

Hao Bai International (Cayman) Limited 浩柏國際（開曼）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8431)



ANNUAL REPORT

2016/17

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Nam Ho Kwan (*Chairman*)

Mr. Ng Wan Lok

Ms. Wong Wing Hung

Non-executive Directors

Mr. Chong Kam Fung

Mr. Tan Kean Ee

Independent non-executive Directors

Mr. Wu Kam On Keith

Ms. Chan So Fong

Mr. Kwong Tsz Ching Jack

COMPANY SECRETARY

Mr. Chong Ching Hoi

COMPLIANCE OFFICER

Ms. Wong Wing Hung

COMPLIANCE ADVISER

CLC International Limited

AUTHORISED REPRESENTATIVES

Mr. Nam Ho Kwan

Mr. Chong Ching Hoi

AUDIT COMMITTEE

Mr. Wu Kam On Keith

(*Chairman of Audit Committee*)

Mr. Chong Kam Fung

Ms. Chan So Fong

Mr. Kwong Tsz Ching Jack

REMUNERATION COMMITTEE

Ms. Chan So Fong

(*Chairlady of Remuneration Committee*)

Mr. Tan Kean Ee

Mr. Wu Kam On Keith

Mr. Kwong Tse Ching Jack

NOMINATION COMMITTEE

Mr. Nam Ho Kwan

(*Chairman of Nomination Committee*)

Mr. Wu Kam On Keith

Ms. Chan So Fong

Mr. Kwong Tsz Ching Jack

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKER

Nanyang Commercial Bank, Limited

Hang Seng Bank Limited

WEBSITE ADDRESS

www.harmonyasia.com

STOCK CODE

8431

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board") of Hao Bai International (Cayman) Limited (the "Company"), it is my pleasure to present the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2017.

REVIEW

The shares of the Company (the "Shares") were successfully listed (the "Listing") on the Growth Enterprise Market (the "GEM Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 May 2017. It was a milestone of the Group which boosted the confidence of our stakeholders, enhanced the Group's profile and strengthened the Group's financial position and competitiveness.

RESULTS

The total revenue of the Group increased by approximately HK\$18.6 million or 20.5% from approximately HK\$90.9 million for the year ended 31 March 2016 to approximately HK\$109.5 million for the year ended 31 March 2017. The Group's profits attributable to shareholders decreased by approximately HK\$8.8 million or 91.7% from approximately HK\$9.6 million for the year ended 31 March 2016 to approximately HK\$0.8 million for the year ended 31 March 2017. The decrease was primarily due to the non-recurring listing expenses of approximately HK\$12.5 million recorded for the year ended 31 March 2017 (2016: approximately HK\$2.6 million).

BUSINESS REVIEW AND PROSPECT

During the year ended 31 March 2017, the overall market of the water-related facilities service in Hong Kong and Macau recorded a steady growth and expected to keep growing in the coming years. Looking ahead to the coming years, although certain challenging factors such as (i) the intense competition in the market; (ii) continuous rise of construction labour and material costs; and (iii) the increase in staff costs and shortage of the professional may exert pressure on the Group's business, the Group remains cautiously optimistic about the overall business prospects. The Group is of the view that the development of five-star hotels and private residential projects in Hong Kong and Macau, the expansion of theme park and the recovery of Macau gaming market remains to be the key drivers for the growth of the water-related facility service market.

To optimise our competitive advantages, we will continue to maintain a sustainable growth in our existing business and increase our market share in the water-related facility service market in Hong Kong and Macau. We believe that our proven track record, experienced management team and reputation in the market will contribute to our success and distinguish us from our competitors. We are confident in our main business and we will seek for the suitable business opportunities in order to create the long-term benefits to our shareholders.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my deep gratitude to our shareholders, clients, business partners, and suppliers for their continuous support. I would also like to express our sincere appreciation to the Group's management and staff for their commitment, contribution and dedication throughout the years.

Nam Ho Kwan

Chairman

Hong Kong, 21 June 2017

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Our Group is a Hong Kong-based contractor specialises in design, procurement and installation services of the water circulation systems, including swimming pools, water fountains and water curtains, etc. We provide services mainly to developers, main contractors and sub-contractors in various private residence projects and hotel, casino, shopping and recreation complex projects in Hong Kong and Macau.

Our services are mainly categorised as (i) management contracting services – design, procurement and installation of water circulation systems, (ii) consultancy services – provision of consultancy services on design of water circulation systems and (iii) maintenance services – provision of maintenance and repair services for water circulation systems.

BUSINESS REVIEW AND OUTLOOK

For the year ended 31 March 2017, the Group had 19 management contracting projects and 4 consulting projects (2016: 22 management contracting projects and 2 consulting projects) with revenue contribution. The demands for the Group's management contracting services and consulting services remained at a high level and thus, the revenue of the Group recorded a significant growth in the year ended 31 March 2017.

Looking forward, although certain challenging factors such as (i) the intense competition in the market; (ii) continuous rise of construction labour and material costs; and (iii) the increase in staff costs and shortage of the professional may exert pressure on the Group's business, the Group remains cautiously optimistic about the overall business prospects. The Group is of the view that the development of five-star hotels and private residential projects in Hong Kong and Macau, the expansion of theme park and the recovery of Macau gaming market remains to be the key drivers for the growth of the water-related facility service market.

With the Group's proven track record, experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors, and the Group will continue to pursue the following key business strategies: (i) strengthening our industry position and expanding our business by making use of additional financial resources available from the listing (the "Listing") of the shares of the Company (the "Shares") on GEM of the Stock Exchange on 26 May 2017 (the "Listing Date"), which allows the Group to undertake more projects of larger scale that require the provision of surety bond; (ii) establishing a Macau office/warehouse, which will signify our Group's presence and commitment to Macau projects, giving confidence to our potential Macau customers and enhancing our reputation in Macau; and (iii) strengthening our technical and project management capabilities through recruiting additional qualified and experienced staff.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our total revenue increased by approximately HK\$18.6 million or 20.5% from approximately HK\$90.9 million for the year ended 31 March 2016 to approximately HK\$109.5 million for the year ended 31 March 2017. The increase in our revenue was primarily derived from revenue from projects located at Macau, Western District, Kennedy Town and So Kwun Wat, Tuen Mun of approximately HK\$61.3 million, and such increase was partially offset by the decrease in revenue from another project in Macau of approximately HK\$48.0 million for the year ended 31 March 2017 when compared with the year ended 31 March 2016 as this project is approaching the expected completion date, and substantial amount of revenue had been recognised in prior years.

Cost of services

The Group's cost of services mainly consists of (i) consumables; (ii) sub-contracting fees; (iii) staff costs; (iv) consulting fees; (v) labour cost; and (vi) other expenses.

Our cost of services increased by approximately HK\$14.7 million or 21.8% from approximately HK\$67.3 million for the year ended 31 March 2016 to approximately HK\$82.0 million for the year ended 31 March 2017, such increase was primarily driven by the increase in cost of consumables which was partially offset by the decrease in sub-contracting fees.

The increase in cost of consumables of approximately HK\$18.4 million for the year ended 31 March 2017 was mainly attributable to the increasing amount of parts and components procured and installed for our projects; whereas the decrease in sub-contracting fees of approximately HK\$5.3 million for the year ended 31 March 2017 was mainly due to the substantial completion of a project in Macau.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$3.9 million or 16.5% from approximately HK\$23.6 million for the year ended 31 March 2016 to approximately HK\$27.5 million for the year ended 31 March 2017. Such increase was primarily attributable to the increase in gross profit for management contracting services of approximately HK\$3.2 million and the increase in gross profit for consultancy services of approximately HK\$0.5 million, which were consequential to the increase in our revenue for the year ended 31 March 2017.

Our gross profit margin slightly decreased from approximately 26.0% for the year ended 31 March 2016 to approximately 25.1% for the year ended 31 March 2017. The decrease was mainly due to the decrease in revenue derived from projects in Macau. Generally, our projects in Macau enjoy a relatively higher gross profit margin as compared to projects in Hong Kong.

Other income

Our other income decreased from approximately HK\$15,000 for the year ended 31 March 2016 to approximately HK\$11,000 for the year ended 31 March 2017, primarily due to the non-occurrence of the gain on disposal of property, plant and equipment for the year ended 31 March 2017, and partially offset by the increase in interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other expenses

Our administrative expenses increased by approximately HK\$2.7 million or 31.4% from approximately HK\$8.6 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017. Such increase was primarily due to (i) the increase in salaries of our directors and the employment of five additional administrative staff; and (ii) the renting of additional office premises in Hong Kong and staff quarters in Macau.

Finance costs

Our finance costs increased by approximately HK\$0.3 million or 50.0% from approximately HK\$0.6 million for the year ended 31 March 2016 to approximately HK\$0.9 million for the year ended 31 March 2017, primarily due to the surcharge interest charged by a bank for the early settlement of a term loan and a trade line, and the increase in the level of bank borrowings.

Other expenses

Our other expenses increased from approximately HK\$2.6 million for the year ended 31 March 2016 to approximately HK\$12.5 million for the year ended 31 March 2017, primarily due to the non-recurring listing expenses charged to the profit or loss for the year ended 31 March 2017.

Income tax expense

Our income tax expenses amounted to approximately HK\$2.2 million for the year ended 31 March 2016 and approximately HK\$1.9 million for the year ended 31 March 2017. The net tax provision provided for Macau profits tax remained relatively stable, amounted to approximately HK\$2.3 million and HK\$1.9 million for the years ended 31 March 2016 and 2017.

The net tax provision provided for Hong Kong Profits Tax was nil for the years ended 31 March 2016 and 2017. Our Hong Kong operation recorded a gross profit for the years ended 31 March 2016 and 2017. However, because of (i) the increase in administrative expenses incurred for our central expenses including salaries and allowances and rent and rates; and (ii) the projects located at Kennedy Town and Sham Shui Po have zero gross profit margin due to the disagreement with a customer, we recorded a loss before tax and accordingly, no tax provision was made for Hong Kong Profits Tax for the years ended 31 March 2016 and 2017.

Net Profit

As a result of the foregoing, our net profit for the year decreased by approximately HK\$8.8 million or 91.7% from approximately HK\$9.6 million for the year ended 31 March 2016 to approximately HK\$0.8 million for the year ended 31 March 2017.

Our net profit margin also decreased from approximately 10.6% for the year ended 31 March 2016 to approximately 0.7% for the year ended 31 March 2017, such decrease was mainly attributable to the non-recurring listing expenses charged to profit or loss for the year ended 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board did not recommend the payment of dividend for the year ended 31 March 2017 (2016: approximately HK\$5.2 million). No dividend was declared by the Company for the year ended 31 March 2017.

Liquidity, financial resources and funding

As at 31 March 2017, the Group had total assets of approximately HK\$70.3 million (2016: approximately HK\$50.9 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$34.7 million (2016: approximately HK\$24.1 million) and approximately HK\$35.6 million (2016: approximately HK\$26.8 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 March 2017 were approximately HK\$16.6 million (2016: approximately HK\$12.8 million), and current ratio as at 31 March 2017 was approximately 2.2 times (2016: approximately 2.2 times).

The Group's borrowings and bank balances are mainly denominated in Hong Kong dollars and there was no significant exposure to foreign exchange rate fluctuations during the year.

The Group's gearing ratio, which is calculated by total borrowings, bank overdrafts and obligation under finance leases divided by total equity, decreased from approximately 52.7% as at 31 March 2016 to approximately 48.8% as at 31 March 2017, primarily due to the increase in the total equity outweighed the increase in the level of bank borrowings. The increase in the total equity was primarily due to the proceeds from Morgan Star Investment Limited, one of our Pre-IPO investors, of approximately HK\$8.0 million, whereas the increase in the level of bank borrowings was primarily due to the additional term loan raised during the year.

Capital structure

The Shares were successfully listed on the GEM Board of the Stock Exchange on 26 May 2017. Immediately upon listing, the total issued share capital of the Company was HK\$13,000,000 divided into 1,300,000,000 Shares of par value of HK\$0.01 each. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2017, the Company's issued share capital was HK\$100 (2016: US\$8,876) divided into 10,000 ordinary Shares of par value of HK\$0.01 each (2016: 8,876 of US\$1 each).

Commitments

The operating lease commitments of the Group were primarily related to the leases of its office premises and the staff quarters. The Group's operating lease commitments amounted to approximately HK\$2.0 million as at 31 March 2017 (2016: approximately HK\$0.4 million).

Segmental information

Segmental information is presented for the Group as disclosed on note 6 of the notes to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Future plans for material investments and capital assets

As at 31 March 2017, the Group did not have any plans for material investments and capital assets.

Material Acquisitions and disposals of subsidiaries and affiliated companies

During the year ended 31 March 2017, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Contingent liabilities

Save as disclosed in note 28 of the notes to the consolidated financial statements, as at 31 March 2016 and 2017, the Group did not have other material contingent liabilities.

Foreign currency exposure

The Group's revenue generating operations are mainly transacted in HK\$ and MOP. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

Pledge of assets

Save as disclosed in note 27 of notes to the consolidated financial statements, as at 31 March 2016 and 2017, the Group did not have other pledge of assets.

Employees and remuneration policies

As at 31 March 2017, the Group employed a total of 24 employees (2016: 19 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$11.2 million for the year ended 31 March 2017 (2016: approximately HK\$7.8 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.

Comparison of business objectives with actual business progress

As set out in the prospectus of the Company dated 16 May 2017 (the "Prospectus"), the business objectives and strategies of the Group are (i) to strengthen our industry position in Hong Kong and Macau; (ii) to enhance our capital base to secure more projects and expand our business; (iii) to strengthen our technical and project management capabilities to further improve our operational efficiency; and (iv) to establish an operation premise in Macau.

Given that the Public Offering was completed after 31 March 2017, the implementation plan as set out in the section headed "Future plans and use of proceeds" of the Prospectus will commence during the year ending 31 March 2018.

Actual use of the net proceeds from the Public Offering up to the date of this Annual Report are set out in paragraphs headed "Use of proceeds from Listing" of the Report of Directors in this Annual Report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The directors of the Company (the “Directors”) and the management of the Group recognises the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

The Company’s corporate governance practices are based on the principles and code provisions stipulated in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 15 of the rules governing the listing of securities on the Growth Enterprise Market (the “GEM Listing Rules”). The shares of the Company (the “Shares”) were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”) on 26 May 2017 (the “Listing Date”) (i.e. after the financial year ended 31 March 2017 of the Company), and the Company has since then adopted and complied with, where applicable, the CG Code except for Code Provision A.2.1 of the CG Code, from the Listing Date up to the date of this report (the “Relevant Period”) to ensure that the Group’s business activities and decision making processes are regulated in a proper and prudent manner.

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Nam Ho Kwan is currently the Chairman of the Board and the Chief Executive Officer, responsible for formulating the overall business development strategy and planning of the Group. In view of that, Mr. Nam has been responsible for the overall management of the Group since its inception, the Board believes that it is in the best interest of the Group to have Mr. Nam taking up both roles for effective management and business development.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the business of the Group, formulating the Group’s overall strategic direction and maintaining appropriate levels of review, challenge and guidance in its relationship with the management. The management is delegated with the authority and responsibility by the Board for the day-to-day management and administration of the Group. The Board is provided with the updates from management to give a balanced and understandable assessment of the performance, recent development and prospects of the Group on a regular basis.

The Board is the ultimate decision-making body for all matters considered material to the Group and discharge its responsibilities on corporate governance either by itself or the Board Committees set out in Code Provision D.3.1 of the CG Code which include the following:

1. to develop and review the policies and practice on corporate governance of the Group and make recommendations;
2. to review and monitor the training and continuous professional development of the Directors and senior management;
3. to review and monitor the Group’s policies and practices on compliance with legal and regulatory requirements;

CORPORATE GOVERNANCE REPORT

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

COMPOSITION OF THE BOARD

As at the date of this report, the Board comprises eight Directors, including three executive Directors, two non-executive Directors (the "NED") and three independent non-executive Directors (the "INED") as set out below:

Executive Directors

Mr. Nam Ho Kwan (*Chairman and Chief Executive Officer*)

Mr. Ng Wan Lok

Ms. Wong Wing Hung

Non-executive Directors

Mr. Tan Kean Ee

Mr. Chong Kam Fung

Independent Non-executive Directors

Mr. Wu Kam On Keith

Ms. Chan So Fong

Mr. Kwong Tsz Ching Jack

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 23 to 27 of this annual report.

In compliance with Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three INEDs representing not less than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each INED an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

The Board considers that the balance of power and authority, accountability and independent decision-making under our present arrangement will not be impaired because of the diverse background and experience of our non-executive Directors and independent non-executive Directors. Furthermore, the Audit Committee of the Company (the "Audit Committee") has free and direct access to the Company's external auditor and independent professional advisers when it considers necessary.

CORPORATE GOVERNANCE REPORT

The composition of the Board is well balanced with each Director having skills, experience and expertise relevant to the business operations and development of the Group and from a variety of backgrounds. There is diversity of educational background, functional expertise, gender, age and experience. A Board Diversity Policy of the Company has been adopted by the Board during the year ended 31 March 2017 which set out the approach to achieve diversity on the Board and the factors (including but not limited to race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status) to be considered in determining the composition of the Board so as to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to maximise the Board's effectiveness.

To the best knowledge of the Board, there are no other relationship (including financial business, family, and other material/relevant relationships) among the members of the Board as of the date of this report.

BOARD MEETINGS

The Board meets regularly to determine overall strategies, receive management updates, approve business plans as well as quarterly, interim and annual results and to consider other significant matters. Management also provides updates to the Board with respect to the business activities and development of the Group on a regular basis.

Two meetings were held during the year ended 31 March 2017. One meeting was held after the aforesaid year-end date prior to the Listing Date. All such meetings were held for consideration and approval of resolutions relating to the Listing. One meeting was held during the Relevant Period. The individual attendance records for the year ended 31 March 2017 up to the end of the Relevant Period is set out as below.

| Name of Directors | Number of Board meetings attended/ eligible to attend |
|--|--|
| Executive Directors | |
| Mr. Nam Ho Kwan | 4/4 |
| Mr. Ng Wan Lok | 4/4 |
| Ms. Wong Wing Hung | 4/4 |
| Non-executive Directors | |
| Mr. Tan Kean Ee | 4/4 |
| Mr. Chong Kam Fung | 4/4 |
| Independent Non-executive Directors <i>(Note)</i> | |
| Mr. Wu Kam On Keith | 3/3 |
| Ms. Chan So Fong | 3/3 |
| Mr. Kwong Tsz Ching Jack | 3/3 |

Note: The INEDs were appointed on 19 January 2017.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors and NEDs entered into a service agreement with the Company and each INEDs signed the letter of appointment. Both of the said service agreements and letters of appointment are for an initial term of three years commencing from the Listing Date, subject to re-election in accordance with amended and restated Articles of Association of the Company, as amended from time to time, (the “Articles”) and termination in accordance with their respective terms.

Pursuant to Article 84 of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and every Director shall be subject to retirement by rotation at least every three years. However, a retiring Director shall be eligible for re-election. Any Director who is appointed by the Board to fill the casual vacancy and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election pursuant to Article 83(3).

As such, Mr. Nam Ho Kwan, Mr. Ng Wan Lok, Ms. Wong Wing Hung, Mr. Tan Kean Ee, Mr. Chong Kam Fung, Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack will retire from office as Directors and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on 31 August 2017 in accordance with the Articles and relevant code provision under the CG code.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding securities transactions by the Directors on the terms no less exacting than the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Relevant Period.

DIRECTORS’ TRAINING AND PROFESSIONAL DEVELOPMENT

The Group acknowledges the importance of continuing professional development for the Directors to extend and refresh their knowledge and skills. Every Director keeps abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Directors are fully aware of the requirement under the Code Provision A.6.5 of the CG Code regarding the professional development. During the year ended 31 March 2017, all Directors attended the training session regarding the director’s duties for the Listing.

BOARD COMMITTEES

The Board established three Board committees, namely the Audit Committee, Remuneration Committee and Nomination Committee by resolutions of Directors passed on 19 January 2017, for overseeing particular aspects of the Group’s affairs. All Board committees were established with written terms of reference in compliance with the relevant code provisions of the CG Code, which are available at the GEM’s website (www.hkgem.com) and the Company’s website (www.harmonyasia.com).

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee was established on 19 January 2017. The Audit Committee currently consists of four members, which includes Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack, all of which are our INEDs, and our NED, Mr. Chong Kam Fung. Mr. Wu is the chairman of the Audit Committee, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The primary duties of the Audit Committee are to make recommendation to the Board on appointment or re-appointment and removal of external auditor; review financial statements of the Company and judgments in respect of financial reporting; and oversee the effectiveness of the procedures of the internal control procedures and risk management of the Group.

The audited consolidated financial statements of the Group for the year ended 31 March 2017 had been reviewed by the Audit Committee, which was of the opinion that the audited consolidated financial statements have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

No Audit Committee meeting was held during the year ended 31 March 2017. During the Relevant Period, one Audit Committee meeting was held to review and discuss with the management and the external auditor the accounting principles and practices adopted by the Group, as well as reviewing the results of the Group for the year ended 31 March 2017. All members of the Audit Committee have attended the said meeting.

Remuneration Committee

The Remuneration Committee of the Company (the “Remuneration Committee”) was established on 19 January 2017. The Remuneration Committee consists of four members which is chaired by an INED and comprises a majority of INEDs in accordance with the requirements under Rule 5.34 of the GEM Listing Rules. This includes Ms. Chan So Fong, who is the chairlady of the Remuneration Committee, Mr. Wu Kam On Keith and Mr. Kwong Tsz Ching Jack, all of which are our INEDs, and our NED, Mr. Tan Kean Ee.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors, senior management and general staff of our Group and ensure that none of the Directors or any their associates determine their own remuneration.

No Remuneration Committee meeting was held during the year ended 31 March 2017. During the Relevant Period, one Remuneration Committee meeting was held to review the remuneration structure of the Directors. All members of the Remuneration Committee have attended the said meeting.

Nomination Committee

The Nomination Committee of the Company (the “Nomination Committee”) was established on 19 January 2017. The Nomination Committee consists of four members and is chaired by the chairman of the Board. The Nomination Committee comprises a majority of INEDs in accordance with the requirements under Code Provision A.5.1 of the CG Code, which includes the Executive Director Mr. Nam Ho Kwan, who is the Chairman of the Nomination Committee and Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack, all of which are our INEDs.

CORPORATE GOVERNANCE REPORT

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually, identify individuals suitably qualified to become Board members; assess independence of independent non-executive Directors and make recommendation to the Board on matters relating to appointment, re-appointment of Directors.

No Nomination Committee meeting was held during the year ended 31 March 2017. During the Relevant Period, one Nomination Committee meeting was held to review the structure of the Board, assess the independence of the INEDs and make recommendation to the re-election of the Directors at the forthcoming annual general meeting of the Company. All members of the Nomination Committee have attended the said meeting.

COMPANY SECRETARY

Mr. Chong Ching Hoi was appointed as Company Secretary of the Company on 8 June 2016. Please refer to the section “Biographical details of Directors and Senior Management” for his biographical information.

During the year ended 31 March 2017, Mr. Chong was not yet subjected the relevant professional training requirements in accordance with Rule 5.15 of the GEM Listing Rules as the Listing Date is after the year ended 31 March 2017.

DIRECTORS’ AND EXTERNAL AUDITOR’S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the financial statements which give a true and fair picture of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies should be selected and applied consistently.

The statement of external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor’s report on pages 38 to 44 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Company recognises the importance of good internal control procedures and, as disclosed in the Prospectus, intends to adopt or have adopted a number of measures.

We engaged an external independent internal control advisory firm (i) to review and assess our internal control systems (including accounting and management systems); and (ii) to prepare a report to the Company on factual findings and recommendations for improvements on our internal control systems over the abovementioned processes and procedures. During the year ended 31 March 2017, the Group have implemented the relevant internal control measures based on the recommendation of the external internal control consultant. The external internal control consultant confirmed such modified and new internal control procedures are satisfactorily implemented upon the conduct of follow-up review. The Board believes that our internal control systems and current procedures, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function, are sufficient in terms of the comprehensiveness, practicability and effectiveness.

CORPORATE GOVERNANCE REPORT

Going forward, the Directors will engage an independent internal control consultant to review the effectiveness of the Group's risk management and internal control system regularly and directly report to the Audit Committee.

The Group also established a set of risk management policies and measures. The Group's risk management process starts with identifying the major risks associated with its business, industry and market in the ordinary course of business. The Board and senior management are responsible for identifying and analysing the risk associated with their respective function, preparing and measuring risk mitigation plans and reporting the status of risk management.

The Audit Committee is also accountable for and will review of the Company's financial controls, risk management and internal control system on a regular basis.

EXTERNAL AUDITOR

Deloitte Touche Tohmatsu (the "DTT") is the external auditor of the Company. The Audit Committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders. The fee paid or payable in respect of audit services amount to HK\$700,000 for the year ended 31 March 2017.

Non-audit services provided to the Group during the year ended 31 March 2017 mainly represented the reporting accountant's work in connection with the Listing provided by DTT of approximately HK\$3,000,000.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

As one of the measure to safeguard the shareholders' interests and rights, separate resolutions will be proposed at shareholders' meeting on each substantial issue including the re-election of individual directors. All resolutions put forward at the shareholders' meeting will be conducted by poll pursuant to the GEM Listing Rules and the poll voting results will be published on the GEM's website (www.hkgem.com) and the Company's website (www.harmonyasia.com).

Procedures and Right for Shareholders to Convene Extraordinary General Meeting

The following procedures for shareholders to convene an extraordinary general meeting (the "EGM") are subject to the Articles, and the applicable legislation and regulation, in particular the GEM Listing Rules:

1. If any one or more shareholders of the Company (the "Shareholder") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company submit a written requisition to the Board or the Secretary of the Company to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.
2. The Board should within 21 days from the date of the deposit for the requisition proceed duly to convene the EGM to be held within a further 21 days. If the Board failed to do so, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may also make reference to Article 58 of the Articles.

CORPORATE GOVERNANCE REPORT

Shareholders who have enquiries regarding the above procedures may write to the company secretary of the Company at Room 95-12, 12/F, No. 93–95 Lai Chi Kok Road, Prince Edward, Kowloon, Hong Kong.

Procedures for Shareholders to Propose a Person for Election as a Director of the Company

If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of Director(s), wishes to propose a person for election as a Director at that meeting, he/she may lodge a written notice at the Company's principal place of business in Hong Kong at Room 95-12, 12/F, No. 93–95 Lai Chi Kok Road, Prince Edward, Kowloon, Hong Kong for the attention of the company secretary of the Company. Detailed procedures for Shareholders to propose a person for election as a Director of the Company can be found on the Company's website (www.harmonyasia.com).

Investors Relations

The Board recognises the importance of maintaining an ongoing dialogue with the Shareholders through various channels including general meetings, releases, announcements and corporate communications such as the annual report, interim report and circulars. Latest news and updates of the Group's business and operation are also available on the Company's website.

The Company has adopted its Shareholders' Communications Policy. Enquiries and proposals from Shareholders, investors and all stakeholders are welcomed. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong Room 95-12, 12/F, No. 93-95 Lai Chi Kok Road, Prince Edward, Kowloon, Hong Kong. Such written enquires or proposal with full name, contact details and identification must deposit and send to said address.

Any enquires in relation to the shareholdings, share transfer or registration to the Company's may contact the Company's share registrar. Their contact details are set out in the section headed "Corporate Information" of this annual report.

CONSTITUTIONAL DOCUMENTS

The Company first adopted its Memorandum and Articles of Association on 23 November 2015. Save for the adoption of the amended and restated memorandum and articles of association of the Company for the purpose of the Listing, during the year ended 31 March 2017, there had been no significant changes in the constitutional documents of the Company. The latest version of the memorandum and articles of association of the Company is available at the Company's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GENERAL

This report covers certain environmental and social responsibility aspects underlying the Group's business operations in Hong Kong and Macau during the year ended 31 March 2017 and is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 of the GEM Listing Rules ("ESG Reporting Guide").

The Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide during the year. For details of the Group's financial performance and corporate governance matters, please refer to other sections in the annual report of the Company of which this ESG Report forms part.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION

Our business, whether in Hong Kong or Macau, is subject to certain local laws and regulations in relation to environmental protection such as Water Pollution Control Ordinance (Cap. 358 of the Laws of Hong Kong), Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong), Air Pollution Control Ordinance (Cap. 311 of the Laws of Hong Kong), Noise Control Ordinance (Cap. 400 of the Laws of Hong Kong), Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong), Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong) and Law no. 2/91/M (the Environmental Law of Macau).

Our Directors believe that it is essential for us to act environmentally responsible to meet the customers' requirements in environmental protection and the expectation of the community for a healthy living environment, and in return it will ensure the healthy growth and development of our business. We are committed to minimise any adverse impact on the environment resulting from our business activities.

Apart from the above environmental protection measures, we have also established our environmental management policy to ensure proper management of environmental protection and compliance of environmental laws and regulations on among others, waste disposal, air pollution, and noise control. For example, our project manager is appointed to (i) provide guidance to staff members who fail to implement control measures for pollution control and wastage to his satisfaction; (ii) provide funds and facilities required to fulfil policy commitments; and (iii) implement proper administrative procedures for reporting and investigating the cost and loss of non-compliance with pollution control and wastage requirements.

During the reporting period, the Group has had no non-compliance cases regarding violation of relevant environmental laws and regulations.

Emissions

As mentioned above, our business is subject to Air Pollution Control Ordinance, which controls emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. The contractor responsible for a construction site shall devise, arrange methods of working and carrying out the works in such a manner so as to minimize dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group recognises the importance to minimise the emission of air pollutants such as dust. We implement a number of simple but effective measures to reduce dust emissions from our construction works. Dusty materials are hosed down with waste water and cleared from on-site surfaces.

The Noise Control Ordinance controls the noise from construction, industrial and commercial activities. Contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out general construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling at all times, construction noise permits are required from the Environmental Protection Department in advance.

In order to mitigate the inconvenience and negative impacts to the public, the Group carries out all construction activities only during the permitted hours and days. We also conduct regular noise level monitoring at the construction site and install noise barriers if necessary.

As a contractor specialized in design, procurement and installation services of the Water Circulation System, the Group is dedicated to introduce all necessary measures to reduce the water wastage. The Water Pollution Control Ordinance controls the effluent discharged from all types of industrial, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water into storm drains), they are subject to licensing control by the Environmental Protection Department. Construction waste water is collected and treated for reuse on site for wheel washing. If required, the Group will apply for the valid license for our projects before any of the waste water was discharged in order to comply with the Water Pollution Control Ordinance.

The Waste Disposal Ordinance controls and regulates the production, storage, collection, treatment, recycling and disposal of wastes. We encourage a waste management hierarchy that prioritises avoidance, reduction, reuse and recycling, over disposal. Our project teams carefully plan work programmes to avoid over-ordering of materials. In addition, good site practices are adopted to prevent cross contamination of materials. Excavated materials from the site are sorted, segregated and reused as fill materials at the premises as much as possible. Remaining construction waste generated is disposed to designated landfill sites by qualified waste collectors in accordance with the relevant laws. Reusable metal formwork is encouraged to be applied at site to reduce material consumption.

The Environmental Law of Macau also sets out requirements for the protection of the environment, including provisions controlling air quality and water quality. During the reporting period, the Group had no non-compliance cases regarding violation of relevant environmental laws and regulations in both Hong Kong and Macau.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

The Group is committed to have an environmental friendly working environment. The Group advocates to reducing the consumption of fuel, electricity and improving the resource efficiency by: i) encouraging employees to switch off the lights and electronic appliances before they leave the office; ii) encouraging the employee to set the temperature of the office's air conditioner to 25.5 Degree Celsius; iii) encouraging its employee to use double-sided printing instead of single-sided printing and iv) arranging the surplus materials on the construction site to be re-used in other construction sites instead of dumping them.

The Environment and Natural Resources

The Group is fully aware of the environmental impacts that may arise during our business process. The Group regularly provides internal trainings and briefings in order to spread the practical tips and information about the environmental friendly action to its management and employees in order to minimise the impact of the business on the environment.

EMPLOYMENT

The Group regards people as its greatest asset, to underline this fact, the Group has established clear policies and guidelines to attract and retain talent. The Group places a significant emphasis on developing human capital and provides competitive remuneration and welfare packages. Promotion opportunities and salary adjustments are benchmarked against individual performance. The Group delivers a fair and safe working environment for employees to support their career advancement and also fosters their personal development.

Summary of employment performance indicators:

| | 2017 |
|----------------------------|-----------|
| Number of Employees | 24 |
| By Gender | |
| Female | 8 (33%) |
| Male | 16 (67%) |
| By Age | |
| 18 or below | 0 |
| 19 to 40 | 13 |
| 41 to 60 | 11 |
| Over 60 | 0 |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Diversity

| | 2017 | | | |
|---|----------|-----------|-----------|-----------|
| | Gender | | Age Group | |
| | Female | Male | 19 to 40 | 41 to 60 |
| Number of Employees by Employee Category | | | | |
| Executive Directors and senior management | 2 | 4 | 3 | 3 |
| Project management | 3 | 5 | 4 | 4 |
| Engineer and plumber | 0 | 7 | 4 | 3 |
| Finance and accounting and administration | 3 | 0 | 2 | 1 |
| | 8 | 16 | 13 | 11 |

Turnover Rate

| | 2017 |
|---|-------------------|
| Number and Rate (%) of Employee Turnover By Gender | 7/24 (29%) |
| Female | 1/8 (13%) |
| Male | 6/16 (38%) |

HEALTH AND SAFETY

Summary of Health and Safety Performance Indicators

| | 2017 |
|------------------------------------|------|
| Work-related fatalities (Case) | - |
| Lost days due to work injury (Day) | - |

The Group places the highest priority on securing occupational safety and health of all our employees. More than complying with relevant occupational safety and health legislations of Hong Kong, we endeavour to protect our employees from work related accidents/injuries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Safety Audit

Safety audits were conducted periodically in office (corporate level) and on site (project) according to the statutory requirements of Factories and Industrial Undertakings (Safety Management) Regulation (Cap. 59AF of the laws of Hong Kong), to check the efficiency, effectiveness and reliability of the safety management and set up plan for further improvement actions.

During the year ended 31 March 2017, the Group has not identified any material non-compliance cases relating to health and safety.

DEVELOPMENT AND TRAINING

The Group believes that people development plays the most pivotal role in laying a solid ground for business growth. The Group encourages long-term growth and career development by allocating sufficient resources to people development. Besides on-the-job training, employees are encouraged to participate in internal and external training to strengthen their capacity, work skills, knowledge and professionalism.

LABOUR STANDARDS

The Group strictly complies with the Employment Ordinance and fully understands that employing child labour and forced labour is prohibited. The Group review the job applicant's identity information during the recruitment process and the applicant is also required to provide document proofs of academic qualifications and working experience for verifications. The employment policies of the Group also protect the right of free choice of employment by any person and ensure that all the employment relationship is established on a voluntary basis. During the year ended 31 March 2017, the Group has not identified any non-compliance cases involving child labour and forced labour.

SUPPLY CHAIN MANAGEMENT

Sustainable Procurement

To ensure the Group's service quality, our policy in relation to the subcontractors and suppliers is to select only those subcontractors and suppliers on an approved list who has passed the Group's quality control tests and have a satisfactory record of quality and on-time delivery. The Group aims to maintain the partnership with suppliers and works together in order to promote sustainable development of the industry. The Group performs the evaluation of a supplier in an annual basis to make sure the performance of the subcontractors and suppliers are up to the standard. The assessment mainly includes but not limited to the professional qualification, services/products quality, financial status, operation in good integrity, social responsibility, etc. When the evaluation result of the suppliers or subcontractors are not satisfactory, the respective suppliers or subcontractors may be removed from the approval list.

2017

Number of key suppliers/subcontractors

67

By region

Hong Kong

53

PRC

3

Macau

8

Others

3

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PRODUCTS RESPONSIBILITY

The Group recognises the importance of the quality of the services provided by our Group. The Group has established relevant policies which cover service quality and safety in order to ensure relevant measures comply with the laws and regulations.

The Group communicates and confirms the work plan with customer before the commencement of the project and actively monitors and processes and coordinates with the customer. For the year ended 31 March 2017, save as the disagreement between the Group and one customer as disclosed in the Prospectus, the Group has not had any material complaints or request to terminate projects due to poor quality and safety. If a complaint should arise, the Company will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. If the complaint is valid, the Group will immediately provide the relevant solution to solve the issues as soon as practicable.

The Group also recognises the importance of the intellectual property right. The management and relevant department review the contracts entered into with customers and suppliers to ensure the intellectual property rights are properly accounted for. The Group also complies with relevant law and regulation of data privacy. All confidential data of customers can only be assessed by the staffs who are responsible for the projects for relevant clients. For the year ended 31 March 2017, the Group has not identified any non-compliance cases relating to product responsibility and data privacy.

ANTI-CORRUPTION

The Group realises the importance of staff integrity, we have established the Code of Conduct (“CoC”) for all employees. With reference to the Prevention of Bribery Ordinance (Cap. 201 of HKSAR law), advice from the Independent Commission Against Corruption (ICAC), industry practice and internal consideration, CoC is made for the purpose of providing employees with the guidance for allowable acceptance of gifts or entertainment, conflict of interest, handling of confidential information, and whistle-blowing procedure. In line with the CoC, the Group has also provided training and briefings on anti-corruption to our employees.

Employees are also required to comply strictly with applicable laws relating to the above acts. The Group has adopted and circulated internally clear guidelines for employees. During the year ended 31 March 2017, the Group has not received any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with anti-corruption laws referred to above.

COMMUNITY INVESTMENT

Supporting Education

The Group firmly believes that investing in youth education is crucial for the long-term sustainability of the Company and the industry. Thus, we provided internship programme for undergraduate student through practical working experience to support talent development.

Caring for the Society

Corporate social responsibility via staff volunteerism, philanthropy and community service is the core values of the Group. We have actively participated in charitable donations, caring for people in need, as well as supporting and sponsoring educational and environmental protection activities.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Nam Ho Kwan (藍浩鈞), aged 45, our founder, Chairman, Chief Executive Officer and executive Director and one of the controlling shareholders of the Company. He was appointed as a Director on 23 November 2015 and re-designated as Executive Director and elected as Chairman on 8 June 2016. He is also a Chairman of the Nomination Committee. He is mainly responsible for formulating the overall business development strategy and planning; overseeing our Group's performance and management; and leading and representing our Group in negotiation with potential business partner.

In November 1994, Mr. Nam obtained a Bachelor of Engineering in Mechanical Engineering from The Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). Subsequently, he completed the "ISO 9001:2000 Training Course (Module 1)", the "ISO 9001:2000 Implementation Training Course (Module 2)", the "ISO 9001:2000 Internal Audit Training Course (Module 3)" and the "ISO 9001:2000 Management System "Lean & Green" TM Training Course (Module 4)" organized by Hong Kong Productivity Council in 2002.

After obtaining the aforesaid Bachelor of Engineering, Mr. Nam gained working experience in the water landscape design and construction industry for about 22 years, during which he founded the Group in November 2006. Before establishing the Group, Mr. Nam was a marketing manager of a company engaged in the design and installation of water filtration system from 2002 to 2005.

Mr. Nam is director of the major operating subsidiaries namely, Harmony Asia Limited and Best Innovation Limited and holds a number of directorship in other subsidiaries within our Group. He was also a director of Watech (Hong Kong) Limited (極水(香港)有限公司), Harmony Project Limited (浩栢有限公司) and Fortune Universe Limited (富顛有限公司), all of which were incorporated in Hong Kong with limited liability and were dissolved by way of striking off or on a voluntary basis by deregistration as these companies ceased to carry on any business on 26 February 2010, 17 April 2015 and 4 September 2015, respectively.

Mr. Ng Wan Lok (吳蘊樂), aged 49, was appointed as an executive Director on 8 June 2016. He joined our Group as a marketing manager in March 2014 and has been mainly responsible for managing and supervising the operations of projects of the Group.

He obtained a post-graduate certificate in Information Technology from the Hong Kong Management Association in September 1994 and further obtained a Bachelor's degree in Computer Science from Victoria University of Technology in November 1996.

Mr. Ng has about 24 years of experience in project management. He had worked in various companies and was responsible for project development, managing manufacturing operation and handling product sales and development. Before joining the Group, Mr. Ng was a Manager of Wellgo Development Limited from August 2007 to February 2014 and he was mainly responsible for handling the trading business of consumer electronics.

Mr. Ng was a director of Rise Spread Investment Limited (振揚投資有限公司) and Wellgo International Limited (運高國際有限公司), both of which were incorporated in Hong Kong with limited liability and were dissolved on a voluntary basis by way of deregistration as these companies ceased to carry on business on 30 January 2009 and 7 March 2014, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Wong Wing Hung (王詠紅), aged 43, was appointed as an executive Director on 8 June 2016. She is also the compliance officer of the Company. She joined the Group as a project administrator in November 2006 and has been responsible for project tendering and administration as well as project accounting of the Group.

She obtained a Bachelor's degree in Business Administration from the Open University of Hong Kong in June 2003. She also completed "ISO 9000:2000 Internal Auditor Training Course" organized by Hong Kong Quality Assurance Agency in November 2001.

Ms. Wong has about 18 years of experience in project tendering, accounting and administration. Before joining the Group, she was project secretary for companies engaged in design and installation of water filtration system. She was a Project Secretary of Dawn Enterprise Limited from February 1998 to August 2002, Assistant to Manager of P&A Engineering Limited from November 2002 to October 2004, Project Secretary of Harmony Project Limited from November 2004 to September 2005 and Project Secretary of Fortune Universe Limited from September 2005 – July 2006.

Non-executive Directors

Mr. Tan Kean Ee (陳鏗亦), aged 28, was appointed as a non-executive Director on 8 June 2016 and is mainly responsible for rendering advice on financing and fund raising in support of the development of the Group. He is also a member of the Remuneration Committee.

He obtained a Bachelor's degree in Business Administration in Marketing and Information Systems from the Hong Kong University of Science and Technology in November 2011, during which he attended the Autumn Term from October 2010 to December 2010 in The University of Warwick, United Kingdom.

After graduation, Mr. Tan joined Chongxay Rubber Company Limited as a project manager from 2011 to 2014 and he was mainly responsible for financing and fund raising for the projects. He is a director of Global Equity Value Fund SPC FRO Capital Fund I SP.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chong Kam Fung (莊金峰), aged 37, was appointed as a non-executive Director on 8 June 2016 and is mainly responsible for the overall corporate financial matters, capital management, investor relations and strategic planning of the Group. He is also a member of Audit Committee. He is a fellow of the Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He is currently the company secretary of Ahsay Backup Software Development Company Limited (亞勢備份軟件開發有限公司), a company listed on the GEM of the Stock Exchange (Stock Code: 8290).

Mr. Chong obtained a Bachelor of Arts in Accountancy with First Class Honours from the Hong Kong Polytechnic University in December 2006. From March 2006 to January 2013, Mr. Chong worked in an international accounting firm in Hong Kong with his last position being senior manager.

Independent Non-executive Directors

Mr. Wu Kam On Keith (鄔錦安), aged 42, was appointed as an independent non-executive Director on 19 January 2017. He is also a Chairman of the Audit Committee and members of the Remuneration Committee and Nomination Committee. He is currently and has been an independent non-executive director of Fulum Group Holdings Limited (富臨集團控股有限公司), a listed company on the Main Board of the Stock Exchange (Stock Code: 1443), since October 2014. In July 2005, Mr. Wu joined Tsit Wing International Holdings Ltd. and is currently an executive director and the chief financial officer of Tsit Wing International Holdings Ltd. Prior to that, he was an accountant of Hong Kong International Terminals Limited from April 2001 to June 2004 and practised as a certified public accountant at Deloitte Touche Tohmatsu from June 1997 to July 2000. These past and present positions have given Mr. Wu over 19 years of financial and accounting experience.

Mr. Wu received a Bachelor's degree in Accountancy from the City University of Hong Kong in November 1997 and a Master's degree in Corporate Governance from the Hong Kong Polytechnic University in October 2009. He was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants in September 2008 and an associate of The Hong Kong Institute of Chartered Secretaries in April 2010. He has also been a fellow of the Taxation Institute of Hong Kong since July 2010 and an elected associate of The Institute of Chartered Secretaries and Administrators in the United Kingdom since April 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chan So Fong (陳素芳), aged 44, was appointed as an independent non-executive Director on 19 January 2017. She is also a Chairlady of the Remuneration Committee and members of the Audit Committee and Nomination Committee. She is and has been an Associate of Hong Kong Institute of Certified Public Accountant since July 2001 and a Fellow of The Association of Chartered Certified Accountants since November 2005. She is currently a director of certain private companies incorporated in Hong Kong, namely South Zone Holdings Limited, Flamingo Consultants Limited, CCF Investment Limited, China Mingmen Investment Group Limited, One World (Extreme Sport) Limited and DATAM Tech Limited.

She obtained a Bachelor of Business Administration from The Chinese University of Hong Kong in December 1996. After her graduation, she worked in various companies from October 1996 to August 2004, including Ernst & Young, in which she was mainly responsible for accounting, auditing and financial management.

Ms. Chan then worked as an Assistant Financial Controller and Qualified Accountant of Dawnrays Pharmaceutical (Holdings) Ltd (東瑞製藥(控股)有限公司), a company listed on the Stock Exchange (Stock Code: 2348) from September 2004 to July 2005 and a Chief Financial Officer of Sino Distillery Group Limited (中國釀酒集團有限公司) (now known as China Beidahuang Industry Group Holdings Ltd.), a company listed on the Stock Exchange (Stock Code: 39) from August 2005 to May 2013.

Mr. Kwong Tsz Ching Jack (鄺子程), aged 34, was appointed as an independent non-executive Director on 19 January 2017. He is also members of the Audit Committee, Remuneration Committee and Nomination Committee. He is currently and has been an independent non-executive director of PPS International (Holdings) Limited (寶聯控股有限公司), a company listed on the GEM of the Stock Exchange (Stock Code: 8201), since April 2016. He is practising in Hong Kong and is currently an associate of a firm of solicitors in Hong Kong.

He obtained a Bachelor's degree in Laws from City University of Hong Kong in November 2004, a Postgraduate Certificate in Laws in July 2005 and a Master's degree in Laws in Commercial and Corporate Law from King's College London, United Kingdom in November 2006 and was admitted to practise as a solicitor in Hong Kong in October 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following are the senior management team of the Group:

Mr. Chong Ching Hoi (莊清凱), aged 34, joined our Group in March 2016 as the chief financial officer of the Group and he was appointed as our company secretary of the Company on 8 June 2016. He is mainly responsible for handling and overseeing the financial reporting, financial planning, reviewing internal control and secretarial matter of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. Chong obtained Bachelor degree of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 2004. After graduation, he worked in various accounting and audit firms and was mainly responsible for preparing financial statements, reviewing and implementing financial policies and internal control procedures and supervising accounting teams in Hong Kong and the PRC. He has more than 8 years of experience in accounting and audit. Before joining the Group, Mr. Chong was the chief financial officer and company secretary of China Yuanbang Property Holdings Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited, (Stock Code: BCD.SI) from November 2012 to March 2016 and he was responsible for the preparation of financial statements as well as reviewing and developing effective financial policies and control procedures.

Ms. Tong Sau Wai (湯秀慧), aged 34, is the operation and human resources manager of the Group. She joined the Group in August 2015 and has been mainly responsible for project management, supervising overall site and office activities, recruitment and human resources matters and staff administration of the Group. She obtained a Professional Diploma in Marketing Management from The Hong Kong Management Association in July 2009 and completed a course of instruction in Project Management Professional (PMP)® Preparation Course at Informatics Education (HK) Limited in March 2015. She has more than 8 years of experience in office administration and has involved in project management of various fixture installation and fit out work of shopping malls in, including but not limited to, Hong Kong, Macau and the PRC.

Mr. Yeung Yuen Wang (楊元宏), aged 31, is the project manager of the Group. He joined the Group in October 2013 as a project engineer. He is responsible for project management and supervising and overseeing site activities of the Group. Mr. Yeung obtained a Higher Diploma in Environmental Engineering and Energy Management from the Hong Kong Institute of Vocational Education in July 2008. He has more than 7 years of experience in the engineering and construction field. Before joining the Group, he worked at Perricom Pool Equipments & Engineering Company Limited from July 2008 to September 2013 with his last position being Assistant Project Manager.

REPORT OF DIRECTORS

The Directors hereby presents their report and audited consolidated financial statements for the year ended 31 March 2017.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 November 2015 under the Companies Law of the Cayman Islands.

In preparation for the listing on GEM of the Stock Exchange, the companies now comprising the Group underwent a reorganisation (the “Reorganisation”) to rationalise the structure of the Group. Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus. The Shares were listed on the GEM of the Stock Exchange (the “Listing”) on 26 May 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged as contractor specialized in design, procurement and installation services of the water circulation systems. The services are mainly catergosed as (i) management contracting services – design, procurement and installation of water circulation systems, (ii) consultancy services – provision of consultancy services on design of water circulation systems and (iii) maintenance services – provision of maintenance and repair services for water circulation systems. Details of the principal activities of its subsidiaries are set out in note 32 to the consolidated financial statements.

For discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”), including a fair review of business, discussion of the principal risks and uncertainties facing by the Group, its key relationship with employees, customers and suppliers and an indication of likely future developments in the Group’s business, can be found in sections “Management Discussion and Analysis” set out on pages 4 to 8 of this annual report and the discussion of its environmental policies and performance, can be found in section “Environmental, Social and Governance Report” of this annual report.

SEGMENT INFORMATION

An analysis of the Group’s performance for the year ended 31 March 2017 by operating segment is set out in note 6 to the consolidated financial statements.

REPORT OF DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of this annual report.

PAYMENT OF FINAL DIVIDEND

The Board did not recommend the payment of final dividend of the Company for the year ended 31 March 2017 to the shareholders of the Company.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three years, as extracted from the consolidated financial statements and the Prospectus, is set out on page 101 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 March 2017 in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the year ended 31 March 2017 in the share capital of the Company are set out in note 23 to the consolidated financial statements.

RESERVES

As at 31 March 2017, the Company's reserve available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK\$21,941,000.

EQUITY LINKED AGREEMENT

No equity-linked agreement was entered into by the Group; or existed during the year ended 31 March 2017.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 12 May 2017 (the "Share Option Scheme") under which certain selected classes of participants (including, among others, employees, non-executive directors, suppliers of goods and services, customers, shareholder, adviser or consultant of any member of the Group or any invested entity) may be granted option to subscribe for the shares of the Company (the "Shares"). The Share Option Scheme will remain in force for a period of 10 years commencing from date of adoption. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

REPORT OF DIRECTORS

The total number of the Shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue on the date of Listing unless the Company obtains the approval of the shareholders for refreshing such 10% limit, in which case the total number of the Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company as “refreshed” shall not exceed 10% of the total number of the Shares in issue as at the date of the approval of the Shareholders on the refreshment of the limit. The number of the Shares in respect of which options may be granted to any individual in any 12-months period is not permitted to exceed 1% of the Shares in issue. Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in excess of 0.1% of the Shares in issue and a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

An option may be accepted by a participant within 21 days from the date of grant with a nominal consideration of HK\$1 on each grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price is determined by the Directors and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. For the details of the Share Option Scheme, please refer to the paragraph headed “Share Option Scheme” in Appendix V to the prospectus issued by the Company on 16 May 2017.

No share option has been granted since the adoption of the Share Option Scheme.

REPORT OF DIRECTORS

DISCLOSURE OF INTERESTS

As at 31 March 2017, the shares of the Company were not yet listed on the Stock Exchange.

(I) Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares or Debentures

Immediately after the Listing, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which were required to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interest or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by Directors referred in Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Shareholder | Capacity/ Nature of Interest | Number of the Shares held/ interested in | Long/short position | Percentage of Shareholding |
|---------------------------------|---------------------------------------|--|------------------------|-------------------------------|
| Mr. Nam Ho Kwan (<i>Note</i>) | Interested in controlled corporations | 731,250,000 | Long position | 56.25% |

Note: Mr. Nam owns the entire issued share capital of Harmony Asia International Limited ("Harmony Asia International") and is deemed, or taken to be, interested in the same number of Shares held by Harmony Asia International for the purpose of the SFO. Mr. Nam is the Chairman and Chief Executive Officer and one of the controlling shareholder of the Company.

Save as disclosed above, immediately after the Listing, none of the Directors nor chief executive of the Company has registered an interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

REPORT OF DIRECTORS

(II) Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

So far as the Directors are aware, immediately after the Listing, the following persons (other than the Directors and chief executive of the Company) had or deemed to have an interest or short position in the Shares or underlying Shares which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

| Name of Shareholder | Capacity/ Nature of Interest | Number of the Shares held/ interested in | Long/short position | Percentage of Shareholding |
|--|--|--|------------------------|-------------------------------|
| Harmony Asia International | Beneficial owner | 731,250,000 | Long position | 56.25% |
| Mr. Nam Ho Kwan | Interest in controlled corporation (<i>Note 1</i>) | 731,250,000 | Long position | 56.25% |
| Global Equity Value Fund SPC FRO Capital Fund I SP* | Beneficial owner | 134,160,000 | Long position | 10.32% |
| Morgan Star Investment Limited ("Morgan Star Investment") | Beneficial owner | 109,590,000 | Long position | 8.43% |
| Mr. Chong Siu Pui [#] | Interest in controlled corporation (<i>Note 2</i>) | 109,590,000 | Long position | 8.43% |

Notes:

- (1) Harmony Asia International is a company incorporated in Samoa which is wholly-owned by Mr. Nam. Therefore, Mr. Nam is deemed to be interested in all Shares held by Harmony Asia International.
- (2) Morgan Star Investment is a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chong. Therefore, Mr. Chong is deemed to be interested in all Shares held by Morgan Star Investment.

Save as disclosed above, immediately after the Listing, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures" above, had notified the Company of an interest or short position in the Shares, underlying Shares or debenture of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

* Global Equity Value Fund SPC FRO Capital Fund I SP ceased to be the substantial shareholder of the Company with effect from 22 June 2017.

[#] Mr. Chong ceased to own Morgan Star Investment with effect from 22 June 2017 and he is no longer deemed to be interested in all Shares held by Morgan Star Investment.

REPORT OF DIRECTORS

MAJOR CUSTOMERS, SUPPLIERS AND SUB-CONTRACTORS

For the year ended 31 March 2017, so far as the Company is aware, the aggregate revenue attributable to our five largest customers and the largest customer accounted for approximately 91.7% (2016: 91.1%) and 65.0% (2016: 71.9%), respectively, of the Group's total revenue. Purchases from the Group's five largest suppliers accounted for approximately 44.2% (2016: 24.4%) of the Group's total costs of services for the year ended 31 March 2017 and the purchase from the largest supplier included therein amounted to approximately 37.1% (2016: 12.7%). Sub-contracting fees paid to the Group's five largest sub-contractors accounted for approximately 16.9% (2016: 26.1%) of the Group's total costs of services for the year ended 31 March 2017 and the sub-contracting fee paid to the largest sub-contractor included therein amounted to approximately 4.0% (2016: 9.8%).

None of the Directors, or any of his close associates (as defined under the GEM Listing Rules) or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers, suppliers and sub-contractors during the year ended 31 March 2017.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

DIRECTORS

The Directors during the year ended 31 March 2017 and up to the date of this report were:

Executive Directors

Mr. Nam Ho Kwan (*Chairman and Chief Executive Officer*)

Mr. Ng Wan Lok (*Note 1*)

Ms. Wong Wing Hung (*Note 1*)

Non-executive Directors

Mr. Tan Kean Ee (*Note 1*)

Mr. Chong Kam Fung (*Note 1*)

Independent Non-executive Directors

Mr. Wu Kam On Keith (*Note 2*)

Ms. Chan So Fong (*Note 2*)

Mr. Kwong Tsz Ching Jack (*Note 2*)

Notes:

(1) Mr. Ng, Ms. Wong, Mr. Tan and Mr. Chong were appointed as director of the Company with effect from 8 June 2016

(2) Mr. Wu, Ms. Chan and Mr. Kwong were appointed as director of the Company with effect from 19 January 2017

REPORT OF DIRECTORS

Information regarding directors' emoluments is set out in note 11 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 5.09 the GEM Listing Rules has been received from each of the Independent Non-executive Directors.

BIOGRAPHICAL DETAILS OF DIRECTORS AND CHANGES IN INFORMATION OF DIRECTORS

Brief biographical details of the Directors including the changes in the Directors' information subsequent to the date of the Prospectus issued on 16 May 2017 are included in the biographical details are set out on pages from 23 to 27 of this annual report.

DIRECTORS' SERVICES CONTRACTS

Each of the executive and non-executive Directors has entered into a services agreement with Company for an initial term of three years commencing from the Listing Date and will continue thereafter unless and until terminated by the Company or Director or the Director has not been re-elected as a director of the Company or has been removed by shareholders of the Company at any of its general meeting or is disqualified from acting as a director of the Company in accordance with the articles of association of the Company. Each independent non-executive Directors was appointed under a letter of appointment for a fixed term of 3 years unless terminated by the Company or the Director in accordance with the terms as set out in the letter of appointment.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming AGM has or is proposed to have a service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

DIRECTORS' RETIREMENT AND RE-ELECTION

Pursuant to Article 84 of the Articles, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting of the Company at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 83(3) of the Articles shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Pursuant to Article 83(3) of the Articles, the Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

REPORT OF DIRECTORS

In accordance with the Articles, Mr. Nam Ho Kwan, Mr. Ng Wan Lok, Ms. Wong Wing Hung, Mr. Chong Kam Fung, Mr. Tan Kean Ee, Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS, CONTRACTS OF SIGNIFICANCE

Save as disclosed in Prospectus and elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or an entity connected the Director had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 March 2017.

CONTROLLING SHAREHOLDERS' INTERESTS

Save as disclosed in this annual report, there were no contract of significance between the Company or any of its subsidiaries and controlling shareholder or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

EMOLUMENTS OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals of the Group are set out in notes 11 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for making recommendation to the Board on the overall remuneration policy and structure relating to all Directors, senior management and general staff of the Group. The remunerations of the Directors are determined by reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company adopted a share option scheme and no share options have been granted since its adoption. The Company will consider to grant share options as incentive to any eligible personnel of the Group thereafter.

COMPETING INTERESTS

The Directors are not aware of any business or interest of Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any conflicts of interests which any such person has or may have with the Group during the year ended 31 March 2017.

NON-COMPETITION UNDERTAKING

The Company confirms that the non-competition undertaking of Harmony Asia International Limited and Mr. Nam Ho Kwan, details of which were set out in the Prospectus has been fully complied and enforced for the year ended 31 March 2017. The Board also confirms that there are no other matters in relation to the aforesaid undertaking which should be brought to the attention of the Shareholders and the potential investors.

REPORT OF DIRECTORS

INTEREST OF COMPLIANCE ADVISER

As at the date of this report, except for (i) the participation of CLC International Limited (“CLC”) as the sponsor in relation to the listing of the Company on GEM; (ii) the compliance adviser agreement entered into between the Company and CLC dated 26 January 2017; and (iii) the supplemental agreement to the compliance adviser agreement entered into between the Company and CLC dated 23 May 2017, neither CLC nor any of its directors, employees or close associates had any interests in relation to the Group which requires to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Shares were listed on GEM on 26 May 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 March 2017.

USE OF PROCEEDS FROM LISTING

Since the Shares were listed on GEM on 26 May 2017, the net proceeds from the Listing (after deducting the underwriting fees and expenses related to the Public Offering) amounted to approximately HK\$38.0 million will be used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus. As at the date of this report, the Group has used HK\$4.0 million for the repayment of the overdraft facilities from a bank and has started to recruit additional prospective and/or experienced employees to increase the capacity of the Group and the unused net proceeds were placed with banks in Hong Kong.

PERMITTED INDEMNITY PROVISIONS

Every Director shall be entitled under the Company’s articles of association to be indemnified out of the assets of the Company against all actions, costs, charges, losses, damages and expenses incurred or sustained by him or her as a Director in the execution or discharge of his or her duty.

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 March 2017 are set out in note 30 to the consolidated financial statements in this annual report. None of these related party transactions constituted a connected transaction as defined under the GEM Listing Rules for the year ended 31 March 2017.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on the information that is publicly available to the Company, at least 25% of the Company’s issued capital were held by public as at the date of this report.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

REPORT OF DIRECTORS

AUDITOR

The consolidated financial statements for the year ended 31 March 2017 have been audited by Deloitte Touche Tohmatsu (“DTT”). DTT shall retire in the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of DTT as auditor of the Company will be proposed at the forthcoming annual general meeting.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the section headed “Corporate Governance Report” on page 9 to 16 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contracts concerning management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 March 2017.

CHARITABLE DONATIONS

During the year ended 31 March 2017, our Group did not make any charitable or other donations.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in are set out in note 33 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to attend and vote at the forthcoming annual general meeting the register of members of the Company will be closed from Monday, 28 August 2017 to Thursday, 31 August 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. Shareholders of the Company are reminded to ensure all properly executed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 August 2017.

On behalf of the Board

Hao Bai International (Cayman) Limited

Nam Ho Kwan

Chairman

Hong Kong, 21 June 2017

INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
HAO BAI INTERNATIONAL (CAYMAN) LIMITED
浩柏國際(開曼)有限公司**

(Incorporated in Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Hao Bai International (Cayman) Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 45 to 100, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matters

How our audit addressed the key audit matters

Revenue and profit recognition of management contracting services and amounts due from (to) customers for contract works

We identified the revenue and profit recognition of management contracting services and amounts due from (to) customers for contract works as key audit matters due to the extent of significant degree of management's judgement on the estimation of the total outcome of construction contract as well as the percentage of completion of construction works.

The Group's contract revenue and profit from management contracting services amounted to HK\$106,991,000 and HK\$26,196,000, respectively for the year ended 31 March 2017 as disclosed in note 6 to the consolidated financial statements. As disclosed in note 16 to the consolidated financial statements, the carrying amounts of amounts due from and amounts due to customers for contract works amounted to HK\$41,980,000 and HK\$341,000, respectively in the consolidated statement of financial position at 31 March 2017.

Our procedures in relation to the revenue and profit recognition of management contracting services and amounts due from (to) customers for contract works included:

- Evaluating the estimation of revenue and profit recognised on management contracting services, on a sample basis, by:
 - agreeing the total contract sum of the contracts and variation orders, if any, and budgeted costs to respective construction contracts or other correspondences and approved budgets;
 - understanding the process of estimating the total contract costs by discussing with the project managers of the Group who are responsible for the budgeting of projects;
 - evaluating the reasonableness of their total estimated contract costs, taking into account of factors including the profit margin and contract costs of similar projects and comparing the latest quotation by the major subcontractors/suppliers/vendors to the budgeted contract costs;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matters

How our audit addressed the key audit matters

Revenue and profit recognition of management contracting services and amounts due from (to) customers for contract works (continued)

As set out in note 4 to the consolidated financial statements, the Group recognised contract revenue and profit of management contracting services by reference to the percentage of completion of the contract activity based on the contract costs incurred for work performed to date relative to the estimated total contract costs incurred. The Group estimated total contract costs, which mainly comprise costs for interior decorative materials, labour costs and subcontracting fees, based on quotations from time to time provided by the major subcontractors/suppliers/vendors and the experience of the management of the Group taking into account of factors including the profit margin and contract costs of similar projects, which involve the management's best estimates and judgments. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total contract costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

- evaluating the reasonableness of percentage of completion by discussing with the project managers of the Group for on-site progress status of the projects and performing comparisons between the percentage of completion and the percentage of progress billing on selected contracts to identify and investigate any significant differences, on a sample basis;
- checking the calculation of percentage of completion and contract revenue; and
- Checking the calculation of the amounts due from (to) customers for contract works by agreeing the profit recognised to the budgeted profit margin, amount of contract costs to supporting documents such as supplier invoices, and progress billings to invoices issued to customers, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matters

How our audit addressed the key audit matters

Recoverability of trade debtors and retention receivables

We identified the recoverability of trade debtors and retention receivables as a key audit matter due to the use of judgment and estimates by the management in assessing the recoverability of trade debtors and retention receivables.

The carrying amount of trade debtors amounted to approximately HK\$11,156,000 and the carrying amount of retention receivables amounted to approximately HK\$10,104,000 were recorded as at 31 March 2017 and disclosed in note 17 to the consolidated financial statements.

As set out in note 4 to the consolidated financial statements, in determining the impairment loss, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade debtors and retention receivables.

Our procedures in relation to recoverability of trade debtors and retention receivables included:

- Understanding the management's basis and assessment in relation to the recoverability of trade debtors and retention receivables;
- Evaluating the aging analysis of the trade debtors and retention receivables at the end of the reporting period to challenge management's estimates on the credit quality of trade debtors and retention receivables;
- Assessing the accuracy of the aged analysis of trade debtors and retention receivables by checking to the original invoices issued by the Group to the customers and by checking to the payment certificates/completion certificates for defects liability period, respectively, on a sample basis; and
- Evaluating the management assessment on the recoverability of trade debtors and retention receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements, aged analysis and the business relationship with the Group of each individual debtor which has overdue balance, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Law Yuen Kong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|--|-------|------------------|------------------|
| Revenue | 5 | 109,450 | 90,905 |
| Cost of services | | (81,996) | (67,264) |
| Gross Profit | | 27,454 | 23,641 |
| Other income | 7 | 11 | 15 |
| Administrative expenses | | (11,292) | (8,613) |
| Other expenses | | (12,507) | (2,597) |
| Finance costs | 8 | (937) | (638) |
| Profit before tax | | 2,729 | 11,808 |
| Income tax expense | 9 | (1,915) | (2,199) |
| Profit and total comprehensive income for the year | 10 | 814 | 9,609 |
| Earnings per share | | | |
| Basic (HK cents) | 13 | 0.08 | 1.28 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 1,440 | 1,979 |
| Payment for a life insurance policy | 15 | 2,653 | 2,656 |
| | | 4,093 | 4,635 |
| CURRENT ASSETS | | | |
| Amounts due from customers for contract works | 16 | 41,980 | 16,491 |
| Trade and other debtors, deposits and prepayments | 17 | 22,731 | 19,147 |
| Pledged and restricted bank deposits | 18 | 473 | 1,833 |
| Bank balances and cash | 18 | 1,058 | 8,773 |
| | | 66,242 | 46,244 |
| CURRENT LIABILITIES | | | |
| Amounts due to customers for contract works | 16 | 341 | 393 |
| Trade and other creditors and accrued expenses | 19 | 14,514 | 5,354 |
| Bank borrowings – due within one year | 20 | 9,649 | 8,563 |
| Obligations under finance leases | 21 | 549 | 551 |
| Taxation payable | | 2,481 | 4,195 |
| Bank overdraft – secured | 18 | 2,957 | 1,512 |
| | | 30,491 | 20,568 |
| NET CURRENT ASSETS | | 35,751 | 25,676 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 39,844 | 30,311 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------------|-------|------------------|------------------|
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings – due after one year | 20 | 3,944 | 2,676 |
| Obligations under finance leases | 21 | 277 | 826 |
| | | <u>4,221</u> | <u>3,502</u> |
| | | <u>35,623</u> | <u>26,809</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 23 | – | 69 |
| Reserves | | <u>35,623</u> | <u>26,740</u> |
| | | <u>35,623</u> | <u>26,809</u> |

The consolidated financial statements on pages 45 to 100 were approved and authorised for issue by the Board of Directors on 21 June 2017 and are signed on its behalf by:

Mr. Nam Ho Kwan
DIRECTOR

Mr. Ng Wan Lok
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|--|--------------------------|
| At 1 April 2015 | 324 | – | – | 9,822 | 10,146 |
| Profit and total comprehensive income for the year | – | – | – | 9,609 | 9,609 |
| Issue of shares (<i>Note i</i>) | 69 | 29,275 | (19,344) | – | 10,000 |
| Contribution by equity owner of the Company (<i>Note ii</i>) | – | – | 2,230 | – | 2,230 |
| Arising from Reorganisation | (324) | – | 324 | – | – |
| Dividend paid (<i>Note 12</i>) | – | – | – | (5,176) | (5,176) |
| At 31 March 2016 | 69 | 29,275 | (16,790) | 14,255 | 26,809 |
| Issue of shares (<i>Note iii</i>) | 9 | 7,991 | – | – | 8,000 |
| Cancellation of shares (<i>Note 23</i>) | (78) | – | – | – | (78) |
| Issue of shares (<i>Note 23</i>) | – | 78 | – | – | 78 |
| Profit and total comprehensive income for the year | – | – | – | 814 | 814 |
| At 31 March 2017 | – | 37,344 | (16,790) | 15,069 | 35,623 |

Notes:

- (i) On 23 November 2015, the Company was incorporated in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. One share of US\$1 was issued and allotted to the initial subscriber, which was subsequently transferred to Harmony Asia International Holdings Limited, a company wholly owned by Mr. Nam Ho Kwan.

On 5 February 2016, a sale and purchase agreement was entered into between (a) Mr. Nam Ho Kwan; (b) Harmony Asia Holdings Company Limited; (c) Best Innovation (Hong Kong) Holdings Company Limited; and (d) the Company, pursuant to which Mr. Nam Ho Kwan transferred to (i) Harmony Asia Holdings Company Limited the entire issued shares legally and beneficially owned by Mr. Nam Ho Kwan in Harmony Asia Limited; and (ii) Best Innovation (Hong Kong) Holdings Company Limited the entire issued shares legally and beneficially owned by Mr. Nam Ho Kwan in Best Innovation Limited ("Best Innovation Hong Kong"), a company incorporated in Hong Kong. The consideration for the acquisition of Harmony Asia Limited ("Harmony Asia") was satisfied by the Company allotting and issuing 7,499 new shares, credited as fully paid, to Harmony Asia International Limited ("Harmony Asia International"). The consideration for the acquisition of Best Innovation Hong Kong was HK\$1, which was satisfied in cash.

On 5 February 2016, a subscription agreement was entered into between (a) the Company; (b) Global Equity Value Fund SPC FRO Capital Fund I SP; and (c) Mr. Nam Ho Kwan, the director of the Company, pursuant to which Global Equity Value Fund SPC FRO Capital Fund I SP subscribed for 1,376 shares of the Company at a cash consideration of HK\$10,000,000 in aggregate. The new shares rank pari passu with the then existing shares in all respects.

- (ii) The amount represents amount due to Harmony Project Limited in which Mr. Nam Ho Kwan has significant influence. Harmony Project Limited was dissolved on 17 April 2015, resulting in a credit in other reserve.

- (iii) On 8 April 2016, a subscription agreement was entered into between (a) the Company; (b) Morgan Star Investment Limited; and (c) Mr. Nam Ho Kwan, the director of the Company, pursuant to which Morgan Star Investment Limited subscribed for 1,124 shares of the Company at a cash consideration of HK\$8,000,000 in aggregate. The new shares rank pari passu with the then existing shares in all respects.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 2,729 | 11,808 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 692 | 629 |
| Interest expenses | 937 | 638 |
| Amortisation of payment for a life insurance policy | 11 | 11 |
| Gain on disposal of property, plant and equipment | – | (5) |
| Interest income | (9) | (10) |
| Operating cash flows before movements in working capital | 4,360 | 13,071 |
| Changes in amounts due from/to customers for contract works | (25,541) | (10,724) |
| Increase in trade and other debtors, deposits and prepayments | (3,584) | (6,384) |
| Increase in trade and other creditors and accrued expenses | 9,160 | 62 |
| Cash generated used in operations | (15,605) | (3,975) |
| Profits tax paid | (3,629) | (539) |
| NET CASH USED IN OPERATING ACTIVITIES | (19,234) | (4,514) |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (153) | (492) |
| Release (placement) of pledged and restricted bank deposits | 1,360 | (227) |
| Purchase of a life insurance policy | – | (666) |
| Sales proceeds of property, plant and equipment | – | 7 |
| Advance to a director | – | (1,035) |
| Repayment from a director | – | 8,092 |
| Interest received | 1 | 2 |
| NET CASH FROM INVESTING ACTIVITIES | 1,208 | 5,681 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

| | <i>Note</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|-------------|--------------------------------|------------------|
| FINANCING ACTIVITIES | | | |
| New bank borrowings raised | | 15,000 | 3,657 |
| Proceeds from issue of shares | | 8,000 | 10,000 |
| Repayment of bank borrowings and finance leases | | (13,197) | (1,471) |
| Repayment to a related party | | - | (300) |
| Interest paid | | (937) | (638) |
| Dividend paid | | - | (5,176) |
| | | <hr/> | <hr/> |
| NET CASH FROM FINANCING ACTIVITIES | | 8,866 | 6,072 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (9,160) | 7,239 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | | |
| | | <hr/> 7,261 | <hr/> 22 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | | |
| | 18 | <hr/> (1,899) | <hr/> 7,261 |
| Represented by: | | | |
| Bank balances and cash | | 1,058 | 8,773 |
| Bank overdraft | | (2,957) | (1,512) |
| | | <hr/> (1,899) | <hr/> 7,261 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. GENERAL

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 26 May 2017. The directors of the Company consider the Company’s immediate and ultimate holding company is Harmony Asia International Limited, a company incorporated in Samoa. The Company’s registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2582, Grand Cayman KY1-1103, Cayman Islands. The address of its principal place of business is located at Room 95-12, 12/F, No. 93-95 Lai Chi Kok Road, Prince Edward, Kowloon, Hong Kong.

The principal activity of the Company is to act as an investment holding company and the principal activities of its major subsidiaries are provision of design, procurement and installation services of water circulation systems.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The companies now comprising the Company and its subsidiaries (collectively referred to as the “Group”) underwent a series of reorganisation as detailed in the section headed “History, Reorganisation and Corporate Structure” in the prospectus of the Company dated 16 May 2017 (the “Prospectus”) (the “Reorganisation”). Prior to the Reorganisation, the entire equity interests of Best Innovation Hong Kong, a company incorporated in Hong Kong, Best Innovation Limited (“Best Innovation Macau”), a company incorporated in Macau, and Harmony Asia, a company incorporated in Hong Kong were directly held by an individual, namely Mr. Nam Ho Kwan (the “Controlling Shareholder”).

Pursuant to Reorganisation, the Company incorporated Best Innovation Holdings Company Limited and Harmony Asia Holdings Company Limited on 16 December 2015. The Company then incorporated Best Innovation (Hong Kong) Holdings Company Limited on 19 January 2016. The Reorganisation was completed on 7 March 2016 by the acquisition of the entire 100% equity interest in Best Innovation Hong Kong, Best Innovation Macau and Harmony Asia by Best Innovation (Hong Kong) Holdings Company Limited, Best Innovation Holdings Company Limited and Harmony Asia Holdings Company Limited respectively, from the Controlling Shareholder.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group and under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. GENERAL (continued)

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 March 2016 which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the group structure upon completion of the Reorganisation had been in existence throughout the year, or since their respective dates of incorporation where there is a shorter period.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has consistently applied all new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective for the accounting period beginning on 1 April 2016 throughout the year.

At the date of issuance of these consolidated financial statements, the HKICPA has issued the following new standards, amendments, an interpretation and interpretation (the “new and revised HKFRSs”) that are not yet effective. The Group has not early adopted these new standards and amendments.

| | |
|------------------------------------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments ¹ |
| HKFRS 16 | Leases ² |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets and between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 7 | Disclosure Initiative ⁴ |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses ⁴ |
| Amendments to HKAS 40 | Transfers of Investment Property ¹ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014 – 2016 Cycle ⁵ |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company have assessed the impact of HKFRS 15, and consider that the requirements to recognise revenue over the time under HKFRS 15 is similar to the current revenue recognition policy on construction contracts of the Group and therefore, anticipate that the application of HKFRS 15 will have no material impact on the financial statements of the Group in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows and finance lease payments as financing cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group has non-cancellable operating lease commitments of HK\$1,992,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The directors of the Company do not anticipate that the application of other new and revised HKFRSs will have significant impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as expenses on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Impairment on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for service provided in the normal course of business, net of discounts.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

Consultancy and maintenance services income are recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period measured based on the contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and claims are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other debtors, deposits and prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as expenses or capitalised in contracts in progress where appropriate, when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including payment for a life insurance policy, trade and other debtors, pledged and restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial assets such as trade debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment of a portfolio of debtors could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit periods and observable changes in national or local economic conditions that correlate with default on debtors.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities (including trade and other creditors, bank borrowings and bank overdraft) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make 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 ongoing 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Construction contracts

The Group recognises the amount of attributable profit from construction contracts based on the latest available budgets of those construction contracts with reference to the overall performance and the percentage of completion of construction works of each construction contract which requires management's best estimation and judgement. The percentage of completion of construction works is estimated based on the contract costs incurred for work performed to date relative to the estimated total contract costs. Contract costs of construction works, which mainly comprise costs for interior decorative materials, labour costs and subcontracting fees, based on quotations from time to time provided by the major subcontractors/suppliers/vendors and the experience of the management of the Group taking into account of factors including the profit margin and contract costs of similar projects. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

(b) Trade debtors and retention receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2017, the carrying amounts of trade debtors is HK\$11,156,000 (2016: HK\$10,630,000), and the carrying amounts of retention receivables is HK\$10,104,000 (2016: HK\$8,127,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. REVENUE

Revenue of the Group represents the fair value of amounts received and receivable from management contracting services and the gross proceeds received and receivable from consultancy services and maintenance services during the year and is analysed as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Revenue from management contracting services | 106,991 | 89,823 |
| Revenue from consultancy services | 2,279 | 1,017 |
| Revenue from maintenance services | 180 | 65 |
| | <u>109,450</u> | <u>90,905</u> |

6. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker, is organised into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

| | | |
|---------------------------------|---|---|
| Management contracting services | – | provision of design, procurement and installation services of the water circulation systems |
| Consultancy services | – | provision of consultancy services on design of water circulation systems |
| Maintenance services | – | provision of maintenance and repair services for water circulation systems and replacement of parts |

Segment profit represents the profit earned by each reportable and operating segment without allocation of corporate income, central administrative costs, and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

The assets of the Group are allocated to reportable and operating segments except for pledged and restricted bank deposits, bank balances and cash and payment for a life insurance policy.

The liabilities of the Group are allocated to reportable and operating segments except for bank borrowings, obligations under finance leases and bank overdraft.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the year ended 31 March 2017

| | Management contracting services <i>HK\$'000</i> | Consultancy services <i>HK\$'000</i> | Maintenance services <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|--|--|--|---------------------------------|
| SEGMENT REVENUE | | | | |
| External sales | <u>106,991</u> | <u>2,279</u> | <u>180</u> | <u>109,450</u> |
| Segment profit | <u>26,196</u> | <u>1,128</u> | <u>130</u> | <u>27,454</u> |
| Corporate income | | | | 11 |
| Central administrative and other expenses | | | | (23,799) |
| Finance costs | | | | <u>(937)</u> |
| Profit before tax | | | | <u>2,729</u> |

For the year ended 31 March 2016

| | Management contracting services <i>HK\$'000</i> | Consultancy services <i>HK\$'000</i> | Maintenance services <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|--|--|--|---------------------------------|
| SEGMENT REVENUE | | | | |
| External sales | <u>89,823</u> | <u>1,017</u> | <u>65</u> | <u>90,905</u> |
| Segment profit | <u>22,974</u> | <u>634</u> | <u>33</u> | <u>23,641</u> |
| Corporate income | | | | 15 |
| Central administrative and other expenses | | | | (11,210) |
| Finance costs | | | | <u>(638)</u> |
| Profit before tax | | | | <u>11,808</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

As at 31 March 2017

| | Management contracting services HK\$'000 | Consultancy services HK\$'000 | Maintenance services HK\$'000 | Consolidated HK\$'000 |
|--------------------------------------|---|-------------------------------------|-------------------------------------|--------------------------|
| ASSETS | | | | |
| Segment assets | 66,143 | 8 | – | 66,151 |
| Pledged and restricted bank deposits | | | | 473 |
| Bank balances and cash | | | | 1,058 |
| Payment for a life insurance policy | | | | 2,653 |
| Consolidated assets | | | | 70,335 |
| LIABILITIES | | | | |
| Segment liabilities | 17,334 | 2 | – | 17,336 |
| Bank borrowings | | | | 13,593 |
| Obligations under finance leases | | | | 826 |
| Bank overdraft | | | | 2,957 |
| Consolidated liabilities | | | | 34,712 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. SEGMENT INFORMATION (continued)

As at 31 March 2016

| | Management contracting services <i>HK\$'000</i> | Consultancy services <i>HK\$'000</i> | Maintenance services <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--------------------------------------|--|--|--|---------------------------------|
| ASSETS | | | | |
| Segment assets | <u>37,609</u> | <u>8</u> | <u>–</u> | 37,617 |
| Pledged and restricted bank deposits | | | | 1,833 |
| Bank balances and cash | | | | 8,773 |
| Payment for a life insurance policy | | | | <u>2,656</u> |
| Consolidated assets | | | | <u>50,879</u> |
| LIABILITIES | | | | |
| Segment liabilities | <u>9,940</u> | <u>2</u> | <u>–</u> | 9,942 |
| Bank borrowings | | | | 11,239 |
| Obligations under finance leases | | | | 1,377 |
| Bank overdraft | | | | <u>1,512</u> |
| Consolidated liabilities | | | | <u>24,070</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's other information by reportable and operating segments:

For the year ended 31 March 2017

| | Management contracting services HK\$'000 | Consultancy services HK\$'000 | Maintenance services HK\$'000 | Consolidated HK\$'000 |
|---|---|-------------------------------------|-------------------------------------|--------------------------|
| OTHER INFORMATION | | | | |
| Additions to property, plant and equipment | 153 | – | – | 153 |
| Depreciation of property, plant and equipment | 692 | – | – | 692 |

For the year ended 31 March 2016

| | Management contracting services HK\$'000 | Consultancy services HK\$'000 | Maintenance services HK\$'000 | Consolidated HK\$'000 |
|--|---|-------------------------------------|-------------------------------------|--------------------------|
| OTHER INFORMATION | | | | |
| Additions to property, plant and equipment | 492 | – | – | 492 |
| Depreciation of property, plant and equipment | 692 | – | – | 692 |
| Gain on disposal of property, plant and equipment | 5 | – | – | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. SEGMENT INFORMATION (continued)

The following table provides an analysis of the Group's revenue based on geographical location where installation works or other services are provided:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------|-------------------------|-------------------------|
| Hong Kong | 53,045 | 21,329 |
| Macau | 56,405 | 69,576 |
| | 109,450 | 90,905 |

The following is an analysis of the carrying amounts of non-current assets, analysed by the geographical area in which the assets are located:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------|-------------------------|-------------------------|
| Hong Kong | 1,429 | 1,964 |
| Macau | 11 | 15 |
| | 1,440 | 1,979 |

Note: Non-current assets excluded payment for a life insurance policy.

Information about major customers

Revenue from customers of the corresponding years in respect of construction contracts from management contracting services segment individually contributed more than 10% of total revenue of the Group are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer A | 71,115 | 65,393 |
| Customer B | 12,883 | N/A ¹ |

¹ Revenue from customer is less than 10% of the total revenue of the Group for the relevant year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

7. OTHER INCOME

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Bank interest income | 3 | 2 |
| Interest income arising from deposit paid for life insurance policy | 8 | 8 |
| Gain on disposal of property, plant and equipment | – | 5 |
| | <u>11</u> | <u>15</u> |

8. FINANCE COSTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Interest on bank borrowings | 882 | 553 |
| Interest on finance leases | 55 | 85 |
| | <u>937</u> | <u>638</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

9. INCOME TAX EXPENSE

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Hong Kong Profits Tax | – | – |
| Macau tax | | |
| Current tax | 1,915 | 2,317 |
| Deferred taxation credit (<i>note 22</i>) | – | (118) |
| | <u>1,915</u> | <u>2,199</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Pursuant to tax incentive approved under Section 20 of Decree Law No. 9/2014, Macau Complementary Tax is levied at a fixed rate of 12% on the taxable income above Macau Pataca (“MOP”) 600,000.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit before tax | <u>2,729</u> | <u>11,808</u> |
| Tax charge at Hong Kong Profits Tax rate of 16.5% | 450 | 1,948 |
| Tax effect of expenses not deductible for tax purpose | 2,203 | 446 |
| Tax effect of income not taxable for tax purpose | (606) | (195) |
| Tax effect of tax losses not recognised | 170 | 270 |
| Tax effect of different tax rates of subsidiary operating in other jurisdiction | (302) | 94 |
| Others | – | (364) |
| Income tax expense for the year | <u>1,915</u> | <u>2,199</u> |

Details of the deferred taxation are set out in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. PROFIT FOR THE YEAR

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging: | | |
| Auditor's remuneration | 700 | 90 |
| Depreciation of property, plant and equipment | 692 | 629 |
| Amortisation of payment for a life insurance policy | 11 | 11 |
| Gain on disposal of property, plant and equipment | – | (5) |
| Operating lease rentals | 1,863 | 1,535 |
| Staff costs | | |
| Directors' emoluments (<i>note 11</i>) | 3,040 | 2,362 |
| Other staff costs: | | |
| Salaries, discretionary bonus and other benefits | 7,792 | 5,208 |
| Retirement benefit scheme contributions | 342 | 260 |
| Total staff costs | 11,174 | 7,830 |
| Less: Amount capitalised in respect of contracts in progress | (5,569) | (4,314) |
| | 5,605 | 3,516 |
| Contract costs recognised as expenses | 80,795 | 66,849 |
| Net exchange loss | 104 | 8 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

11. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Mr. Nam Ho Kwan was appointed as executive director of the Company on 23 November 2015. Mr. Ng Wan Lok, Ms. Wong Wing Hung, Mr. Tan Kean Ee and Mr. Chong Kam Fung were appointed as directors of the Company on 8 June 2016. Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack were appointed as directors on 19 January 2017. The emoluments paid or payables to the directors and chief executive of the Company (including emoluments for services as employee/directors of the group entities by entities comprising the Group) during the year are as follows:

| Name of directors and chief executive | Directors' fees HK\$'000 | Salaries and other benefits HK\$'000 | Retirement | Total HK\$'000 |
|---------------------------------------|-----------------------------|---|--|-------------------|
| | | | benefit scheme contributions HK\$'000 | |
| Year ended 31 March 2017 | | | | |
| Directors | | | | |
| Mr. Nam Ho Kwan | - | 1,818 | 18 | 1,836 |
| Mr. Ng Wan Lok | - | 574 | 18 | 592 |
| Ms. Wong Wing Hung | - | 594 | 18 | 612 |
| Mr. Tan Kean Ee | - | - | - | - |
| Mr. Chong Kam Fung | - | - | - | - |
| Mr. Wu Kam On Keith | - | - | - | - |
| Ms. Chan So Fong | - | - | - | - |
| Mr. Kwong Tsz Ching Jack | - | - | - | - |
| | - | 2,986 | 54 | 3,040 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

11. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

| Name of directors and chief executive | Directors' fees <i>HK\$'000</i> | Salaries and other benefits <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------------------|------------------------------------|--|--|--------------------------|
| Year ended 31 March 2016 | | | | |
| Directors | | | | |
| Mr. Nam Ho Kwan | – | 1,218 | 18 | 1,236 |
| Mr. Ng Wan Lok | – | 496 | 18 | 514 |
| Ms. Wong Wing Hung | – | 594 | 18 | 612 |
| | – | 2,308 | 54 | 2,362 |

Note: No emoluments were paid to any of the other directors, namely Mr. Tan Kean Ee, Mr. Chong Kam Fung, Mr. Wu Kam On Keith, Ms. Chan So Fong and Mr. Kwong Tsz Ching Jack.

Mr. Nam Ho Kwan is also the Chief Executive Officer of the Company and his emoluments disclosed above included those for services rendered by him as the Chief Executive Officer during the year.

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2016: three directors). Details of their emoluments for the directors are set out in note 11(a) above.

The aggregate emoluments of the remaining highest paid individuals for the year are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Salaries and other benefits | 1,575 | 966 |
| Discretionary bonus | – | 170 |
| Retirement benefit scheme contributions | 32 | 36 |
| | 1,607 | 1,172 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

11. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

Their emoluments were within the following band:

| | Number of employees | |
|-----------------------------|---------------------|----------|
| | 2017 | 2016 |
| Not exceeding HK\$1,000,000 | <u>2</u> | <u>2</u> |

During the year, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDEND

An interim dividend of HK\$5,176,000 was recognised as distribution by Harmony Asia, an indirect wholly-owned subsidiary of the Company, to its then sole shareholder, namely Mr. Nam Ho Kwan, during the year ended 31 March 2016.

No dividend was declared or proposed by the directors of the Company for the year ended 31 March 2017.

13. EARNING PER SHARES

The calculation of the basic earnings per share during the year is based on the earnings for the year, and based on the assumption that the Reorganisation and the capitalisation issue of 974,990,000 shares as explained in the section headed "Share Capital" respectively in the Prospectus had been effective on 1 April 2015 and as adjusted for the capital contributions by shareholders during the year.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------------|--------------------|
| Earnings | | |
| Earnings for the purpose of basic earnings per share (profit for the year) | <u>814</u> | <u>9,609</u> |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>972,898,000</u> | <u>751,411,000</u> |

No diluted earnings per share is presented as there was no potential dilutive ordinary share in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvement <i>HK\$'000</i> | Furniture and fixture <i>HK\$'000</i> | Office equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------|---|--|--|--------------------------------------|--------------------------|
| COST | | | | | |
| At 1 April 2015 | 6 | – | 326 | 2,566 | 2,898 |
| Additions | – | 26 | 266 | 200 | 492 |
| Disposals | – | – | – | (18) | (18) |
| At 31 March 2016 | 6 | 26 | 592 | 2,748 | 3,372 |
| Additions | – | 25 | 82 | 46 | 153 |
| At 31 March 2017 | 6 | 51 | 674 | 2,794 | 3,525 |
| DEPRECIATION | | | | | |
| At 1 April 2015 | 6 | – | 118 | 656 | 780 |
| Provided for the year | – | 4 | 80 | 545 | 629 |
| Eliminated on disposals | – | – | – | (16) | (16) |
| At 31 March 2016 | 6 | 4 | 198 | 1,185 | 1,393 |
| Provided for the year | – | 10 | 124 | 558 | 692 |
| At 31 March 2017 | 6 | 14 | 322 | 1,743 | 2,085 |
| CARRYING VALUES | | | | | |
| At 31 March 2017 | – | 37 | 352 | 1,051 | 1,440 |
| At 31 March 2016 | – | 22 | 394 | 1,563 | 1,979 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|-----------------------|--|
| Leasehold improvement | Over the shorter of the term of the lease or 5 years |
| Furniture and fixture | 20% |
| Office equipment | 20% |
| Motor vehicles | 20% |

15. PAYMENT FOR A LIFE INSURANCE POLICY

During the year ended 31 March 2016, Harmony Asia, a wholly-owned subsidiary of the Company, entered into a life insurance policy with an insurance company on Mr. Nam Ho Kwan. Under the policy, the beneficiary and policy holder is Harmony Asia. Harmony Asia is required to pay an upfront payment for the policy. Harmony Asia may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. If such withdrawal is made at any time during the first to the fifteen policy year, as appropriate, a pre-determined specified surrender charge would be imposed.

At the inception date, the upfront payment paid by the Group included a fixed policy premium charge and a deposit. Monthly policy expenses and insurance charges will be incurred over the insurance period according to the terms set out in the policy. The policy premium, expense and insurance charges are amortised to profit or loss over the expected life of policy and the deposit placed is carried at amortised cost using the effective interest method. As represented by the directors of the Company, the Group will not terminate the policies nor withdraw cash prior to the fifteenth policy year for the insurance policy and the expected life of the policies remained unchanged from the initial recognition. The balance of payments for life insurance policy is denominated in US\$, being a currency other than the functional currency of Harmony Asia.

Particulars of the policy are as follows:

| Insured sum | Upfront payment | Guaranteed interest rates | |
|--|--|---------------------------|-------------------------|
| | | First year | Fourth year and onwards |
| US\$1,000,000 (equivalent to HK\$7,800,000) | US\$340,919 (equivalent to HK\$2,659,000) | 3.80% per annum | 2.25% per annum |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

16. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Contracts in progress at the end of the reporting period: | | |
| Contract costs incurred | 211,522 | 138,665 |
| Recognised profits less recognised losses | 87,723 | 53,901 |
| | <u>299,245</u> | <u>192,566</u> |
| Less: Progress billings | (257,606) | (176,468) |
| | <u>41,639</u> | <u>16,098</u> |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract works | 41,980 | 16,491 |
| Amounts due to customers for contract works | (341) | (393) |
| | <u>41,639</u> | <u>16,098</u> |

At the end of reporting period, retention held by customers for contract works amounted to HK\$10,104,000 (2016: HK\$8,127,000), which are set out in note 17.

17. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade debtors | 11,156 | 10,630 |
| Retention receivables (<i>Note a</i>) | 10,104 | 8,127 |
| Pledged deposits to an insurance company (<i>Note b</i>) | 352 | – |
| Other debtors, deposits and prepayments | 1,119 | 390 |
| | <u>22,731</u> | <u>19,147</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Notes:

- (a) Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from one to two years from the date of the completion of the respective projects.
- (b) Pledged deposits of HK\$352,000 (2016: Nil) to an insurance company is the security for issuance of performance bonds in respect of construction contracts with prevailing market rates ranging from 0.05% to 0.1% (2016: Nil) per annum.

The retention receivables are to be settled, based on the expiry of the defect liability period, at the end of each reporting period:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|------------------------------|--------------------------------|-------------------------|
| On demand or within one year | 2,820 | 1,246 |
| After one year | 7,284 | 6,881 |
| | 10,104 | 8,127 |

Trade debtors mainly arise from management contracting business. The Group's credit terms for its management contracting business are negotiated at terms determined and agreed with its trade customers. The credit periods are ranging from 30 to 60 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The aged analysis of trade debtors presented based on the invoice date at the end of the reporting period is as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Within 30 days | 7,347 | 9,614 |
| More than 30 days and within 60 days | 34 | 766 |
| More than 60 days | 3,775 | 250 |
| | 11,156 | 10,630 |

The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors.

The aged analysis presented based on the invoice date of the trade debtors which are past due but not impaired is as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| More than 30 days and within 60 days | 34 | 766 |
| More than 60 days | 3,775 | 250 |
| | 3,809 | 1,016 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The majority of the Group's trade receivables that are past due but not impaired have good credit quality with reference to respective settlement history.

The directors of the Company considers that there has not been a significant change in credit quality of the trade debtors and there is no recent history of default, therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

All of the trade debtors that are neither past due nor impaired have no default payment history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

18. PLEDGED AND RESTRICTED BANK DEPOSITS, BANK BALANCES AND CASH AND BANK OVERDRAFT

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Pledged bank deposits | – | 1,001 |
| Restricted bank deposits | 473 | 832 |
| Bank balances and cash | 1,058 | 8,773 |
| Bank overdraft | <u>(2,957)</u> | <u>(1,512)</u> |
| | (1,426) | 9,094 |
| Less: Pledged and restricted bank deposits | <u>(473)</u> | <u>(1,833)</u> |
| Cash and cash equivalents | <u>(1,899)</u> | <u>7,261</u> |

The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group with maturity within one year from the end of each reporting period and are therefore classified as current assets. The pledged bank deposits carry fixed interest rates 0.1% per annum at 31 March 2016.

The restricted bank deposits represent cash held at banks as security for due performance under several management contracting with prevailing market rates ranging from 0.05% to 0.1% at 31 March 2017 (2016: 0.05% to 0.1%) per annum.

As at 31 March 2017, the bank overdraft carries interest rates 1.5% (2016: 1.5%) over the prime rate per annum. The bank overdraft of HK\$2,121,000 is secured by personal bank deposit of HK\$2,500,000 of Mr. Nam Ho Kwan and guaranteed by Mr. Nam Ho Kwan and Mr. Ng Wan Lok for HK\$7,000,000 each. Another bank overdraft of HK\$836,000 is secured by pledged and restricted bank deposits.

As at 31 March 2016, the bank overdraft carries interest rates 1.5% over the prime rate per annum. The bank overdraft of HK\$1,512,000 is secured by legal charges over two properties, one of which was held by a close family member of Mr. Nam Ho Kwan and another was held by Mr. Ng Wan Lok, a key management of the Company, a life insurance policy as disclosed in note 15 and pledged and restricted bank deposits and personally guaranteed by Mr. Nam Ho Kwan for an unlimited amount and Mr. Ng Wan Lok for HK\$3,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

18. PLEDGED AND RESTRICTED BANK DEPOSITS, BANK BALANCES AND CASH AND BANK OVERDRAFT (continued)

The Group's bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------|-------------------------|-------------------------|
| MOP | 1,017 | 2 |
| US\$ | 10 | 1 |

19. TRADE AND OTHER CREDITORS AND ACCRUED EXPENSES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Trade creditors | 9,452 | 3,585 |
| Accrued listing expenses | 3,095 | – |
| Other creditors and accrued expenses | 1,967 | 1,769 |
| | 14,514 | 5,354 |

The average credit period on trade creditors is 30 – 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The aged analysis of trade creditors presented based on the invoice date at the end of the reporting period is as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Within 30 days | 2,544 | 3,002 |
| More than 30 days and within 60 days | 637 | 177 |
| More than 60 days | 6,271 | 406 |
| | 9,452 | 3,585 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. BANK BORROWINGS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Bank borrowings | | |
| Secured | 13,593 | 11,239 |

The bank borrowings are repayable as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| On demand or within one year | 9,649 | 8,563 |
| More than one year, but not exceeding two years | 1,951 | 265 |
| More than two years, but not exceeding five years | – | 418 |
| More than five years | 1,993 | 1,993 |
| | 13,593 | 11,239 |
| Less: Amount due within one year shown under current liabilities | (9,649) | (8,563) |
| Amount due after one year shown under non-current liabilities | 3,944 | 2,676 |

Except for bank borrowings of HK\$1,993,000 (2016: HK\$1,993,000) which are denominated in US\$, all the bank borrowings are denominated in HK\$. The bank borrowings carry floating interest rates ranging from 2.43% to 5.75% (2016: 2.43% to 5.75%) per annum based on prime rate or London Interbank offered rate plus a spread.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. BANK BORROWINGS (continued)

As at 31 March 2017, bank borrowing amounting to HK\$7,842,000 is secured by personal bank deposit of HK\$2,500,000 of Mr. Nam Ho Kwan and guaranteed by Mr. Nam Ho Kwan and Mr. Ng Wan Lok for HK\$7,000,000 each. Another bank borrowing amounting to HK\$3,600,000 is guaranteed by Mr. Nam Ho Kwan for HK\$5,000,000.

As at 31 March 2017, bank borrowing amounting to HK\$158,000 (2016: HK\$388,000) is secured by pledged and restricted bank deposits.

As at 31 March 2016, bank borrowing amounting to HK\$10,851,000 is secured by legal charges over two properties, one of which was held by a close family member of Mr. Nam Ho Kwan and another was held by Mr. Ng Wan Lok, a key management of the Company, a life insurance policy as disclosed in note 15 and pledged and restricted bank deposits and personally guaranteed by Mr. Nam Ho Kwan for an unlimited amount and Mr. Ng Wan Lok for HK\$3,000,000. As at 31 March 2017, bank borrowing amounting to HK\$1,993,000 is secured by a life insurance policy as disclosed in note 15 and the other aforementioned securities and personal guarantee were cancelled.

21. OBLIGATIONS UNDER FINANCE LEASES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-------------------------------------|-------------------------|-------------------------|
| Analysed for reporting purposes as: | | |
| Current liabilities | 549 | 551 |
| Non-current liabilities | 277 | 826 |
| | 826 | 1,377 |

The Group has leased certain of its motor vehicles under finance leases. The lease term ranges from four to five years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.75% to 6.54% (2016: 4.75% to 6.54%) per annum. These leases have no terms of renewal or purchase options and escalation clauses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

21. OBLIGATIONS UNDER FINANCE LEASES (continued)

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|---|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Obligations under finance leases payable: | | | | |
| Within one year | 576 | 607 | 549 | 551 |
| Within a period of more than one year but not more than two years | 281 | 576 | 277 | 549 |
| Within a period of more than two years but not more than five years | – | 280 | – | 277 |
| | <u>857</u> | <u>1,463</u> | <u>826</u> | <u>1,377</u> |
| Less: future finance charges | <u>(31)</u> | <u>(86)</u> | <u>N/A</u> | <u>N/A</u> |
| Present value of lease obligations | <u>826</u> | <u>1,377</u> | <u>826</u> | <u>1,377</u> |
| Less: Amount due for settlement with twelve months (shown under current liabilities) | | | <u>(549)</u> | <u>(551)</u> |
| Amount due for settlement after twelve months | | | <u>277</u> | <u>826</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

22. DEFERRED TAXATION

The Group's deferred tax liability/asset recognised relating to accelerated tax depreciation of property, plant and equipment and movement thereon during the year is as follows:

| | Tax loss <i>HK\$'000</i> | Accelerated tax depreciation <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------|------------------------------------|--|---------------------------------|
| At 1 April 2015 | – | 118 | 118 |
| (Credit) charge to profit or loss | <u>(182)</u> | <u>64</u> | <u>(118)</u> |
| At 31 March 2016 | (182) | 182 | – |
| Charge (credit) to profit or loss | <u>1</u> | <u>(1)</u> | <u>–</u> |
| At 31 March 2017 | <u>(181)</u> | <u>181</u> | <u>–</u> |

The Group has unused estimated tax losses of HK\$3,769,000 (2016: HK\$2,739,000) available to offset against future profits. Deferred taxation assets have been recognised in respect of HK\$1,097,000 (2016: HK\$1,103,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining HK\$2,672,000 (2016: HK\$1,636,000) due to the unpredictability of future profit streams.

23. SHARE CAPITAL

For the purpose of these consolidated financial statements, the issued capital of the Group at 1 April 2015 represents the combined share capital of Best Innovation Hong Kong of 100,000 shares of HK\$100,000, Best Innovation Macau of MOP25,000 and Harmony Asia of 200,000 shares of HK\$200,000. The issued capital of the Group as at 31 March 2016 represents the share capital of the Company of 8,876 shares of US\$1 each. The issued capital of the Group as at 31 March 2017 represents the share capital of the Company of 10,000 shares of HK\$0.01 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

23. SHARE CAPITAL (continued)

The movement in the Company's authorised and issued ordinary share capital are as follows:

| | Nominal value per share | Number of shares |
|---|----------------------------|-----------------------------|
| Ordinary shares | | |
| <i>Authorised:</i> | | |
| At 23 November 2015 (date of incorporation) and 31 March 2016 | US\$1 | 50,000 |
| Cancellation of shares (<i>Note</i>) | US\$1 | (50,000) |
| Creation of shares (<i>Note</i>) | HK\$0.01 | <u>2,000,000,000</u> |
| At 31 March 2017 | HK\$0.01 | <u>2,000,000,000</u> |

| | Nominal value per share | Number of shares | Share capital | |
|---|-------------------------------|----------------------|---------------|-----------------|
| | | | US\$'000 | HK\$'000 |
| <i>Issued and fully paid:</i> | | | | |
| At date of incorporation | US\$1 | 1 | – | – |
| Issue of shares on 5 February 2016 | US\$1 | <u>8,875</u> | <u>9</u> | <u>69</u> |
| At 31 March 2016 | US\$1 | 8,876 | 9 | 69 |
| Issue of shares on 8 April 2016 | US\$1 | 1,124 | 1 | 9 |
| Cancellation of shares on 19 January 2017 (<i>Note</i>) | US\$1 | (10,000) | (10) | (78) |
| Issue of shares on 19 January 2017 (<i>Note</i>) | HK\$0.01 | <u>10,000</u> | | <u>–</u> |
| At 31 March 2017 | HK\$0.01 | <u>10,000</u> | | <u>–</u> |

Note:

On 19 January 2017, the Company increased its authorised share capital by HK\$20,000,000 by the creation of 2,000,000,000 Shares of par value HK\$0.01 each (the "Increase"). Following the Increase, the Company allotted and issued 7,500 nil paid shares, 1,376 nil paid shares and 1,124 nil paid shares to Harmony Asia International, Global Equity Value Fund SPC FRO Capital Fund I SP and Morgan Star Investment Limited respectively, for an aggregate price of US\$10,000 (the "Subscription Price").

On 19 January 2017, the Company repurchased all the existing 10,000 shares of US\$1.00 each (the "Existing Shares") for an aggregate price of US\$10,000 (the "Repurchase Price"), which was offset against the Subscription Price, following which all the Existing Shares were cancelled and the authorised but unissued share capital of the Company was diminished by the cancellation of all the 50,000 unissued shares of nominal value of US\$1.00 each in the share capital of the Company, and the authorised share capital of the Company became HK\$20,000,000 divided into 2,000,000,000 shares of nominal value of HK\$0.01 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

24. 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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of net debts, which includes the bank borrowings disclosed in note 20, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As a part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

25. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | <u>26,716</u> | <u>32,198</u> |
| Financial liabilities | | |
| Amortised cost | <u>29,098</u> | <u>16,336</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include payment for a life insurance policy, trade debtors and retention receivables, other debtors and deposits, pledged and restricted bank deposits, bank balances and cash, trade creditors, bank borrowings and bank overdraft. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risks

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and bank overdrafts denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at the reporting dates are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------|-------------------------|-------------------------|
| Assets | | |
| MOP | 1,017 | 2 |
| US\$ | 2,519 | 2,502 |
| Liability | | |
| US\$ | <u>1,993</u> | <u>1,993</u> |

As most of the Group's foreign currency denominated monetary assets are denominated in US\$ and MOP and Hong Kong dollars is pegged to US\$ while MOP is pegged to Hong Kong dollars, the Group's foreign currency risk exposure is not considered to be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risks (continued)

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to pledged and restricted bank deposits, bank balances and bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed rate pledged and restricted bank deposits.

The Group's exposures to interest rate risk on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly attributable to fluctuation of the best lending rate and the bank's cost of funds in Hong Kong, Hong Kong Interbank Offered Rate.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate risk for bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rates for bank borrowings is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on bank borrowings had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2017 would decrease/increase by approximately HK\$57,000 (2016: HK\$247,000).

The Group is also exposed to cash flow interest rate risk due to the fluctuation of prevailing market interest rate on bank balances. The Group considered interest rate fluctuation on these bank deposits and balances is insignificant.

No sensitivity analysis has been prepared for the exposure to interest rate risk on the Group's bank balances as the directors of the Company consider that the exposure is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual debtor at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Company consider that the Group's credit risk is significantly reduced.

The Group has significant concentration of credit risk in a few customers. At the end of the reporting period, the outstanding balances from the five largest customers, which have been included in trade debtors and retention receivables, amounted to HK\$15,362,000 (2016: HK\$16,394,000) in aggregate, of which represents approximately 72% (2016: 87%) of the total trade debtors. In view of their credit standings, good payment record in the past and long term relationships with the Group, the directors of the Company considers that the Group's credit risk is not material.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Other than the above, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance its operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | Weighted average interest rate % | On demand or within 90 days HK\$'000 | 91 days – 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flow HK\$'000 | Total carrying amount HK\$'000 |
|---------------------------------------|---|--|---------------------------------|----------------------------|--|---|
| At 31 March 2017 | | | | | | |
| Trade creditors and other payables | – | 7,701 | 4,847 | – | 12,548 | 12,548 |
| Bank overdraft | 6.75 | 2,957 | – | – | 2,957 | 2,957 |
| Bank borrowings | 5.25 | 6,988 | 2,865 | 3,982 | 13,835 | 13,593 |
| | | 17,646 | 7,712 | 3,982 | 29,340 | 29,098 |
| Obligations under finance leases | 6.29 | 152 | 424 | 281 | 857 | 826 |
| | | 17,798 | 8,136 | 4,263 | 30,197 | 29,924 |
| At 31 March 2016 | | | | | | |
| Trade creditors | – | 3,214 | – | 371 | 3,585 | 3,585 |
| Bank overdraft | 6.75 | 1,512 | – | – | 1,512 | 1,512 |
| Bank borrowings | 5.00 | 6,179 | 2,401 | 2,974 | 11,554 | 11,239 |
| | | 10,905 | 2,401 | 3,345 | 16,651 | 16,336 |
| Obligations under finance leases | 6.27 | 152 | 455 | 856 | 1,463 | 1,377 |
| | | 11,057 | 2,856 | 4,201 | 18,114 | 17,713 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

The directors consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

26. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for qualifying employees. The assets of the schemes are separately held in funds under the control of trustees. The cost charged to the consolidated statement of profit or loss represents contributions payable to the funds by the Group at rates specified in the rules of the schemes.

Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. During the year, there were no material forfeited contributions which arose upon employees leaving the schemes prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

With effect from 28 July 2009, the Group has joined a Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. Under the MPF Scheme, there will not be any forfeited contribution available to reduce the contribution payable by the Group.

The retirement benefit scheme contributions arising from the MPF Scheme charged to profit or loss represent contributions payable to the funds by the Group at the rates specified in the rules of the scheme.

The Group operates a defined contribution retirement scheme for eligible employee in Macau. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

27. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking facilities and performance bonds issued by an insurance company granted to the Group at the end of the reporting period:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Pledged and restricted bank deposits | 473 | 1,833 |
| Pledged deposits to an insurance company | 352 | – |
| Payment for a life insurance policy | 2,653 | 2,656 |
| | 3,478 | 4,489 |

28. CONTINGENT LIABILITIES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Indemnities issued to banks and an insurance company for performance bonds in respect of construction contracts | 1,464 | 832 |

29. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Within one year | 1,609 | 417 |
| In the second to fifth year inclusive | 383 | – |
| | 1,992 | 417 |

Leases in respect of premises are negotiated, and monthly rentals are fixed, for terms ranging from one to two years at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

30. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following transactions with its related parties during the year:

As at 31 March 2017, bank borrowing amounting to HK\$7,842,000 is secured by personal bank deposit of HK\$2,500,000 of Mr. Nam Ho Kwan and guaranteed by Mr. Nam Ho Kwan and Mr. Ng Wan Lok for HK\$7,000,000 each. Another bank borrowing amounting to HK\$3,600,000 is guaranteed by Mr. Nam Ho Kwan for HK\$5,000,000.

As at 31 March 2016, bank borrowing amounting to HK\$10,851,000 is secured by legal charges over two properties, one of which was held by a close family member of Mr. Nam Ho Kwan and another was held by Mr. Ng Wan Lok, a director of the Company; and personal guarantees by Mr. Nam Ho Kwan for unlimited amount and Mr. Ng Wan Lok for HK\$3,000,000.

(b) The remuneration of key management during the year was as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Short-term employee benefits | 2,986 | 1,218 |
| Post-employment benefits | 54 | 18 |
| | 3,040 | 1,236 |

31. MAJOR NON-CASH TRANSACTION

As at 31 March 2016, the Group has entered into a life insurance policy with insurance company on Mr. Nam Ho Kwan of HK\$2,659,000, HK\$1,993,000 of which was settled by bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

32. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries are as follows:

| Name of subsidiaries | Place and date of incorporation | Place of operation | Issued and fully paid share capital/ quota capital | Equity interest attributable to the Group as at 31 March | | Principal activities |
|---|---------------------------------|--------------------|--|--|------|---|
| | | | | 2017 | 2016 | |
| Best Innovation (Hong Kong) Holdings Company Limited* | Samoa, 1 January 2016 | Hong Kong | US\$1,000,000 | 100% | 100% | Investment holding |
| Best Innovation Holdings Company Limited* | Samoa, 16 December 2015 | Hong Kong | US\$1,000,000 | 100% | 100% | Investment holding |
| Best Innovation Hong Kong | Hong Kong, 15 September 2009 | Hong Kong | HK\$100,000 | 100% | 100% | Provision of consultancy service |
| Best Innovation Macau | Macau, 17 September 2014 | Macau | MOP25,000 | 100% | 100% | Installation service of water circulation system |
| Harmony Asia Holdings Company Limited* | Samoa, 16 December 2015 | Hong Kong | US\$1,000,000 | 100% | 100% | Investment holding |
| Harmony Asia | Hong Kong, 3 November 2006 | Hong Kong | HK\$200,000 | 100% | 100% | Provision of design, procurement and installation service of water circulation system |

* *Directly held by the Company*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 March 2017, the following significant events took place:

- (i) On 12 May 2017, the share option scheme of the Company (the “Share Option Scheme”), of which the principal terms are set out in the paragraph headed “Share Option Scheme” in Appendix V to the Prospectus, was approved and adopted and the directors of the Company were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for shares and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme.
- (ii) On 26 May 2017, total of 974,990,000 shares were allotted and issued, credited as fully paid at par, to the shareholders of the Company by way of capitalisation of a sum of HK\$9,749,900 standing to the credit of the share premium account of the Company. Such shares rank pari passu in all respects with the then existing issued shares of the Company.
- (iii) On 26 May 2017, 325,000,000 ordinary shares with a par value of HK\$0.01 each of the Company were issued at a price of HK\$0.2 each by way of public offering. Such shares rank pari passu in all respects with the then existing issued shares of the Company. On the same date, the Company’s shares were listed on the Growth Enterprise Market of the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

34. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| NON-CURRENT ASSET | | |
| Investments in subsidiaries | <u>37,344</u> | <u>29,344</u> |
| CURRENT LIABILITIES | | |
| Other creditors and accrued expenses | 3,396 | – |
| Amount due to a subsidiary | <u>12,007</u> | <u>2,597</u> |
| NET CURRENT LIABILITIES | <u>15,403</u> | <u>2,597</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>21,941</u> | <u>26,747</u> |
| CAPITAL AND RESERVES | | |
| Share capital | – | 69 |
| Reserves | <u>21,941</u> | <u>26,678</u> |
| TOTAL EQUITY | <u>21,941</u> | <u>26,747</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

34. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY (continued)

Movement in the Company's reserves

| | Share premium <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--|--------------------------|
| At 23 November 2015 (date of incorporation) | – | – | – |
| Issue of shares | 29,275 | – | 29,275 |
| Loss and total comprehensive expense for the period | – | (2,597) | (2,597) |
| At 31 March 2016 | 29,275 | (2,597) | 26,678 |
| Issue of shares | 8,069 | – | 8,069 |
| Loss and total comprehensive expense for the year | – | (12,806) | (12,806) |
| At 31 March 2017 | 37,344 | (15,403) | 21,941 |

FINANCIAL SUMMARY

For the three years ended 31 March 2015, 2016 and 2017

RESULTS

| Consolidated results | For the year ended 31 March | | |
|--|-----------------------------|------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| Revenue | 109,450 | 90,905 | 57,153 |
| Gross profit | 27,454 | 23,641 | 14,427 |
| Profit before tax | 2,729 | 11,808 | 8,945 |
| Profit and total comprehensive income for the year | 814 | 9,609 | 6,726 |

ASSETS AND LIABILITIES

| Consolidated assets and liabilities | As at 31 March | | |
|-------------------------------------|------------------|------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| Total assets | 70,335 | 50,879 | 39,999 |
| Total liabilities | (34,712) | (24,070) | (29,853) |
| Net assets | 35,623 | 26,809 | 10,146 |