

Thelloy Development Group Limited 德萊建業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8122



Interim Report **2016**



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This report, for which the directors (the “Directors”) of Thelloy Development Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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.

This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of seven days from the date of its publication and on the website of the Company at www.thelloy.com.

Highlights

For the six months ended 30 September 2016 (the "Period"):

- Revenue of the Group was approximately HK\$165.3 million, increased approximately 99.6% as compared to the corresponding period in 2015.
- Profit attributable to owners of the Company for the Period was approximately HK\$3.9 million (2015: loss of approximately HK\$2.6 million).
- The Directors did not recommend the payment of an interim dividend.
- Earnings per share of the Company was approximately HK0.48 cent (2015: loss per share of approximately HK0.41 cent).

Results

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the Period, together with the unaudited comparative figures for the corresponding period in 2015, as follows:

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 September 2016

	Notes	Three months ended 30 September		Six Months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	96,707	33,603	165,262	82,786
Direct cost		(88,161)	(29,040)	(151,823)	(71,468)
Gross profit		8,546	4,563	13,439	11,318
Other income	5	101	96	120	152
Other gains and losses		—	(25)	—	(25)
Administrative expenses		(4,111)	(5,347)	(8,866)	(12,885)
Finance costs	6	(53)	(12)	(61)	(21)
Profit (Loss) before taxation	7	4,483	(725)	4,632	(1,461)
Income tax expenses	8	(739)	(428)	(764)	(1,139)
Profit (Loss) and total comprehensive income (expense) for the period attributable to the owners of the Company		3,744	(1,153)	3,868	(2,600)
Basic and diluted earnings (loss) per share (HK cent)	10	0.47	(0.18)	0.48	(0.41)

Unaudited Condensed Consolidated Statement of Financial Position

At 30 September 2016

	<i>Notes</i>	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Non-current asset			
Plant and equipment	11	828	853
Current assets			
Trade receivables	12	59,347	51,427
Other receivables, deposits and prepayment	13	20,823	20,137
Amounts due from customers for contract work		12,857	1,857
Tax recoverable		—	275
Pledged bank deposits	14	20,000	28,110
Bank balances and cash		43,028	29,640
		156,055	131,446
Current liabilities			
Trade payables	15	33,522	26,994
Other payables and accrued charges	16	32,471	24,950
Amount due to customers for contract work		9,195	6,248
Tax payable		489	—
Obligations under finance leases		225	300
Bank borrowings		3,381	—
		79,283	58,492
Net current assets		76,772	72,954
Total assets less current liabilities		77,600	73,807

Unaudited Condensed Consolidated Statement of Financial Position (Continued)

At 30 September 2016

	<i>Notes</i>	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Non-current liabilities			
Obligations under finance leases		—	75
Net assets			
		77,600	73,732
Capital and reserves			
Share capital	17	8,000	8,000
Reserves		69,600	65,732
Equity attributable to owners of the Company		77,600	73,732

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2016

	Note	Reserves				Total HK\$'000
		Issued share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	(Accumulated losses)/retained earnings HK\$'000	
At 1 April 2016 (Audited)		8,000	42,490	18,800	4,442	73,732
Profit and total comprehensive income for the period		—	—	—	3,868	3,868
At 30 September 2016 (Unaudited)		8,000	42,490	18,800	8,310	77,600
At 1 April 2015 (Audited)		18,800	—	—	36,582	55,382
Loss and total comprehensive expense for the period		—	—	—	(2,600)	(2,600)
Reorganisation		(18,800)	—	18,800	—	—
Dividend paid	9	—	—	—	(35,000)	(35,000)
At 30 September 2015 (Unaudited)		—	—	18,800	(1,018)	17,782

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	2,269	(12,319)
NET CASH GENERATED FROM INVESTING ACTIVITIES	7,950	33,621
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	3,169	(35,381)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,388	(14,079)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	29,640	55,598
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	43,028	41,519

Notes to the Unaudited Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2013 Revision) Chapter 22 of the Cayman Islands on 28 May 2015 and its shares are listed on GEM on 9 October 2015 (the "Listing"). The address of the Company's registered office is PO Box 309, Uglund House, Grand Cayman, Cayman Islands, KY1-1104 and its principal place of business is Unit C, 21st Floor, Kings Tower, 111 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

The Group is principally engaged in property construction service in Hong Kong.

The condensed consolidated financial statements have not been audited by the Company's independent auditor, but have been reviewed by the Company's audit committee.

The unaudited condensed interim financial statements of the Group are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the Period has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules") and the Hong Kong Companies Ordinance. This unaudited condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2016, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

2. BASIS OF PREPARATION (Continued)

The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 March 2016. The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

3. SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable from the construction services provided by the Group to external customers. The Group's operations are solely derived from construction services in Hong Kong during the Period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive of the Group) reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies set out in note. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

No geographical information is presented as the Group's revenue are all derived from Hong Kong based on the location of services delivered.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

4. REVENUE

An analysis of the Group's revenue recognised during the Period is as follows:

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue				
Building construction	38,272	17,848	77,083	33,137
Repair, maintenance, alteration and addition ("RMAA") works	54,513	15,755	84,257	49,649
Design and build	3,922	—	3,922	—
Total	96,707	33,603	165,262	82,786

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

5. OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Bank interest income	101	66	120	122
Management fee income	—	30	—	30
	101	96	120	152

6. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest on:				
– bank borrowings	45	—	45	—
– obligation under finance leases	8	12	16	21
	53	12	61	21

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

7. PROFIT (LOSS) BEFORE TAXATION

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit (Loss) before taxation has been arrived at after charging:				
Depreciation of plant and equipment	95	207	306	413
Directors' remuneration	1,297	480	2,929	960
Other staff costs				
Salaries and other benefits	1,005	690	2,403	1,389
Retirement benefits scheme contributions	44	28	89	52
Lease payments under operating lease in respect of buildings	441	326	883	667
Loss on disposal of plant and equipment (included in other gains and losses)	—	25	—	25

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

8. INCOME TAX EXPENSES

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Hong Kong profits tax	739	428	764	1,139

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the Period (2015: 16.5%).

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the reporting date (31 March 2016: Nil).

9. DIVIDEND

The Directors did not recommend a payment of an interim dividend for the Period.

During the six months period ended 30 September 2015 prior to the reorganisation of the Group ("Reorganisation") in connection with the Listing, Techoy Construction Company Limited, an indirect wholly owned subsidiary of the Company, declared and paid interim dividends of HK\$35,000,000 to Mr. Lam Kin Wing Eddie ("Mr. Lam").

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share amount is based on the profit (loss) attributable to equity holders of the Company of the respective periods, and the weighted average numbers of Company's ordinary shares of 800,000,000 (2015: 630,000,000) in issue during the Period.

The number of ordinary shares for the purpose of calculating basic loss per share for the prior period has been retrospectively adjusted for the capitalisation issue as disclosed in note 17 as if the shares had been in issue throughout the prior period.

No diluted earnings (loss) per share for the Period (2015: Nil) has been presented as there were no potential ordinary shares in issue during the Period (2015: Nil).

The calculations of the basic (loss) earnings per share are based on:

	For the three months ended 30 September		For the six months ended 30 September	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Profit (loss) attributable to owners of the Company (HK\$'000)	3,744	(1,153)	3,868	(2,600)
Weighted average number of ordinary shares in issue	800,000,000	630,000,000	800,000,000	630,000,000
Basic earnings (loss) per share (HK cent)	0.47	(0.18)	0.48	(0.41)

11. PLANT AND EQUIPMENT

During the Period, the Group acquired plant and equipment of approximately HK\$280,000 (2015: HK\$21,000).

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

12. TRADE RECEIVABLES

The Group's credit term offered to the customers is ranging from 30 to 45 days from the date of invoices on progress payments of contract works. An ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
0–30 days	58,749	45,591
31–60 days	598	5,836
	59,347	51,427

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Deposits	2,191	9,229
Retention receivables	18,293	10,572
Prepayments	339	336
	20,823	20,137

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

14. PLEDGED BANK DEPOSITS

As at 30 September 2016 and 31 March 2016, pledged bank deposit represents deposit pledged to banks to secure the banking facilities granted to the Group, and carried with prevailing market interest rate from 0.01% to 1.15% per annum.

15. TRADE PAYABLES

The credit period on sub-contracting of contract work services is ranging from 30 to 45 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period.

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade payables — 0–30 days	33,522	26,994

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Accrued charges	9,166	9,434
Deposits received	7,296	6,596
Retention payables	16,009	8,920
	32,471	24,950

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

17. SHARE CAPITAL

Details of the share capital of the Company are disclosed as follows:

	Number of shares	Share capital HK\$'000 (Unaudited)
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Ordinary shares of HK\$0.01 each		
Authorised		
At 28 May 2015 (date of incorporation)	38,000,000	380
Additions	1,962,000,000	19,620
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At 30 September 2015, 31 March 2016 and 30 September 2016	2,000,000,000	20,000
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Issued and fully paid:		
At 28 May 2015 (date of incorporation)	1	—
Issue of new shares on Reorganisation prior to Listing	99	—
Capitalisation Issue prior to Listing	629,999,900	6,300
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At 30 September 2015	630,000,000	6,300
Issue of new shares upon Listing	170,000,000	1,700
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At 31 March 2016 and 30 September 2016	800,000,000	8,000
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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

18. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the Period:

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Management fee received from a related company (Note)	—	—	—	30
Rental paid to a related company (Note)	325	217	651	543

Note: The related company is wholly owned by Mr. Lam, a director and controlling shareholder of the Company.

19. EVENTS AFTER REPORTING PERIOD

The Group had no significant events after the end of the reporting period.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

During the Period, the Group continued to focus on our core contract works business, which includes building construction and RMAA works services. Leveraging on the Group's registered general building contractor license and certain crucial qualifications including (i) Group C (confirmed) Approved Contractor for Public Works — Building Category; (ii) Approved Suppliers of Materials and Specialist Contractors for Public Works — Repair and Restoration of Historic Building Category (for "Western Style Buildings only"); (iii) Housing Authority List of Building Contractor — Building (New Works) Category; and (iv) Housing Authority List of Building Contractors — Maintenance Works Category, the Group was awarded a number of projects during the Period.

The most noteworthy project was the renovation works for the West Wing of the former Central Government Offices by the Architectural Services Department for use as office by the Department of Justice and law-related organisations (the "West Wing Project"). With a contract sum approximately HK\$844 million, this is the single largest construction contract ever awarded to the Group, which surpasses our last record contract by approximately 230%. As a flagship project, the Group is honoured to contribute to the preservation of this symbolic building of the city and to give a second life to this Grade I Historic Building of Hong Kong through participating in this revitalisation project. During the Period, the Group was awarded the Quality Excellence Award and the Grand Award for the Hong Kong Building (Renovation/Revitalisation) Category (the "Awards") at the Quality Building Award 2016. The Awards were granted in recognition of the high standard of quality of the revitalisation of another trophy project of the Group — the PMQ (元創方) (the "PMQ Project"), which was originally the Police Married Quarters for married junior police officers. The Directors believe that the Awards, together with the West Wing Project which is scheduled to complete in 2018, will mark an important milestone in the Group's journey of growth in becoming one of the leaders in revitalisation projects.

During the Period, the overall revenue of the Group increased to approximately HK\$165.3 million from approximately HK\$82.8 million for the same period in 2015, which was mainly attributable to the strong rebound on the building construction services and the continuous growth on RMAA services.

Management Discussion and Analysis (Continued)

With certain major building construction projects completed substantially in 2015, revenue from our building construction services slipped in the corresponding period in 2015 to approximately HK\$33.1 million. There was, however, a strong rebound in the Period to approximately HK\$77.1 million due to the commencement of new projects in 2016. Revenue from our RMAA services grows from approximately HK\$49.6 million in the corresponding period in 2015 to approximately HK\$84.3 million in the Period.

The Group will continue the strategy on further developing its RMAA services by increasing the Group's participation in tendering of building renovation/revitalization projects and maintaining the high standard of our work quality in this area. On the other hand, the Group will develop its building construction services and its design and build services in order to strengthen its competitive advantage.

FINANCIAL REVIEW

Revenue

During the Period, revenue of the Group increased from approximately HK\$82.8 million to approximately HK\$165.3 million as compared to the corresponding period in 2015, which is driven by both increases in revenue in building construction services and RMAA services. Revenue from building construction services for the Period increased by approximately HK\$43.9 million to approximately HK\$77.1 million, which was mainly contributed from a new project for a major quasi-government customer commenced in 2016. For the revenue from RMAA services, during the Period, it was increased by approximately HK\$34.6 million to approximately HK\$84.3 million, which was mainly contributed from certain new private sector projects commenced in 2016.

Direct Cost

The Group's direct cost increased from approximately HK\$71.5 million for the six months ended 30 September 2015 to approximately HK\$151.8 million for the Period, representing an increase of approximately 112.4%. Such increase was mainly attributable to the increase in the subcontracting charges with the increase in number of contracting projects undertaken by the Group during the Period.

Management Discussion and Analysis (Continued)

Gross Profit

The Group's gross profit amounted to approximately HK\$13.4 million and HK\$11.3 million for the six months ended 30 September 2016 and 2015 respectively, representing a growth of approximately 18.7%. The increase was mainly driven by the corresponding increase in revenue for the six months ended 30 September 2016.

The overall gross profit margin dropped from approximately 13.7% for the six months ended 30 September 2015 to approximately 8.1% for the six months ended 30 September 2016 as the extent of increase in subcontracting charges and direct labour costs is greater than that of increase in revenue for the six months ended 30 September 2016.

Other Income

The Group's other income amounted to approximately HK\$120,000 and HK\$152,000 for the six months ended 30 September 2016 and 2015 respectively, representing a decrease of approximately 21.1%, which was mainly due to the decrease in management fee income from a related company during the Period.

Administrative Expenses

The Group's administrative expenses amounted to approximately HK\$8.9 million and HK\$12.9 million for the six months ended 30 September 2016 and 2015 respectively, representing a decrease of approximately 31%. Such decrease was primarily due to the one-off listing expenses of approximately HK\$8.4 million incurred in 2015 not recurring in the Period, and the decrease in listing expenses were partially offset by the increase in rental expenses, director remuneration and professional fees due to business expansion after the Listing.

Finance Costs

For the six months ended 30 September 2016 and 2015, the Group's finance costs amounted to approximately HK\$61,000 and HK\$21,000 respectively, representing an increase of approximately 190.5%. The increase in finance costs was mainly due to the raise of bank borrowing of approximately HK\$5,770,000 during the Period (2015: Nil).

Management Discussion and Analysis (Continued)

Income Tax Expenses

For the six months ended 30 September 2016 and 2015, the Group's income tax expense amounted to approximately HK\$0.8 million and HK\$1.1 million respectively, representing a decrease of approximately 27.3%.

Profit and Total Comprehensive Income

Profit and total comprehensive income for the Period increased by approximately HK\$6.5 million from loss of approximately HK\$2.6 million for the six months ended 30 September 2015 to profit of approximately HK\$3.9 million for the Period. Such increase was primarily attributable to increase in revenue and gross profit, and no listing expenses was incurred during the Period.

Interim Dividend

The Board did not recommend a payment of an interim dividend for the Period (2015: Nil).

Techoy Construction declared and settled special dividends of HK\$33.5 million and HK\$1.5 million in April and July 2015 respectively to Mr. Lam.

Liquidity and Financial Resources

The Group maintained a sound financial position during the Period. As at 30 September 2016, the Group had bank balances and cash of approximately HK\$43.0 million (31 March 2016: approximately HK\$29.6 million). The total interest-bearing loans, including obligations under finance leases and bank borrowings, of the Group as at 30 September 2016 amounted to approximately HK\$3.6 million (31 March 2016: approximately HK\$0.4 million), and the current ratio as at 30 September 2016 was approximately 2.0 (31 March 2016: approximately 2.2).

Gearing Ratio

The gearing ratio of the Group as at 30 September 2016 was approximately 4.6% (31 March 2016: approximately 0.5%), which remained low as the Group was not in need of any material debt financing during the Period. The gearing ratio is calculated as total borrowings divided by total equity as at the respective periods.

Management Discussion and Analysis (Continued)

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Pledge of Assets

As at 30 September 2016, the Group had pledged bank deposits of approximately HK\$20.0 million (31 March 2016: approximately HK\$28.1 million) to secure the banking facilities granted to the Group. Save for the above, the Group did not have any charges on its assets.

Capital Structure

The shares of the Company (the "Shares") were listed on the GEM on 9 October 2015. There has been no change in capital structure of the Company since 9 October 2015. The capital of the Company comprises ordinary shares and other reserves.

Capital Commitment

As at 30 September 2016, the Group did not have any capital commitment (31 March 2016: Nil).

Human Resources Management

As at 30 September 2016, the Group had a total of 55 employees (31 March 2016: 47 employees). To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance. The Group sponsored staff to attend seminars and training courses.

In addition, the Group adopted a share option scheme. No share option has been granted, exercised, cancelled or lapsed since its adoption.

Management Discussion and Analysis (Continued)

Foreign Currency Risk

The Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the Period, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates between the currencies. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure during the Period.

Significant Investments, Capital Assets, Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

The Group did not have any significant investments, capital assets, material acquisitions, and disposals of subsidiaries and affiliated companies during the Period.

CONTINGENT LIABILITIES

As at 30 September 2016, performance guarantees of approximately HK\$26,523,000 (31 March 2016: HK\$21,164,000) were issued by certain banks to the Group's customers on behalf of the Group and approximately HK\$17,095,000 (31 March 2016: HK\$21,164,000) of these guarantees were secured by pledged bank deposits of the Group. Save as the above, the Group had no material contingent liabilities (31 March 2016: Nil).

Management Discussion and Analysis (Continued)

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

Business strategies up to 30 September 2016 as stated in the Prospectus	Implementation plan	Actual business progress up to the date of this report
Further developing the Group's building construction and RMAA business	To undertake more building construction and RMAA projects, in particular public housing construction, maintenance and renovation projects and heritage revitalisation projects in Hong Kong, with HK\$14.2 million reserved for satisfying potential customers' requirement for surety bonds	The Group has already secured projects requiring surety bond more than our planned amount
Further strengthening the Group's manpower	To employ additional staff To sponsor the Group's staff to attend technical seminars and/or occupational health and safety courses organised by third parties	The Group has employed additional staff to cope with the growth of revenue and continue to sponsor staff to attend seminars and training courses as demand fit

Management Discussion and Analysis (Continued)

Business strategies up to 30 September 2016 as stated in the Prospectus	Implementation plan	Actual business progress up to the date of this report
Investing in BIM software and provide required staff training	<p>To purchase the BIM software from third-party providers</p> <p>To arrange for training workshops or courses for the Group's staff members in relation to the BIM software organised by third party</p>	The Group has tried the use of BIM in small scale for heritage project as a trial kick off
Developing "design and build" services	<p>To study the feasibility of setting up the "Design and Build" section</p> <p>To form the new "Design and Build" team from existing staff and recruit new staff (such as designers) where necessary</p>	The Group has been awarded "Design and Build" project for a small scale as kick off for this section
General working capital	To increase working capital in order to secure Government Contracts	The Group injected additional working capital into the subsidiary to cope with the requirement of securing the Government Contract as requested

Management Discussion and Analysis (Continued)

USE OF PROCEEDS

The following table set forth the status of the use of proceeds from the placing subsequent to the listing of the Group and up to the date of this report:

	Planned use of proceeds as stated in the Prospectus up to 30 September 2016	Actual use of proceeds up to the date of this report
	HK\$ million	HK\$ million
Further developing the Group's building construction and RMAA business	16.7	16.7
Further strengthening the Group's manpower	1.0	1.0
Investing in BIM software and provide required staff training	2.0	—
Developing "design and build" services	2.0	2.0
General working capital	4.3	4.3

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

Management Discussion and Analysis (Continued)

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

A number of factors may affect the results and business operations of the Group, the principal risks and uncertainties faced by the Group are set out below:

Most of the revenue is derived from contracts awarded through competitive tendering. There is no guarantee that the existing contracts may continue upon expiry or new contracts may be awarded to the Group to maintain or expand the business

There are a large number of qualified building construction service providers and RMAA service providers in Hong Kong. Building construction service providers and RMAA service providers must be licensed to be registered general building contractors under the Buildings Ordinance and must have obtained other requisite licences, depending on the skills and technical capabilities required for relevant projects. New participants may be admitted to compete with us provided that they attain the required technical and management capabilities and skills and are granted the required licences. Due to the large number of competitors, the Group may face significant downward pricing pressure which would reduce our profit margins.

Thus, if the Group fail to compete effectively or maintain our competitiveness in the market, the business, financial condition and results of operations will be adversely affected.

The Group continue to leverage on its various licenses and qualifications and extensive experience in construction industry to solidify and expand the market share in the public construction industry and RMAA service in Hong Kong.

The Group's cash flows may fluctuate due to the payment practice applied to the projects

As a main contractor, the Group normally incur net cash outflows at the early stage of carrying out the works when the Group are required to pay the setting up expenditures in advance of payments from the customers. The customers will pay progress payments after the works commence and such works and payments are certified by the architects of the customers. Accordingly, the cash flows of a particular project will turn from net outflows at the early stage into accumulative net inflows gradually as the works progress.

Management Discussion and Analysis (Continued)

The Group undertake a number of projects at any given period, and the cash outflow of a particular project could be compensated by the cash inflows of other projects. If the Group take up too many significant projects, which require substantial initial setting up costs without cash inflow from other projects at a particular point of time, our corresponding cash flow position may be adversely affected.

The Group will continue to closely monitor the capital and cash flow positions, particularly the sub-contracting fees which have augmented in recent years. In the process of identifying and capturing emerging opportunities, the Group will continue to deploy the resources on a selective and prudent basis to focus on projects which are more profitable in nature. The Group will continue to focus on the internal control system to ensure adequate cash flow for the ongoing capital requirements, and to achieve maximum cost savings.

A significant percentage of the revenue and trade receivable is derived from the major customers

The revenue derived from the five largest customers amounted to approximately 87.5% of the total revenue for the six months ended 30 September 2016. The Group will broaden the customer base by an expansion in RMAA service and building construction service capacity to cover design and build projects.

The Group may take a long time to collect the trade receivables

The Group normally receive progress payment from the customers on a monthly basis, with reference to the value of the works completed in the preceding month. Generally, the value of the works completed is assessed by the architects of the customers who will issue an interim certificate certifying the work progress in the preceding month.

In line with industry practice, there is generally a contract term for the customer to secure the Group's due performance by holding up retention money from the progress payment. As for contracts with the Government and quasi-Government organisations, the certified value retained at each stage is generally 1% of the progress payment, subject to a limit of retention fund of not more than 1% of the total contract sum. As for contracts with private sector customers, the certified value retained at each stage is generally 5–10%, subject to a limit of retention fund of not more than 5% of the total contract sum. In general, the retention money will be released to the Group after expiry of the defect liability period subject to the confirmation from the architect of the customers regarding satisfaction with our works.

Management Discussion and Analysis (Continued)

There can be no assurance that the progress payment is paid to the Group on time and in full, or the retention money or any future retention money will be remitted by the customers to the Group on a timely basis and in full or that the level of bad debt arising from such payment practice can be maintained at the same level as during the year. Any failure by the customers to make remittance on time and in full may have an adverse effect on our future liquidity position.

In order to minimize the credit risk, the Group carries out a credit investigation on such customer which includes performance of credit search, assess to and review of its financial information and obtain advice from business partners in relation to the potential customer. The level of credit granted must not exceed a predetermined level set by the Directors and the approval for providing credit facilities to the customer must be documented in writing. The Group also performs ongoing credit evaluations of the customers. In addition, our accounts department follows a set of monitoring procedures to ensure that follow-up steps are taken for collection of receivables.

Other Information

CORPORATE GOVERNANCE CODE

The Company's corporate governance code are based on the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. The Company is committed to ensuring a quality board and transparency and accountability to shareholders. The CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Lam serves as the chairman and also acts as chief executive of the Company, which constitutes a deviation from the code provision A.2.1.

The Board is of the view that vesting both roles in Mr. Lam will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board believes that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

The Company complied with all code provision in the CG Code during the Period save for the deviation disclosed above.

Code of Conduct Regarding Director's Securities Transactions

The Company has adopted a code of conduct regarding Director's securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, each of the Directors confirmed that he had complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the Period.

Other Information (Continued)

Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 30 September 2016, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or 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 they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Name of shareholder	Capacity	Number of Ordinary Shares held	Percentage of shareholding in the Company's issued share capital
Mr. Lam	Interest in controlled corporation (Note 1)	600,000,000(L)	75%
Mr. Chung Koon Man	Beneficial owner	2,000,000(L)	0.25%

(L) denotes long position.

Note:

- Mr. Lam beneficially owns 100% of the issued share capital of Cheers Mate Holding Limited ("Cheers Mate"). By virtue of the SFO, Mr. Lam is deemed to be interested in 600,000,000 Shares held by Cheers Mate.

Other Information (Continued)

Save as disclosed above, as at 30 September 2016, 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 and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as the Directors are aware, as at 30 September 2016, the following persons (not being Directors or chief executive of the Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Capacity	Number of Ordinary Shares held	Percentage of shareholding in the Company's issued share capital
Cheers Mate	Beneficial owner	600,000,000(L)	75%
Ms. Cheng Pui Wah Theresa (<i>Note 1</i>)	Interest of spouse	600,000,000(L)	75%

(L) denotes long position.

Other Information (Continued)

Note:

- (1) Ms. Cheng Pui Wah Theresa is the spouse of Mr. Lam. By virtue of the SFO, Ms. Cheng is deemed to be interested in the same number of Shares in which Mr. Lam is deemed to be interested under the SFO.

Save as disclosed above, as at 30 September 2016, the Directors were not aware of any other persons who had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES OR DEBENTURE

At no time during the Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

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

Save for the listing of the Shares on GEM on the Listing Date, the Company did not redeem any of its Shares, nor did the Company or any of its subsidiaries purchase or sell any such Shares during the Period.

Other Information (Continued)

DIRECTORS' INTERESTS IN COMPETING INTERESTS

During the Period, none of the Directors or the controlling shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company or their respective close associates (as defined in the GEM Listing Rules) were considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group and/or caused, or was likely to cause any other conflicts of interest with the Group, as required to be disclosed under Rule 11.04 of the GEM Listing Rules.

INTEREST OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, being Anglo Chinese Corporate Finance Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 24 September 2015, the Compliance Adviser and its directors, employees and close associates did not have any interests in relation to the Company as at 30 September 2016, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

Other Information (Continued)

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was conditionally approved by the Company pursuant to the written resolutions of the then sole shareholder of the Company dated 22 September 2015. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share option Scheme.

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants or advisers of the Group and to promote the success of the Group.

(2) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant an employee (full-time or part-time), a Director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe at a price calculated in accordance with paragraph (3) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

Other Information (Continued)

(4) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.00.

(5) Maximum number of Shares

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group) must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date. The Company may refresh this limit at any time, subject to the shareholders' approval and the issue of a circular and in accordance with the GEM Listing Rules provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for such purpose, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Group) previously granted under the Share Option Scheme and any other share option schemes of the Group will not be counted. The above is subject to the condition that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group shall not exceed 30% of the Share Capital of the Company in issue from time to time.

Other Information (Continued)

(6) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(8) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

Other Information (Continued)

AUDIT COMMITTEE

The Company has set up an audit committee (the “Audit Committee”) on 22 September 2015 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the CG Code. The duties of the Audit Committee are to review relationship with the Company’s external auditors, review the Company’s financial information, oversee the Company’s financial reporting system and internal control procedures and oversee the Company’s continuing connected transactions. The Audit Committee comprises the three independent non-executive Directors, namely Mr. TSE Ting Kwan, who is the chairman of the Audit Committee, Mr. TANG Chi Wang and Mr. WONG Kwong On. The unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and adequate disclosures have been made.

By order of the Board

Thelloy Development Group Limited

LAM Kin Wing Eddie

Executive Director and Chairman

Hong Kong, 10 November 2016

As at the date of this report, the executive directors of the Company are Mr. LAM Kin Wing Eddie and Mr. SHUT Yu Hang and Mr. CHUNG Koon Man; and the independent non-executive directors of the Company are Mr. TSE Ting Kwan, Mr. TANG Chi Wang and Mr. WONG Kwong On.