was mainly due to the carrying out of the rectification work and utilisation of the balance during the year, in particular for the projects at Tong Yin Street, Chi Sin Street and Mount Nicholson Road. The key projects contributing most of the year end balance of the provision for rectification work as at 31 March 2018 were the projects at Lai Ping Road, Tong Yin Street and Chi Sin Road which in aggregate amounted to approximate HK$50.9 million or accounted for approximately 79.6% of the total balance as at 31 March 2018.

Amounts due from/due to fellow subsidiaries

Amounts due from fellow subsidiaries were approximately HK$2.9 million, HK$6.4 million and HK$nil as at 31 March 2016, 2017 and 2018, respectively.

Amounts due to fellow subsidiaries were approximately HK$15.5 million, HK$37.1 million and HK$nil as at 31 March 2016, 2017 and 2018, respectively.

All the balances arising from related party transactions during the respective year, if any, were fully settled by each of the three years ended 31 March 2018 and left over the remaining balances of amounts due from/due to fellow subsidiaries as at the end of each of the three years ended 31 March 2018 being non-trade in nature. Such balances were arising from fund transfers from/to the Group as a result of the centralised treasury policy of the Hanison Group maintained to achieve a more flexible and efficient treasury management within the Hanison Group. As at the date immediately before the Distribution, there will be no inter-company loans or balances between the Group and the Remaining Group, save for certain inter-company balances arising from the ongoing connected transactions between the Group and the Remaining Group. Based on the above and subject to (i) Million Hope Industries (HK) being released from the cross-guarantee to an insurance company described in the paragraph headed "Financial Independence" in the section headed "Relationship with Controlling Shareholder"; and (ii) the expected availability of the Group's own banking facilities upon the Listing, the Directors consider that the Group will be financially independent of the Remaining Group upon completion of the Spin-off.

The balances were unsecured, non-interest bearing and repayable on demand.

Amounts due from/due to immediate holding company

Amounts due from immediate holding company were HK$nil, approximately HK$228.0 million and HK$nil as at 31 March 2016, 2017 and 2018, respectively. Included in the amount due from immediate holding company as at 31 March 2017 was an amount of approximately HK$119.7 arising from the payment to an independent third party on behalf of immediate holding company for the settlement of the consideration of investment properties acquired by immediate holding company during the year ended 31 March 2017.

Amounts due to immediate holding company were approximately HK$33.5 million, HK$nil and HK$77.5 million as at 31 March 2016, 2017 and 2018, respectively.

The balances with the immediate holding company were arising from fund transfers with the Group. The balances were non-trade nature and were unsecured, non-interest bearing and repayable on demand.

As represented by the Directors, the amount due to immediate holding company will be settled upon the Listing. As at the date immediately before the Distribution, there will be no inter-company loans or balances between the Group and the Remaining Group, save for certain inter-company balances arising from the ongoing connected transactions between the Group and the Remaining Group. Based on the above and subject to (i) Million Hope Industries (HK) being relieved from the cross-guarantee to an insurance company described in the paragraph header "Financial Independent" in the section header "Relationship with Controlling Shareholder"; and (ii) the expected availability of the Group's own banking facilities upon the Listing, the Directors consider that the Group will be financially independent of the Remaining Group upon completion of the Spin-off.

Amount due to ultimate holding company

The amount due to the ultimate holding company were approximately HK$nil, HK$3.0 million and HK$nil as at 31 March 2016, 2017 and 2018, respectively.

The amount was non-trade nature, unsecured, non-interest bearing and repayable on demand.

As at the date immediately before the Distribution, there will be no inter-company loans or balances between the Group and the Remaining Group, save for certain inter-company balances arising from the ongoing connected transactions between the Group and the Remaining Group. Based on the above and subject to (i) Million Hope Industries (HK) being released from the cross-guarantee to an insurance company described in the paragraph headed "Financial Independence" in the section headed "Relationship with Controlling Shareholder"; and (ii) the expected availability of the Group's own banking facilities upon the Listing, the Directors consider that the Group will be financially independent of the Remaining Group upon completion of the Spin-off.

Operating lease commitments

As leasee

As at the end of the year ended 31 March 2016, 2017 and 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 March		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Within one year	125	1,387	94
In the second to fifth year inclusive	-	1,286	27
	125	2,673	121

Operating lease payments represent fixed rentals payable by the Group for its office and car parking space. Lease was negotiable for a term of not more than three years.

As lessor

As at the end of the year ended 31 March 2016, 2017 and 2018, the Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	As at 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	–	1,555
In the second to fifth year inclusive	–	–	2,721
	–	–	4,276

Lease are negotiable for lease term of not more than three years.

INDEBTEDNESS

Bank and other borrowings

The status of the Group's bank and other borrowings as at the respective financial position dates is as follows:

	As at 31 March			As at 31 July
	2016	**2017**	**2018**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	–	120,000	–	–
Other loan	–	7,028	–	–
	–	127,028	–	–
Secured	–	120,000	–	–
Unsecured	–	7,028	–	–
	–	127,028	–	–

For the year ended 31 March 2016, 2017 and 2018, the Group's banking facilities were shared with other subsidiaries of the Remaining Group. The banking facilities were guaranteed by Hanison Construction (BVI), the immediate holding company of the Company and also a wholly owned subsidiary of Hanison. As at the Latest Practicable Date, the Group is arranging its own banking facilities for an aggregate amount of HK$220 million with three banks in Hong Kong, which is expected to be available upon the Listing.

As at 31 March 2016, there was no bank loans as all of them were fully repaid by end of the year.

As at 31 March 2017, the loan drawdowns were made on behalf of a company within the Hanison Group as a result of the centralised treasury policy of the Hanison Group. The bank loans carried interest at market rates of Hong Kong Interbank Offered Rate plus 1.2% per annum. The Group's other loan of RMB6.3 million (equivalent to HK$7,028,000) as at 31 March 2017 was unsecured, interest bearing at fixed interest rate of 4.9% per annum, and repayable within one year.

As at 31 March 2018 and 31 July 2018, there were no loans as all of the loans were fully repaid.

Amount due to immediate holding company

	As at 31 March			**As at 31 July**
	2016	**2017**	**2018**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to immediate holding company	33,477	–	77,452	84,967

The amount due to immediate holding company was arising from fund transfer with the Group.

The amount due to immediate holding company was non-trade nature and was unsecured, non-interest bearing and repayable on demand.

The balances of bank and other the borrowings and the amount due to immediate holding company as at 31 March 2016, 2017 and 2018 and 31 July 2018 were approximately HK$33.5 million, HK$127.0 million, HK$77.5 million and HK$85.0 million, respectively. Other than the above bank and other loans and the amount due to immediate holding company, the Group had no other indebtedness.

As at 31 July 2018, the Group had banking facilities granted by various banks and a surety bond facility granted by an insurance company in an aggregate amount of approximately HK$1,860 million, among which approximately HK$1,740 million was shared limit with other subsidiaries of the Remaining Group. As at 31 July 2018, the Group had no bank borrowing. The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, the Group has not experienced any difficulties in obtaining bank borrowings nor any default in repayment on bank and other borrowings.

PERFORMANCE BONDS AND CONTINGENT LIABILITIES

Performance bonds

As at 31 March 2016, 2017, 2018 and 31 July 2018, the Group had outstanding performance bonds in respect of construction contracts amounting to approximately HK$62.6 million, HK$100.8 million, HK$87.2 million and HK$109.1 million, respectively. Hanison Construction (BVI) provided corporate guarantees for these outstanding performance bonds granted to the Group.

Contingent liabilities

Million Hope Industries (HK) and certain fellow subsidiaries of the Company provides a joint and several guarantee to an issuance company in respect of performance bond facilities granted to Million Hope Industries (HK) and its fellow subsidiaries and an amount of approximately HK$178.1 million, HK$205.5 million, HK$57.4 million and HK$57.4 million was utilised as at 31 March 2016, 2017, 2018 and 31 July 2018, respectively.

No provision for financial guarantee contracts has been recognised in the historical consolidated financial statements as, in the opinion of the Directors, the fair value of the financial guarantee on initial recognition and the amount of provision to be recognised subsequently was insignificant. Million Hope Industries (HK) has approached the insurance company for its consent to remove it as party to the facility and release it from all liability under the guarantee. The Directors represent that the guarantee will be released upon the Listing.

Save as disclosed above, and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debt securities, term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or any guarantees or other materials contingent liabilities at the close of business on 31 July 2018.

NET CURRENT ASSETS

	As at 31 March			As at 31 July
	2016	2017	2018	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
CURRENT ASSETS				
Inventories	28,723	33,006	26,593	36,198
Prepaid lease payments	213	201	207	210
Debtors, deposits and prepayments	12,399	12,957	69,872	66,308
Contract assets	45,789	56,296	66,933	72,721
Amount due from fellow subsidiaries	2,865	6,444	–	–
Amount due from immediate holding company	–	228,038	–	–
Bank balances and cash	47,814	47,055	40,646	58,399
	137,803	383,997	204,251	233,836
CURRENT LIABILITIES				
Trade and other payables	49,871	41,228	59,245	66,333
Provisions	17,106	39,039	29,895	36,223
Contract liabilities	126	3,530	3,313	4,799
Amount due to ultimate holding company	–	2,969	–	–
Amount due to immediate holding company	33,477	–	77,452	84,967
Amounts due to fellow subsidiaries	15,465	37,143	–	–
Bank and other loans	–	127,028	–	–
Taxation payable	3,031	8,336	8,238	10,056
	119,076	259,273	178,143	202,378
NET CURRENT ASSETS	18,727	124,724	26,108	31,458

As at 31 March 2016, the Group had a net current assets position of approximately HK$18.7 million. This was mainly attributable to a combined effect of (i) the bank balances and cash of approximately HK$47.8 million; (ii) contract assets of approximately HK$45.8 million; (iii) inventories of approximately HK$28.7 million; offset by (iv) trade and other payables of approximately HK$49.9 million; and (v) aggregate amount of approximately HK$48.9 million due to various inter companies mainly as a result of the centralised treasury policy within the Hanison Group.

As at 31 March 2017, the Group's net current assets increased by approximately HK$106.0 million to approximately HK$124.7 million as at 31 March 2017. Such increase was mainly due to a combined effect of (i) that there was substantial amount due from immediate holding company amounting to approximately HK$228.0 million as at 31 March 2017 mainly arising from the centralised treasury policy within the Hanison Group whereas there was HK$nil as at 31 March 2016; and offset by (ii) the bank and other loans amounting to approximately HK$127.0 million as at 31 March 2017 whereas there was HK$nil as at 31 March 2016.

As at 31 March 2018, the Group's net current assets decreased by approximately HK$98.6 million to approximately HK$26.1 million as at 31 March 2018. Such decrease was mainly attributable to (i) that there was amount due to immediate holding company amounting to approximately HK$77.5 million as at 31 March 2018 whereas there was amount due from immediate holding company amounting to approximately HK$228.0 million as at 31 March 2017; and offset by (ii) the increase in debtors, deposits and prepayments of approximately HK$56.9 million which in turn mainly due to increase in trade debtors as a result of the progress of individual projects; (iv) that there was HK$nil balance of amount due to fellow subsidiaries as at 31 March 2018 whereas the balance amounted to approximately HK$37.1 million as at 31 March 2017; and (v) that there was HK$nil balance of bank and other loans as at 31 March 2018 whereas the balance of which amounted to approximately HK$127.0 million as at 31 March 2017 and such fluctuation was due to full repayment of the loans during the year ended 31 March 2018. The above fluctuations of the inter companies balance was mainly a result of the centralised treasury policy within the Hanison Group.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, the Group mainly financed its operations through internally generated cash flows and utilised the banking facilities for performance bonds for carrying out its projects. In the long term, the Directors believe that the Group's operation will continue to be financed in this way. As part of the Reorganisation, Hanison Construction (BVI), the immediate holding company of the Company, will inject approximately HK$371.3 million to the Group (which the amount will be adjusted by reference to the net asset value of the Group as at the date immediately before the Distribution) on the date immediately before the Distribution, which will provide the Group with further working capital for its future operation.

Cash flows

The following table sets forth a condensed summary of the Group's consolidated statements of cash flows during the Track Record Period:

	For the year ended 31 March		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Net cash from operating activities	65,666	114,696	5,295
Net cash (used in) from investing activities	(3,945)	(233,527)	226,740
Net cash (used in) from financing activities	(48,368)	118,198	(238,643)
Net increase (decrease) in cash and cash equivalents	13,353	(633)	(6,608)
Cash and cash equivalents at the beginning of the year	34,543	47,814	47,055
Effect of foreign exchange rate changes	(82)	(126)	199
Cash and cash equivalents at the end of the year, representing bank balances and cash	47,814	47,055	40,646

Cash flows from operating activities

The Group derives cash inflow from operating activities primarily from the receipt of payments from the contract works. Cash outflow from the Group's operating activities primarily includes costs of inventories, subcontracting and other charges, preliminary project costs (comprising performance bond charges, insurance charges and other miscellaneous costs), project staff costs in Hong Kong, and all other operating expenses such as administrative staff cost and other miscellaneous expenses.

Year ended 31 March 2016

For the year ended 31 March 2016, the Group recorded net cash from operating activities of approximately HK$65.7 million, primarily attributable to profit before taxation of approximately HK$35.1 million; adjusted to reflect mainly (i) net provisions made of approximately HK$39.6 million; (ii) decrease in debtors, deposits and prepayments of approximately HK$11.8 million; offset by (iii) the increase in contract assets/liabilities, net of approximately HK$13.4 million; and (iv) utilisation of provisions of approximately HK$9.2 million.

Year ended 31 March 2017

For the year ended 31 March 2017, the Group recorded net cash from operating activities of approximately HK$114.7 million, primarily attributable to profit before taxation of approximately HK$67.1 million; adjusted to reflect mainly (i) net provisions made of approximately HK$99.5 million; offset by (ii) increase in contract assets/liabilities, net of approximately HK$7.1 million; (iii) decrease in trade and other payables of approximately HK$8.3 million; and (iv) utilisation of provisions of approximately HK$27.3 million.

Year ended 31 March 2018

For the year ended 31 March 2018, the Group recorded net cash from operating activities of approximately HK$5.3 million, primarily attributable to profit before taxation of approximately HK$65.0 million; adjusted to reflect mainly (i) net provisions made of approximately HK$39.4 million; (ii) increase in trade and other payables of approximately HK$17.5 million; offset by (iii) increase in debtors, deposits and prepayments of approximately HK$58.7 million; (iv) increase in contract assets/liabilities, net of approximately HK$10.9 million; and (v) utilisation of provisions of approximately HK$50.1 million.

Cash flows from investing activities

During the Track Record Period, the Group's cash flows for investing activities primarily consisted of (i) (advances to)/repayment from immediate holding company and a fellow subsidiary; and (ii) purchase of investment properties and property, plant and equipment.

Year ended 31 March 2016

For the year ended 31 March 2016, the Group recorded net cash used in investing activities of approximately HK$3.9 million which was mainly due to (i) advance to fellow subsidiaries of approximately HK$4.4 million; (ii) purchase of property, plant and equipment of approximately HK$1.3 million; and offset by (iii) repayment from fellow subsidiaries of approximately HK$1.7 million.

Year ended 31 March 2017

For the year ended 31 March 2017, the Group recorded net cash used in investing activities of approximately HK$233.5 million which was mainly due to (i) advance to immediate holding company of approximately HK$228.0 million; (ii) advance to fellow subsidiaries of approximately HK$4.3 million; and (iii) purchase of property, plant and equipment of approximately HK$1.9 million.

Year ended 31 March 2018

For the year ended 31 March 2018, the Group recorded net cash from investing activities of approximately HK$226.7 million which was mainly due to (i) repayment from immediate holding company of approximately HK$228.0 million; (ii) repayment from fellow subsidiaries of approximately HK$8.4 million; and offset by (iii) purchase of investment properties and property, plant and equipment of approximately HK$7.9 million in aggregate; and (iv) advance to fellow subsidiaries of approximately HK$2.0 million.

Cash flows from financing activities

During the Track Record Period, the Group's cash flows for financing activities primarily consisted of repayment of bank loans, new bank and other loans raised and advance from/(repayment to) the immediate holding company, fellow subsidiaries and ultimate holding company.

Year ended 31 March 2016

For the year ended 31 March 2016, the Group recorded net cash used in financing activities of approximately HK$48.4 million which was mainly due to (i) repayments of bank loans of approximately HK$120.0 million; and offset by (ii) advance from immediate holding company of approximately HK$19.9 million; and (iii) new bank and other loans raised of approximately HK$50.0 million.

Year ended 31 March 2017

For the year ended 31 March 2017, the Group recorded net cash from financing activities of approximately HK$118.2 million which was mainly due to (i) new bank and other loans raised of approximately HK$127.0 million; (ii) advance from fellow subsidiaries of approximately HK$21.8 million; and offset by (iii) repayment to immediate holding company of approximately HK$33.5 million.

Year ended 31 March 2018

For the year ended 31 March 2018, the Group recorded net cash used in financing activities of approximately HK$238.6 million which was mainly due to (i) repayments of bank and other loans of approximately HK$157.0 million; (ii) repayment to immediate holding company of approximately HK$71.3 million; (iii) repayment to fellow subsidiaries of approximately HK$38.1 million; and offset by (iv) new bank and other loans raised of approximately HK$29.8 million.

CAPITAL EXPENDITURE

During each of the three years ended 31 March 2018, the Group incurred capital expenditure for the addition of (i) property, plant and equipment; and (ii) investment properties.

For the years ended 31 March 2016 and 2017, capital expenditure were comparatively low at approximately HK$1.3 million and approximately HK$1.9 million, respectively, which mainly included purchases of plant and machinery.

For the year ended 31 March 2018, the Group incurred substantial capital expenditure to acquire a subsidiary with the major assets of (i) the investment properties of approximately HK$56.3 million as at the date of acquisition; and (ii) office units being used as the Group's office premise and car parking spaces of a commercial property, Kings Wing Plaza 1, situated in Shatin, Hong Kong, amounted to approximately HK$89.1 million as at the date of acquisition.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration (i) the internal resources; (ii) the injection of an amount of approximately HK$371.3 million from the Remaining Group to the Group (which the amount will be adjusted by reference to the net asset value of the Group as at the date immediately before the Distribution) prior to the completion of the Spin-off; and (iii) the Group's own banking facilities for an aggregate amount of HK$220 million which is expected to be available upon the Listing, the Group has sufficient working capital for its present requirements for at least the next 12 months commencing on the date of this listing document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Save as disclosed in the paragraph headed "Performance Bands and Contingent Liabilities" above in this section, the Group has not entered into any material off balance sheet commitments or arrangements during the Track Record Period and up to the Latest Practicable Date.

DISTRIBUTABLE RESERVES

As at 31 March 2018, the Company did not have any distributable reserve available for distribution to Shareholders.

KEY FINANCIAL RATIOS

The following table sets out a summary of the Group's key financial ratios during the Track Record Period:

	Notes	Year ended 31 March		
		2016	2017	2018
Return on total assets	1	18.7%	13.5%	13.1%
Return on equity	2	134.1%	73.4%	38.9%
Net profit margin	3	8.5%	11.0%	11.9%
Interest coverage	4	20.4 times	65.1 times	25.5 times

	Notes	As at 31 March		
		2016	2017	2018
Current ratio	5	1.2 times	1.5 times	1.1 times
Gearing ratio	6	143.6%	168.4%	60.2%
Net debt to equity ratio	7	N/A (no net debts)	106.0%	28.6%

Notes:

1. Return on total assets is calculated by dividing profit for the respective year with total assets as at the end of the respective year multiplied by 100%.
2. Return on equity is calculated by dividing profit for the respective year with total equity as at the end of the respective year multiplied by 100%.
3. Net profit margin is calculated by dividing profit for the year with revenue for the respective year multiplied by 100%.
4. Interest coverage is calculated by dividing profit before finance costs and taxation charge with finance costs for the respective year.
5. Current ratio is calculated by dividing total current assets with total current liabilities as at the end of the respective year.
6. Gearing ratio is calculated by dividing total debts which represent bank and other borrowings and the amount due to immediate holding company in aggregate with total equity as at the end of the respective year multiplied by 100%.
7. Net debt to equity ratio is calculated by dividing bank and other borrowings and the amount due to immediate holding company in aggregate minus bank balances and cash with total equity as at the end of the respective year multiplied by 100%.

Return on total assets

For the year ended 31 March 2017, return on total assets decreased to approximately 13.5% from 18.7% for the year ended 31 March 2016. This was due to that although profit for the year ended 31 March 2017 increased by approximately 77.0%, total assets as at 31 March 2017 increased even more substantially by approximately 145.3%. The substantial increase in the total assets as at 31 March 2017 was due to the substantial amount of amount due from immediate holding company of approximately HK$228.0 million as at 31 March 2017 whereas the balance was nil as at 31 March 2016. The amount due from immediate holding company was non-trade in nature and not used for the Group's operation and thus no related profit was generated in this regard. As such, the return on total assets decreased.

For the year ended 31 March 2018, return on total assets was approximately 13.1% which was comparable to that for the year ended 31 March 2017 of approximately 13.5%.

Return on equity

For the year ended 31 March 2017, return on equity decreased to approximately 73.4% from 134.1% for the year ended 31 March 2016. This was due to that although profit for the year ended 31 March 2017 increased by approximately 77.0%, equity as at 31 March 2017 increased even more substantially by approximately 223.4%.

For the year ended 31 March 2018, return on equity further decreased to approximately 38.9% from 73.4% for the year ended 31 March 2017. Such decrease was primarily attributed to the lower profit earned for the year ended 31 March 2018 while the equity increased for the year ended 31 March 2018.

Net profit margin

For the year ended 31 March 2017, net profit margins increased to approximately 11.0% from 8.5% for the year ended 31 March 2016. Such increase was primarily caused by the increase in gross profit margin of approximately 18.3% for the year ended 31 March 2017 from 15.5% for the year ended 31 March 2016.

For the year ended 31 March 2018, net profit margins remained stable at approximately 11.9% comparing with that for the year ended 31 March 2017 of approximately 11.0%. The stable net profit margin was a result of the offsetting effect between the increase in the administrative expenses mainly caused by the increase in staff cost and the increase in the gross profit for the year ended 31 March 2018.

Interest coverage

For the year ended 31 March 2017, interest coverage increased to approximately 65.1 times from 20.4 times for the year ended 31 March 2016. The increase was primarily due to the increase in profit for the year and the decrease in the finance costs. The increase in profit before finance costs and income tax was approximately 84.3% and the decrease in finance costs was approximately 42.2% for the year ended 31 March 2017.

For the year ended 31 March 2018, interest coverage decreased to 25.5 times from 65.1 times for the year ended 31 March 2017. Such decrease was due to (i) the decrease in profit for the year ended 31 March 2018 of approximately 9.4%; and (ii) the significant increase in finance costs of approximately 153.0%.

Current ratio

Current ratio remained relatively stable at approximately 1.2 times, 1.5 times and 1.1 times as at 31 March 2016, 2017 and 2018, respectively.

Gearing ratio

As at the year ended 31 March 2016, the gearing was due to the amount due to immediate holding company and the gearing ratio was approximately 143.5%.

As at the year ended 31 March 2017, the gearing was due to bank and other loans and the gearing ratio was approximately 168.4%. Due to the centralised treasury policy of the Hanison Group, the Group's loan drawdowns were made on behalf of the other companies within the Hanison Group.

As at the year ended 31 March 2018, the gearing ratio was due to the amount due to immediate holding company and the gearing ratio was approximately 60.2%.

The fluctuations of the gearing ratios during the Track Record Period was due to the centralised treasury policy of the Hanison Group which resulted the gearing of the amount due to immediate holding company and the bank and other loans balances. Upon Listing, the Group will be financially independent and thus, will make its financial decisions independently based on its own financing needs.

Net debt to equity ratio

There was no net debts as at the year ended 31 March 2016 as bank balances and cash exceeded the amount due to immediate holding company.

As at the year ended 31 March 2017, net debt to equity ratio of the Group was approximately 106.0%. This was due to the relative high debts position comparing with its equity position as the high debts position was drawdowns on behalf of the other companies within the Hanison Group due to the centralised treasury policy of the Hanison Group. Upon Listing, the Group will be financially independent and thus, will make its financial decisions independently based on its own financing needs.

As at 31 March 2018, net debt to equity ratio of the Group was approximately 28.6%.

The fluctuations of the net debt to equity ratio during the Track Record Period was due to the centralised treasury policy of the Hanison Group. Upon Listing, the Group will be financially independent and thus, will make its financial decisions independently based on its own financing needs.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had certain related party transactions in relation to (i) design, supply and installation of aluminum windows and curtain walls services; (ii) equity-settled share-based payments charged by ultimate holding company; (iii) interest expenses; (iv) management fee expenses; (v) rental expenses; and (vi) rental income.

The Group had a commitment in relation to contracts entered into with fellow subsidiaries in respect of provision of design, supply and installation of aluminium windows and curtain walls services and the outstanding contract sum amounted to approximately HK$18.2 million, HK$4.8 million and HK$2.4 million as at 31 March 2016, 31 March 2017 and 31 March 2018, respectively. In the opinion of the Directors, the remaining contracted commitment will be fulfilled and completed prior to the Listing.

These related party transactions were conducted in accordance with terms as agreed between the Group and the respective related parties. The Directors have confirmed that (i) all related party transactions during the Track Record Period were conducted on arm's length basis and normal commercial terms that are in the interest of the Group as a whole; (ii) these related party transactions would not distort the Group's results of operations for the Track Record Period or make the Group's historical results not reflective of the Group's future; (iii) except for the rental expenses in respect of the car parking spaces and the rental income, all the other related party transactions will discontinue upon the Listing; and (iv) all of the outstanding amounts due from and due to the related parties are non-trade in nature and all the related balances as at 31 March 2018, if any, will be settled prior to the Listing.

For further details on related party transactions and balances, please refer to "Note 23. Amounts due from Immediate Holding Company/Fellow Subsidiaries/A Subsidiary; Note 27. Amounts due to Ultimate Holding Company/Immediate Holding Company/Fellow Subsidiaries; and Note 37, Related Party Transactions" of the Accountants' Report set out in Appendix I to this listing document.

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes amounts due to ultimate holding company, immediate holding company and fellow subsidiaries, bank and other loans, net of cash and cash equivalents and equity, comprising share capital and reserves.

For further details on the Group's capital risk management, please refer to "Note 38. Capital Risk Management" of the Accountants' Report set out in Appendix I to this listing document.

Financial risk management

The Group's financial instruments include trade debtors, other receivables, amounts due from/to group companies, bank balances and cash, trade and other payables and bank and other loans. The Group's activities expose it to a variety of financial risks which comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. For further details on the Group's financial risk management objectives and policies, please refer to "Note 39. Financial Instruments" of the Accountants' Report set out in Appendix I to this listing document.

PROPERTIES INTEREST

The carrying values of the Group's owner-occupied buildings in Hong Kong and leasehold land and buildings in the PRC from the audited consolidated statements of financial position as at 31 March 2018 were in aggregate amounted to approximately HK$109.1 million while the unaudited fair value of the above properties valued by an independent valuer as at 31 August 2018 was approximately HK$130.9 million. For the Group's investment properties in Hong Kong, their fair value from the consolidated statement of financial position as at 31 March 2018 was approximately HK$60.3 million while the unaudited fair value for the investment properties as valued by the independent valuer was approximately HK$61.7 million. The table below sets forth the reconciliation of the value of the properties from the audited consolidated statement of financial position as at 31 March 2018 to their respective unaudited fair value valued by the valuer as at 31 August 2018:

	Buildings in Hong Kong and leasehold land and buildings in the PRC	Investment properties
	HK$'000	*HK$'000*
Carrying values/fair value as at 31 March 2018	109,084	60,300
Less: depreciation/amortisation for the five months ended 31 August 2018	(1,866)	–
Exchange adjustments	(1,682)	–
Net book values/value as at 31 August 2018	105,536	60,300
Add: Fair value gain	25,364	1,400
Valuation as at 31 August 2018 per valuation report set out in Appendix III to this listing document	130,900	61,700

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Listing on the audited consolidated net tangible assets of the Group as at 31 March 2018, as if the Listing had taken place on that day.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 March 2018 or any future dates following the Listing.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2018 as extracted from the Accountants' Report set out in Appendix I to this listing document, and adjusted as follows:

		Pro forma adjustment		
	Audited consolidated net tangible assets of the Group as at 31 March 2018 *(Note 1)*	**Estimated listing expenses** *(Note 2)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share** *(Note 3)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on **[REDACTED]** Shares issued prior to the Listing	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

[REDACTED]

LISTING EXPENSES

The Directors estimate that the total amount of expenses in relation to the Listing is approximately HK$**[REDACTED]** million, which was/will be recognised as expenses in the Group's consolidated statement of profit or loss and other comprehensive income for the years ended/ending 31 March 2018 and 2019.

DIVIDENDS

There was no dividend declared during the Track Record Period and up to the Latest Practicable Date. The Group may declare dividends in the future after taking into account the results of operations, earnings, capital requirements, general financial condition, and other factors as the Directors may deem relevant at such time. The declaration of dividends is subject to the discretion of the Directors and the approval of the Shareholders (except for interim dividends) as may be necessary. Any declaration and payment as well as the amount of dividends will be subject to the constitutional documents of the Company and the Companies Law. The Group currently does not have a fixed dividend policy.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they 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.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the sub-sections headed "Recent Developments" and "Listing Expenses" under the section headed "Summary" of this listing document, the Directors confirm that, up to the date of this listing document, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 March 2018 (being the date to which the latest audited consolidated financial statements of the Group were prepared), and there is no event since 31 March 2018 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this listing document.