Glory Flame Holdings Limited
朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8059

Annual Report **2014**

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This report, for which the directors (the "Directors") of Glory Flame Holdings 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. Pei Wing Fu *(Chairman)*
Ms. Pei Wing Sze Clare

Non-executive Director

Mr. Zheng Si Rong

Independent Non-executive Directors

Mr. Law Yiu Sing
Prof. Lam Sing Kwong Simon
Ms. Wong Wai Ling

AUDIT COMMITTEE

Mr. Law Yiu Sing *(Chairman)*
Prof. Lam Sing Kwong Simon
Ms. Wong Wai Ling

REMUNERATION COMMITTEE

Prof. Lam Sing Kwong Simon *(Chairman)*
Ms. Pei Wing Sze Clare
Mr. Law Yiu Sing

NOMINATION COMMITTEE

Mr. Pei Wing Fu *(Chairman)*
Prof. Lam Sing Kwong Simon
Ms. Wong Wai Ling

COMPANY SECRETARY

Ms. Au Shuk Man, HKICPA

COMPLIANCE OFFICER

Ms. Pei Wing Sze Clare

AUTHORISED REPRESENTATIVES

Ms. Pei Wing Sze Clare
Ms. Au Shuk Man

REGISTERED OFFICE

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75 Fort Street
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Cayman Islands

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Jardine House
1 Connaught Place
Central
Hong Kong

HONG KONG LEGAL ADVISERS

Loong & Yeung

COMPLIANCE ADVISER

Messis Capital Limited

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Nanyang Commercial Bank Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

STOCK CODE

8059

COMPANY'S WEBSITE

www.drillcut.com.hk

CHAIRMAN'S STATEMENT

I am pleased to present the first annual report of the Group to the shareholders and prospective investors of the Company. The market condition of the construction industry in Hong Kong was favourable in 2014. As a result, the Group performed well during the financial year ended 31 December 2014 (the "Reporting Period") with strong growth in net revenue and gross profit which are in line with the Company's expectation. Our revenue and gross profit were up by 20.2% and 13.7% respectively in the Reporting Period compared to 2013. Our concrete demolition business in Hong Kong continued to grow steadily from our strong client base and marketing effort.

During the Reporting Period, our concrete demolition service continued to harvest from our four pillars of strategies, (1) good reputation and track record of the Group; (2) new and more efficient concrete demolition machinery; (3) specialised workers and (4) good relationships with customers. The efforts have continued to pay off. We are proud to be an active and enthusiastic stakeholder of the construction industry who brings in bricks and skills to build a better future of Hong Kong.

I am especially pleased with the successful listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 15 August 2014. This was an important milestone of our history and the listing status has elevated the Group in all business aspects.

However, the successes were not achieved without challenges. During the Reporting Period, we encountered increasing cost for key machinery and tools, shortage in local labour and increase in labour cost, as well as rising competition. We will continue to monitor our business closely to secure our competitive advantages.

I am positive about the Group's abilities to implement our vision. We remain focused on optimising the business's financial performance in the year ahead as we execute the business plan, increase market share, and deliver satisfactory return to the investors. The Group will increase its investments in its people and machinery to accelerate the execution of our strategy.

I would like to take this opportunity to thank the Board and the employees of the Group for their continued effort and commitment as they focus on executing the Company's strategy and putting our values into action for the benefit of our customers and stakeholders. I am also thankful for all the business partners for their continued support to us. Last but not the least, my heartfelt thanks to the shareholders of the Company for their trust and confidence in us.

Mr Pei Wing Fu
Chairman

Hong Kong, 18 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year ended 31 December 2014 (the "Reporting Period"), the construction industry in Hong Kong continued to grow primarily due to the government's plan to increase the supply of residential housing and to improve infrastructure such as railway and highway. There were also an increasing number of alternation and redevelopment projects for industrial and commercial buildings in Hong Kong, all of which contributed to a higher demand for concrete demolition services and presented opportunities for the concrete demolition business for our Group.

BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group's principal activities are the provision of concrete demolition service in Hong Kong as a subcontractor. The Group's concrete demolition services are mainly concerned with the removal of pieces or sections of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing, etc. During the Reporting Period, all of the Group's revenue was derived from our concrete demolition services rendered to customers in Hong Kong.

During the Reporting Period, the Group undertook a total of 2,288 jobs and had a total of 192 jobs in our backlog (including jobs that have commenced but not completed as well as jobs that have been awarded to the Group but not yet commenced). As at 31 December 2014, the total revenue attributable to backlog recognised and yet to be recognised were approximately HK$29.5 million and HK$68.4 million respectively.

Concrete demolition industry is one of the specific areas of the construction industry in Hong Kong, which mainly involves core drilling, sawing, bursting and crushing, and surface preparation. Concrete demolition services are usually functions performed by subcontractors in (i) general building works, especially for alteration and redevelopment project; and (ii) civil engineering works. Concrete demolition work can be applied in various situations, such as the construction of underground utilities, creation of openings for elevator, door, and window installation, redevelopment of buildings, roads, tunnels and underground facilities, removal of concrete during building construction, and the preparation of road surfaces.

According to a report prepared by IPSOS Hong Kong Limited, there were approximately 20 concrete demolition contracting service providers in the construction industry in Hong Kong in 2013. The total revenue of the concrete demolition industry grew from approximately HK$757.2 million in 2009 to approximately HK$1,230.6 million in 2013, mainly attributable to the increases in general demand for concrete demolition services as a result of the increases in the amount of general building works and civil engineering works in Hong Kong, due to the prosperous property market and the Government policy to increase both land and housing supply. According to the 2014 Policy Address, the Government has made clear plans for increasing both land and housing supply in the short, medium and long terms. These development plans would continue to stimulate the demand for construction works, thus boosting the demand for concrete demolition services in Hong Kong for the next five years.

FINANCIAL REVIEW

Revenue

During the Reporting Period, all of our Group's revenue was derived from concrete demolition service rendered to the Group's customers and was generated in Hong Kong. The Group's revenue for the Reporting Period was approximately HK$89.4 million, representing an increase of approximately 20.2% from the previous year (2013: approximately HK$74.4 million). The increase was mainly attributable to the growth of the concrete demolition business, which was reflected in (i) the rise in our general subcontract fee as a result of the increase in work demand coupled with the shortage of reliable labours for concrete demolition services in Hong Kong; and (ii) the increase in the amount of jobs undertaken by our Group during the Reporting Period.

Gross Profit and Gross Profit Margin

Our Group's gross profit increased from approximately HK$27.4 million for the year ended 31 December 2013 to approximately HK$31.1 million for the Reporting Period. Such increase was mainly due to the growth of the Group's revenue as discussed above. The gross profit margin decreased from approximately 36.8% for the year ended 31 December 2013 to approximately 34.8% for the Reporting Period. Such decrease was mainly attributable to the increase in the Group's subcontracting charges, cost of raw material and consumables, direct labour cost, repair and maintenance cost, depreciation, and transportation expenses.

Administrative and Other Operating Expenses

Our Group's general and administrative expenses increased to approximately HK$23.7 million for the year ended 31 December 2014 from approximately HK$14.6 million for the year ended 31 December 2013, which represented an increase of approximately 62.4%. Such increase was mainly due to the non-recurring listing expenses incurred during the Reporting Period in connection with the listing of the shares of the Company on GEM on 15 August 2014 (the "**Listing**"). Other factors for such increase also include the increase in professional fees, staff costs as well as directors' emoluments.

Net Profit and Net Profit Margin

Our Group's net profit for the Reporting Period was approximately HK$4.8 million (2013: approximately HK$9.8 million), representing a decrease of approximately 50.9% on a year-on-year basis, mainly due to the growth of the Group's revenue of approximately 20.2% which was off-set by the non-recurring listing expenses incurred in connection with the Listing and the increase in professional fees, staff costs as well as directors' emoluments. Excluding the listing expenses, the Group's net profit for the Reporting Period would be approximately HK$13.8 million (2013: approximately HK$9.8 million) and the net profit margin would be approximately 15.5% (2013: approximately 13.2%).

Use of Proceeds

The net proceeds from the placing of the shares of the Company in connection with the Listing was approximately HK$ 31.2 million. During the period from 15 August 2014 (the "**Listing Date**") to 31 December 2014 (the "**Review Period**"), the net proceeds from the Listing were applied as follows:

	Planned use of proceeds as stated in the Prospectus during the Review Period HK$ million	**Actual use of proceeds during the Review Period** HK$ million
Enhancing machinery and equipment	4.9	1.4
Strengthening manpower	1.0	0.2
Increasing marketing efforts	0.2	0.2
Repayment of bank borrowings	5.5	5.5

The business objectives, future plans and planned use of proceeds as stated in the Company's prospectus dated 7 August 2014 (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.

Sales and Marketing

One of the success factors of the Group has been our good relationship with our customers, the foundation of which has been built on mutual trust, high and consistent standard and quality of work, punctual deliverables, upheld spirit of our staff, and effective communication with customers, etc. The Group harvests these strengths and maintains active and long-term relationship with customers in the construction industry to explore future potential business opportunities. The concrete demolition jobs are usually awarded by way of quotation requested by customers in both private and public sectors. Therefore, maintaining close relationship with the customers are of paramount importance. The Group will continue to leverage its strong network in the industry and reinforce marketing efforts to secure more projects and maximise investor's return.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2014, the Group had cash and bank deposits of approximately HK$41.0 million (2013: approximately HK$4.4 million). The net increase was mainly due to net cash inflow from operating activities and the receipt of proceeds from the issue of new shares upon Listing.

The gearing ratio of the Group as at 31 December 2014 (defined as total borrowings including interest bearing and non-interest bearing, divided by the Group's total equity) was approximately 0.1 (2013: approximately 1.0).

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 Reporting 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.

Foreign Exchange Risk

The Group only operates in Hong Kong and most of the operating transactions, revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, our Directors are of the view that the Group's risk in foreign exchange is insignificant and that the Group should have sufficient resources to meet foreign exchange requirements as and if it arises. Therefore, the Group has not engaged in any derivative to hedge its exposure to foreign exchange risk.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

Save as the reorganisation in connection with the Listing, the Group has no other material acquisition and disposal of subsidiaries and associated companies during the Reporting Period.

Debts and Charge on Assets

The total interest-bearing borrowings of the Group consisted of bank borrowings and finance lease liabilities in a sum of approximately HK$2.6 million as at 31 December 2014 as compared to approximately HK$11.2 million as at 31 December 2013. As at 31 December 2014, bank borrowings and finance lease liabilities were approximately HK$0.07 million and HK$2.5 million respectively (2013: HK$5.8 million and HK$5.4 million). The annual interest rates of the bank borrowings and the financial lease were 4.75% and between 4.0% and 4.75% respectively (2013: bank borrowings: 3.25% to 4.75% and finance lease: 2.25% to 4.75%). Approximately 73.1% of the borrowings was accounted for as current liabilities of the Group (2013: approximately 72.3%). The borrowings repayable within one year amounted to approximately HK$1.9 million. All of the above are denominated in Hong Kong Dollars.

Finance lease liabilities are secured by certain plant and machinery and motor vehicles of the Group with an aggregated net book value of approximately HK$1.5 million and HK$4.9 million as at 31 December 2014 and 2013 respectively.

Commitments and Contingent Liability

The Group does not have material capital commitments and contingent liabilities as at 31 December 2014 save as disclosed in note 28 and 30 to the consolidated financial statements.

Significant Investments and New Business

Save as disclosed in the Prospectus, the Company did not have any plans for significant investments nor new business.

Events after the Reporting Period

The Group has no material acquisition and disposal of subsidiaries from 1 January 2015 up to the date of this report.

Employee and Remuneration Policies

As at 31 December 2014, the Group employed 65 staff. Total employee costs for the Reporting Period including directors' emoluments, amounted to approximately HK$18.3 million (2013: approximately HK$16.1 million).

The salary and benefit levels of the employees of the Group are competitive. This is very important as the construction industry has been experiencing labour shortage in general. Individual performance of our employees is rewarded through the Group's salary and bonus system. In addition, the Group provides adequate job training to employees in order to equip them with practical knowledge and skills to tackle situations and challenges encountered in diverse work sites.

Final Dividend

The Board did not recommend payment of final dividend to shareholders of the Company for the Reporting Period.

Comparison between Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus for the Review Period with the Group's actual business progress up to the date of this annual report is set out below:

Business objectives for the Review Period	Actual business progress from the latest practical date up to the date of this annual report
1. Enhancing machinery and equipment	
• Purchase additional new machinery including remote controlled demolition robots, electric wall saw machines and other equipment, tools and accessories to improve our efficiency and technical capability	New machinery with the amount of HK$1.4 million was acquired to enhance our efficiency and technical capability
• Evaluate the effectiveness and efficiency of new machinery and assess our need for additional machinery in view of our business development and obtain quotation for new machinery	Search and identify suitable machinery by (1) reviewing professional journals, expert review reports on new technology and machinery, product catalogues and specifications, (2) attending trade exhibitions and industry conferences, and (3) referral and reference
2. Strengthening manpower	
• Recruit about 3 additional experienced project management and execution staff to strengthen our frontline manpower	Four experienced execution staff were recruited to strengthen our frontline manpower
• Recruit about 1 additional experienced staff to strengthen our machinery repair and maintenance team	The Group is actively recruiting an experienced mechanic to join our machinery repair and maintenance team

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business objectives for the Review Period	Actual business progress from the latest practical date up to the date of this annual report
• Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety	The Group has incurred approximately HK$91,000 in support of our workers to attend training and workshop in order to increase safety awareness and improve productivity
3. Increasing marketing efforts	
• Place advertisements through online channels and in industry magazines and publications, and sponsor events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group	The Group has invested approximately HK$0.7 million in marketing and advertisement to elevate the Group's profile in the industry
• Perform direct mailings of revamped corporate brochures to potential customers based on our research of new construction projects on our subscribed industry database, revamp our corporate website and brochure	The Group has revamped its corporate website and brochure as planned. In addition, we constantly monitor potential construction and engineering projects in Hong Kong by way of subscription to relevant industry database. When an opportunity arises, our Group will actively secure the potential project by deploying various direct marking efforts
• Actively approach and develop relationship with main contractors to obtain and secure new business opportunities	The Group continues to actively maintain good and/ or develop new relationship with main contractors to obtain and secure new business opportunities

Prospects

We believe that we have several business strengths and competitive advantages that set us apart from our rivals and enable us to continue our growth and enhance our profitability. Such strengths and competitive advantages include (1) 33 years of presence and well-established reputation in the concrete demolition industry in Hong Kong; (2) possession of dedicated and proficient labour force coupled with a variety of cutting-edged concrete demolition machinery; and (3) experienced in-house repair and maintain mechanics to get the work done well, right, and quick.

The rapid development for railway and highway infrastructure in Hong Kong presents promising opportunities for the concrete demolition industry, primarily because concrete-based structures such as rails, bridges and tunnels have to be molded or modified by way of excavating concretes. Therefore, the rising number of transportation networks will continue to drive the concrete demolition industry in Hong Kong. In view of the above, there are positive prospects for our Group and it is expected that our business and revenue will continue to grow steadily in the foreseeable future.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. PEI Wing Fu (Mr. Pei), aged 62, is the chairman of the Board, an executive Director and the chief executive officer ("CEO") of our Group. Mr. Pei is the father of Ms. Pei Wing Sze Clare, an executive Director. Mr. Pei has accumulated over 33 years of experience in the concrete demolition industry in Hong Kong and is responsible for overseeing the general operation and devising business strategies of our Group. Mr. Pei was appointed as an executive Director on 25 April 2014. Mr. Pei was first employed by Drillcut Limited ("**Drillcut**"), a limited company incorporated in Hong Kong on 5 May 1981 and an indirect wholly-owned subsidiary of the Company, as a supervisor in July 1981 and was subsequently promoted to the position of project manager in January 1982. In May 1991, Mr. Pei acquired Drillcut and became a director. Prior to joining our Group, Mr. Pei was trained and employed as an electrician by a number of auto companies. In January 1976, Mr. Pei started a sole proprietorship business which was principally engaged in the repair of auto electric spare parts. Mr. Pei carried out such business until he joined Drillcut in July 1981. Mr. Pei obtained a diploma in business management jointly awarded by Hong Kong Polytechnic and Hong Kong Management Association in October 1985.

Power Key Investments Limited ("Power Key") beneficially owns 57.35% of the issued shares of the Company. Mr. Pei beneficially owns Power Key as to 74.55% and is deemed, or taken to be, interested in all the shares of the Company held by Power Key for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). Mr. Pei is an executive Director, the chairman of the Company and the sole director of Power Key.

Ms. PEI Wing Sze Clare (Ms. Pei), aged 35, is an executive Director, administration manager and our compliance officer, who is mainly responsible for overseeing the accounting, financial, administrative and marketing activities and devising business strategies of our Group. Ms. Pei is the daughter of Mr. Pei and Mrs. Pei. Ms. Pei was appointed as an executive Director on 25 April 2014. Ms. Pei first joined Drillcut as an administration manager in November 2004 and was later appointed as a director. She has accumulated over 9 years of experience working in our Group since then. Ms. Pei has been an authorised signatory of Drillcut registered under the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) since March 2011. Ms. Pei graduated from the University of British Columbia in Vancouver, Canada in May 2002 with a degree of Bachelor of Commerce in Finance.

Talent Great Investments Limited ("Talent Great") beneficially owns 17.65% of the issued shares of the Company. Ms. Pei beneficially owns Talent Great as to 100% and is deemed, or taken to be, interested in all the shares of the Company held by Talent Great for the purposes of the SFO. Ms. Pei is an executive Director and the sole director of Talent Great.

NON-EXECUTIVE DIRECTOR

Mr. ZHENG Si Rong ("Mr. Zheng"), aged 52, had worked as the general manager of Guangzhou Ming Pu Guang Dian Technology Company Limited from 2011 to 2013 and was responsible for the daily business operation of the company. From 2007 to 2010, Mr. Zheng had worked as the deputy general manager of Guangdong Jiang Long Da Guang Dian Technology Company Limited and was responsible for the sales and marketing of the company. Mr. Zheng is currently a director of Jiangxi China Oil Gangran Energy Technology Company Limited and China Oil Gangran Energy Group Limited, each is a subsidiary of China Oil Gangran Energy Group Holdings Ltd., the shares of which are listed on the GEM of the Stock Exchange (stock code: 8132). Mr. Zheng joined our Group on 20 January 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INED")

Professor LAM Sing Kwong Simon ("Prof. Lam"), aged 56, was appointed as an INED on 2 August 2014. Prof. Lam is currently a Professor of Management at the Faculty of Business and Economics of the University of Hong Kong. He obtained a doctorate degree in commerce from the Faculty of Economics and Commerce at The Australian National University in April 1996. Prof. Lam has been an INED of Jin Cai Holdings Company Limited (stock code: 1250) since June 2013, Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) since May 2009, Sinomax Group Limited (stock code: 1418) since March 2014 and Chun Sing Engineering Holdings Limited (stock code: 2277) since December 2014, the issued shares of which are listed on the Main Board of the Stock Exchange. Prof. Lam is an INED of King Force Security Holdings Limited (stock code: 8315) since July 2014, the issued shares of which are listed on the GEM of the Stock Exchange.

Mr. LAW Yiu Sing ("Mr. Law"), aged 47, was appointed as an INED on 2 August 2014. Mr. Law has more than 20 years of experience in financial management and corporate development. He is currently the Deputy General Manager of Vision Fame International Holding Limited (stock code: 1315). Mr. Law is a certified practising accountant of the CPA Australia, a certified public accountant of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and a certified tax adviser of the Taxation Institute of Hong Kong. Mr. Law obtained a bachelor's degree of computer engineering, a master degree in business administration and a master degree of practicing accounting. Mr. Law also obtained a graduate diploma in English and Hong Kong law (Common Professional Examination). Mr. Law is a founding member of the Institute of Accountants Exchange. He is currently also an INED of King Force Security Holdings Limited (stock code: 8315), the issued shares of which are listed on GEM Board of the Stock Exchange.

Ms. WONG Wai Ling ("Ms Wong"), aged 53, was appointed as an INED on 2 August 2014. Ms. Wong has over 20 years of experience in accounting and auditing. Ms. Wong was admitted as an associate of the Association of Chartered Certified Accountants in April 1990 and registered as a certified public accountant of the HKICPA in June 1991, and has become a fellow member of the two institutes since April 1995 and February 2001, respectively. Ms. Wong received a bachelor of arts degree from the University of Hong Kong in November 1983 and Postgraduate Diploma in Accounting & Finance (L.S.E.) in July 1985. Ms. Wong is currently an INED of China Ruifeng Renewable Energy Holdings Ltd.(stock code: 527), Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366), AVIC International Holdings Limited (stock code: 161) and Yongsheng Advanced Materials Company Limited (stock code: 3608), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Ms. Wong is also an executive director and the chief executive officer of JC Group Holdings Limited (stock code: 8326), whose shares are listed on GEM Board of the Stock Exchange. Besides, Ms. Wong was appointed as a non-executive director of Hin Sang Group International Holding Co Ltd, a Hong Kong Main Board listed company.

SENIOR MANAGEMENT

The following are the senior management team of our Group:

Mr. CHOW Kwok Fai (周國徽), aged 41, is the quantity surveyor manager of our Group principally responsible for quantity surveying, quality control and work safety supervision. Mr. Chow joined our Group as quantity surveyor manager in May 2005. Mr. Chow has over 19 years of experience in the construction and engineering industry in Hong Kong.

Mr. Chow obtained a basic mechanical craft certificate from Vocational Training Council in July 1989, a Technician Preparatory Certificate (Mechanical Engineering) from Vocational Training Council in July 1990, a certificate in building studies from Vocational Training Council in July 1997, and a higher certificate in building studies from Hong Kong Technical Colleges in July 2000. Mr. Chow has not held any directorship in any public listed company in the past three years.

Mr. WAN Chi Cheong (尹志昌), aged 39, is the project manager of our Group principally responsible for overall management of site works, quality control and work safety supervision. Mr. Wan first joined our Group in June 1999 as assistant engineer and was subsequently promoted to the current position in January 2004. Mr. Wan has accumulated over 15 years of experience working in our Group. Mr. Wan obtained a higher diploma in structural engineering from Hong Kong Technical Colleges in September 1999. Mr. Wan has not held any directorship in any public listed company in the past three years.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present hereby the corporate governance report of the Company for the year ended 31 December 2014.

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term and continuing success of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures for the best interest of the Company's shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code ("the Code") in Appendix 15 to the GEM Listing Rules sets out the principles of good corporate governance, code provisions and recommended best practices. Issuers are expected to comply with the code provisions or devise their own code on corporate governance on the terms they consider appropriate provided that considered reasons are given. During the period from 15 August 2014 (the date of Listing) to 31 December 2014, the Company had complied with the applicable code provisions of the Code as set out in Appendix 15 to the GEM Listing Rules with the exception of the deviation from code provision A.2.1 as explained below:

Code provision A.2.1 of the Code requires that the roles of chairman and chief executive officer should be separate and not performed by the same individual. Mr. Pei has been managing our Group's business and overall strategic planning since May 1991. Our Directors believe that the vesting of the roles of chairman and chief executive officer in Mr. Pei is beneficial to the business operations and management of our Group and will provide a strong and consistent leadership to our Group. Accordingly, our Company has not segregated the roles of its chairman and chief executive officer as required by code provision A.2.1 of the Code. Except for code provision A.2.1 of the Code, our Company's corporate governance practices have complied with the Code as set out in Appendix 15 to the GEM Listing Rules.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out in this annual report. Under the terms of reference, the duties of the Board in respect of corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

5. to review the Company's compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules and disclosure in the corporate governance report of the Company.

Composition of the Board

In compliance with rules 5.05(1) and 5.05A of the GEM Listing Rules, the Board consisted of three INEDs during the Reporting Period. The number of INEDs represents 60% and 50% of the Board during the Reporting Period and as of the date of this report respectively which exceeds the minimum requirement under the GEM Listing Rules. In particular, the composition of the Board is set out as follow:

Executive Directors
Mr. Pei Wing Fu *(Chairman and Chief Executive Officer)*
Ms. Pei Wing Sze Clare

Non-executive Director
Mr. Zheng Si Rong *(appointed on 20 January 2015)*

Independent Non-executive Directors
Mr. Law Yiu Sing
Prof. Lam Sing Kwong Simon
Ms. Wong Wai Ling

The non-executive Director, namely Mr. Zheng Si Rong, has entered into a service agreement with the Company for a term of three years commencing from 20 January 2015, which may be terminated earlier by no less than two months written notice served by either party on the other.

The Company has signed a service agreement with each of the INEDs. The commencement date of each of the service agreement is 15 August 2014 (the date of Listing) for a term of three years, which may be terminated earlier by no less than two months written notice served by either party on the other.

Pursuant to Article 108 of the articles of association of the Company (the "Articles"), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every 3 years. However, a retiring Director shall be eligible for re-election.

Specific enquiry has been made by the Company to each of the INEDs to confirm their independence. In this connection, the Company has received positive confirmations from all of the three INEDs. Based on the confirmations received, the Company is of the view that all INEDs are independent under the GEM Listing Rules.

Saved as disclosed in the section "Biographical Details of the Directors and Senior Management" in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

Board and General Meetings

During the Reporting Period, one board meeting was held. Subsequent to the Reporting Period, one more board meeting was held between 1 January 2015 and the date of this report. The forthcoming annual general meeting which will be held on 24 June 2015 is the first general meeting of the Company since the date of Listing.

The attendance of the respective Directors at the Board meetings are set out below:

	Attendance/Number of meetings between the date of Listing and 31 December 2014	Attendance/Number of meetings between 1 January 2015 and the date of this report
Executive Directors		
Mr. Pei Wing Fu *(Chairman)*	1	1
Ms. Pei Wing Sze Clare	1	1
Non-executive Director		
Mr. Zheng Si Rong *(appointed on 20 January 2015)*	–	1
Independent Non-executive Directors		
Mr. Law Yiu Sing	1	1
Prof. Lam Sing Kwong Simon	1	1
Ms. Wong Wai Ling	1	1

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "**Code of Conduct**"). After specific enquiries by the Company, all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the period from 15 August 2014 (the date of Listing) to 31 December 2014.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

The Group acknowledges the importance of adequate and ample continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged our Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the Reporting Period, the Company has provided and all Directors have attended at least one training course on the updates of the GEM Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the GEM Listing Rules. The Group has also adopted a policy to reimburse the Directors for any relevant training costs and expenses incurred concerning corporate governance and internal control.

BOARD COMMITTEES

The Board has established a number of functional committees in compliance with the relevant GEM Listing Rules and to assist the Board to discharge its duties. Currently, three committees have been established, i.e. the Audit Committee, the Nomination Committee and the Remuneration Committee. The functions and responsibilities of these committees have been set out in the relevant terms of reference which are of no less stringent than that stated in the Code. The relevant terms of reference of each of the three committees can be found on the Group's websites (www.drillcut.com.hk). All committees have been provided with sufficient resources and support from the Group to discharge their duties.

AUDIT COMMITTEE

The Company has established the Audit Committee on 2 August 2014 with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, and paragraphs C.3.3 and C.3.7 of the Code. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules. In addition, the majority of the Audit Committee shall be INEDs. The Audit Committee currently comprises three members, namely Mr. Law Yiu Sing (Chairman), Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling, all of whom are INEDs. In particular, Mr. Law is a certified practising accountant of the CPA Australia and a certified public accountant of the HKICPA, and Ms. Wong is a fellow member of the Association of Chartered Certified Accountants and a fellow member of HKICPA.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others (for the complete terms of reference please refer to the Group's website www.drillcut.com.hk):

1. to make recommendations to the Board on the appointment and re-appointment of the Company's external auditors, and approve the remuneration and terms of engagement of the Company's external auditors;

2. to review and monitor the Company's external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to develop and implement policy on engaging the Company's external auditors to supply non-audit services, if any;

4. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and review significant financial reporting judgments contained in them;

5. to discuss with the Company's external auditors questions and doubts arising in audit of annual accounts;

6. to review the letter of the Company's management from the Company's external auditors and the management's response;

7. to review the statement about the Company's internal control system as included in the Company's annual report prior to submission for the Board's approval;

8. to review the Company's financial reporting, financial controls, internal control and risk management system;

9. to discuss the internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system;

10. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

11. to review the financial and accounting policies and practices of the Group;

12. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and

13. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

During the Reporting Period, the Audit Committee had reviewed the Group's unaudited quarterly results for the nine months ended 30 September 2014 and discussed internal controls and financial reporting matters. The Audit Committee had also reviewed audited annual results for the financial year ended 31 December 2014, this annual report, and confirmed that this annual report complies with the applicable standard, the GEM Listing Rules, and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Reporting Period and up to the date of this report.

During the Reporting Period, the Audit Committee had held one meeting. Between 1 January 2015 and the date of this report, the Audit Committee has held one meeting, both of which with full attendance by all the members of the Audit Committee. The attendance records of the members of the Audit Committee are summarised below:

	Attendance/Number of meetings between the date of Listing and 31 December 2014	**Attendance/Number of meetings between 1 January 2015 and the date of this report**
Mr. Law Yiu Sing *(Chairman)*	1/1	1/1
Prof. Lam Sing Kwong Simon	1/1	1/1
Ms. Wong Wai Ling	1/1	1/1

REMUNERATION COMMITTEE

The Remuneration Committee was established on 2 August 2014 with terms of reference in compliance with paragraph B.1.2 of the Code. The Remuneration Committee comprises three members, namely Prof. Lam Sing Kwong Simon (Chairman), Ms. Pei Wing Sze Clare, and Mr. Law Yiu Sing. Prof. Lam and Mr. Law are INEDs of the Company.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include (for the complete terms of reference please refer to the Group's website www.drillcut.com.hk):

1. consulting the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;

2. making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. making recommendations to the Board on the remuneration of non-executive Directors;

6. considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries;

7. reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and

8. reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

The attendance records of the members of the Remuneration Committee are summarised below:

	Attendance/Number of meetings between the date of Listing and 31 December 2014	**Attendance/Number of meetings between 1 January 2015 and the date of this report**
Prof. Lam Sing Kwong Simon *(Chairman)*	–	1/1
Ms. Pei Wing Sze Clare	–	1/1
Mr. Law Yiu Sing	–	1/1

The Board is of the view that the Remuneration Committee has properly discharged its duties and responsibilities during the Reporting Period and up to the date of this report.

NOMINATION COMMITTEE

The Nomination Committee was established on 2 August 2014 with terms of reference in compliance with paragraph A.5.2 of the Code. The Nomination Committee comprises three members, namely Mr. Pei Wing Fu (Chairman), Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling. Prof. Lam and Ms. Wong are INEDs of the Company.

With reference to the terms of reference the Nomination Committee, the primary responsibilities of the Nomination Committee include (for the complete terms of reference please refer to the Group's website www.drillcut.com.hk):

1. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. reviewing the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

3. identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. assessing the independence of INEDs; and

5. making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

The Board is of the view that the Nomination Committee has properly discharged its duties and responsibilities during the Reporting Period and up to the date of this report.

The attendance records of the members of the Nomination committee are summarised below:

	Attendance/Number of meetings between the date of Listing and 31 December 2014	Attendance/Number of meetings between 1 January 2015 and the date of this report
Mr. Pei Wing Fu *(Chairman)*	–	1/1
Prof. Lam Sing Kwong Simon	–	1/1
Ms. Wong Wai Ling	–	1/1

DIVERSITY OF THE BOARD

The Group has adopted policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

1. selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

2. the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.

AUDITORS' REMUNERATION

During the Reporting Period, the Group engaged HLB Hodgson Impey Cheng Limited ("HLB") as the Group's external auditors. The remuneration paid and payable to HLB is set out as follows:

Services rendered	Fees paid/payable (HK$ '000)
Statutory audit services	600
Non-statutory audit services	
– as reporting accountant for listing of the shares of the Company on the GEM of the Stock Exchange	2,148

COMPANY SECRETARY

Ms. AU Shuk Man ("Ms. Au") was appointed as the company secretary of our Company on 2 August 2014. Ms. Au joined Drillcut as an accounting manager in March 2014. She became a member of the HKICPA in January 2011. Ms. Au graduated from the City University of Hong Kong with a degree of Bachelor of Business Administration (Honours) in Accountancy in November 2007 and has over 7 years of experience in accounting.

For the year ended 31 December 2014, Ms. Au has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

COMPLIANCE OFFICER

Ms. Pei Wing Sze Clare, an executive Director, is the compliance officer of the Group.

INTERNAL CONTROLS

The Board and the senior management are responsible for improving and monitoring the internal control of the Group. In this connection, the Board constantly and actively seeks to strengthen the internal control system of the Group by way of, among other things, regular review of the effectiveness of the internal control measures and mechanism adopted by the Group in respect of financial, operational and compliance controls, etc.

In addition, the Group has engaged a professional advisory firm of internal control to perform regular review of the internal control system of the Group. The Board is satisfied with the overall effectiveness of the Group but will continue to strive for a better control by way of consulting with the professional advisor and adopting the recommendations made by the firm.

SENIOR MANAGEMENT'S REMUNERATION

The senior management's remuneration payment of the Group in the year ended 31 December 2014 falls within the following band:

	Number of individuals
HK$500,001 to HK$1,000,000	2

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the financial statements and to ensure that the financial statements of the Group are prepared in a manner which reflects the true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required of the GEM Listing Rules. The Directors are of the view that the financial statements of the Group for each financial year have been prepared on this basis.

To the best knowledge of the Directors, there is no uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Statement of the Company's external auditors' responsibilities in respect of the consolidated financial statements is set out in the Independent Auditors' Report of this report.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("**AGM**") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc. At the AGM, the Directors (including INEDs) are available to attend to questions raised by the shareholders. The external auditors of the Company is also invited to be present at the AGM to address to queries of the shareholders concerning the audit procedures and the auditors' report.

The first AGM of the Company will be held on 24 June 2015, the notice of which shall be sent to the shareholders of the Company at least 20 clear business days prior to the meeting.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("EGM"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, all reasonable expenses incurred by the acquisition(s) as a result of the failure of the Board shall be reimbursed to the requisition(s) by the Company.

Procedures for Shareholders' Nomination of Directors

Pursuant to article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgment of the notices required under the Article will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their enquiries concerning their shareholdings to the Company's share registrars. Shareholders may also make a request for the Company's information to the extent that such information has been made publicly available by the Company. All written enquiries or requests may be forwarded to the Company's head office or by fax to (852) 2543 9996, or by email to feedback@drillcut.com.hk.

The addresses of the Company's head office and the Company's share registrars can be found in the section "Corporate Information" of this annual report.

Investor Relations

To ensure transparent and comprehensive disclosures to investors, the Group delivers information of the Group to the public through various channels, including general meeting, public announcement and financial reports. The investors are also able to access the latest news and information of the Group via our website (www.drillcut.com.hk).

In order to maintain good and effective communication, the Company together with the Board extend their invitation to all shareholders and encourage them to attend the forthcoming AGM and all future general meetings.

The shareholders may also forward their enquiries and suggestions in writing to the Company to the followings:

Address: Suites 2001-2006, 20th Floor,
Jardine House,
1 Connaught Place,
Central, Hong Kong

Email: feedback@drillcut.com

Significant Changes in Constitutional Documents

Save for the adoption of the amended and restated memorandum and articles of association for the purpose of the listing of the shares of the Company on the Stock Exchange, during the year ended 31 December 2014, there had been no significant changes in the constitutional documents of the Company.

DIRECTORS' REPORT

The Board is pleased to present the first annual report together with the audited consolidated financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the concrete demolition business in Hong Kong as a subcontractor.

RESULT AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 33.

The Board did not recommend payment of final dividend to shareholders of the Company for the Reporting Period.

CLOSURE OF REGISTER OF MEMBERS

As the forthcoming AGM of the Company will be held on 24 June 2015 (Wednesday), the register of members of the Company will be closed from 22 June 2015 (Monday) to 24 June 2015 (Wednesday) (both days inclusive) for the said AGM or any adjournment thereof. All transfer of the Company's shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office no later than 4:30 p.m. on 19 June 2015 (Friday) in order to qualify for the right to attend and vote at the meeting (or any adjournment thereof). The share registrar and transfer office is at:

Address: Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past two financial years are set out on page 84.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2014 and details of the acquisition of subsidiaries during the Reporting Period are set out in note 13 to the consolidated financial statements.

DIRECTORS' REPORT (continued)

SHARE CAPITAL AND SHARE PREMIUM

The Company's total issued share capital as at 31 December 2014 was 620,000,000 ordinary shares of HK$0.01 each.

Details of movements of the share capital and the share premium of the Company during the Reporting Period are set out in note 24 to the consolidated financial statements.

EMOLUMENT POLICY FOR DIRECTORS

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

RESERVES

Details of the reserves of the Group are set out in note 26 to the consolidated financial statements.

As of 31 December 2014, the reserves of the Company available for distribution, as calculated under the provisions of section 79B of the Companies Ordinance, and in accordance with the Companies Law Cap. 22 of Cayman Islands, was approximately HK$27.4 million (2013: Nil) inclusive of share premium and retained earnings.

SHARE OPTION SCHEME

Particulars of the share option scheme (the "Scheme") which was adopted on 2 August 2014 are set out in note 25 to the consolidated financial statements.

No share options were granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2014.

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors

Mr. Pei Wing Fu *(Chairman) (appointed on 25 April 2014)*
Ms. Pei Wing Sze Clare *(appointed on 25 April 2014)*

Non-executive Director

Mr. Zheng Si Rong *(appointed on 20 January 2015)*

Independent Non-executive Directors

Mr. Law Yiu Sing *(appointed on 2 August 2014)*
Prof. Lam Sing Kwong Simon *(appointed on 2 August 2014)*
Ms. Wong Wai Ling *(appointed on 2 August 2014)*

The Directors' biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

Information regarding directors' emoluments is set out in note 8 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 5.09 of the GEM Listing Rules has been received from each of the INEDs.

DIRECTORS' SERVICE CONTRACT

All executive Directors have entered into service agreements with the Company for a term of three years commencing from 15 August 2014 (the date of Listing), which may be terminated earlier by no less than two months written notice served by either party on the other.

The non-executive Director, namely Mr. Zheng Si Rong, has entered into a service agreement with the Company for a term of three years commencing from 20 January 2015, which may be terminated earlier by no less than two months written notice served by either party on the other.

Each of the INEDs has entered into a service agreement with the Company for a term of three years commencing from 15 August 2014 (the date of Listing), which may be terminated earlier by no less than two months written notice served by either party on the other.

No director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. The non-executive Director of the Company was appointed for a fixed period but subject to retirement from office and re-election at the AGM of the Company in accordance with the Articles.

In accordance with Article 112 of the Articles, any director appointed by the Board either to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting 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 then be eligible for re-election.

Pursuant to Article 108 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 (3), 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 at least once every three years.

DIRECTORS' REPORT (continued)

Pursuant to Article 112 of the Articles, Mr. Zheng Si Rong and pursuant to Article 108, Mr. Law Yiu Sing and Ms. Wong Wai Ling will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Each of the executive Directors shall also be entitled to discretionary bonus to be determined by the Board based on, among other things, the performance of the individual directors and the overall financial position of the Group, and is subject to the recommendation of the remuneration committee of the Company.

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporation

As at 31 December 2014, interests or short positions of the Directors, chief executives of the Company in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation (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 (i) 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 they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long Position in the Shares

Name of Directors	Capacity/Nature	Number of Shares held/interested in	Approximate percentage of shareholding
Mr. Pei Wing Fu ("Mr. Pei") (Note 1)	Interest in controlled corporation	355,539,000	57.35%
Ms. Pei Wing Sze Clare ("Ms. Pei") (Note 2)	Interest in controlled corporation	109,461,000	17.65%

Notes:

1. Mr. Pei beneficially owns Power Key Investments Limited ("Power Key") as to 74.55% and is deemed, or taken to be, interested in all the Shares held by Power Key for the purposes of the SFO. Mr. Pei is an executive Director, the chairman of the Company and the sole director of Power Key.

2. Ms. Pei beneficially owns Talent Great Investments Limited ("Talent Great") as to 100% and is deemed, or taken to be, interested in all the Shares held by Talent Great for the purposes of the SFO. Ms. Pei is an executive Director and the sole director of Talent Great.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature	Number of Shares held/interested in	Percentage of shareholding
Mr. Pei	Power Key	Beneficial owner	7,455	74.55%

(iii) Short positions

As at 31 December 2014, none of the directors or the chief executive nor their associates had any short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

Save as disclosed below, as at 31 December 2014 and so far as is known to the Directors, no person other than certain Directors or chief executive of the Company had any interests or short positions in the Shares and underlying shares of the Company which were required to be recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Name of Shareholder	Capacity/Nature of interest	Number of shares held/interested in	Long/short position	Approximate percentage of shareholdings
Ms. Lau Kwai Fong (Note 1)	Interest of spouse	335,539,000	Long	57.35%
Mr. Choi Chi Chung (Note 2)	Interest of spouse	109,461,000	Long	17.65%
Power Key	Beneficial owner	335,539,000	Long	57.35%
Talent Great	Beneficial owner	109,461,000	Long	17.65%

Notes:

1. Ms. Lau Kwai Fong ("Mrs. Pei") is the spouse of Mr. Pei and is deemed, or taken to be, interested in all the Shares in which Mr. Pei is interested for the purposes of the SFO. Mrs. Pei also beneficially owns Power Key as to 25.45%.

2. Mr. Choi Chi Chung is the spouse of Ms. Pei and is deemed, or taken to be, interested in all the Shares in which Ms. Pei is interested for the purposes of the SFO.

MAJOR CUSTOMERS

During the Reporting Period, the Group's five largest customers accounted for approximately 39.6% (2013: 26.9%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 14.2% (2013: 7.5%) of the total revenue.

None of the Directors or any of their close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

MAJOR SUPPLIERS

During the Reporting Period, the Group's five largest suppliers accounted for approximately 50.5% (2013: 48.9%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 17.6% (2013: 17.7%) of the total purchases.

None of the Directors or any of their close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

MAJOR SUBCONTRACTORS

During the Reporting Period, the Group's five largest subcontractor accounted for approximately 71.5% (2013: 75.7%) of the total subcontractings of the Group and the largest subcontractor of the Group accounted for approximately 30.2% (2013: 33.8%) of the total purchases.

None of the Directors or any of their close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest subcontractors.

DIRECTORS' INTEREST IN CONTRACTS

Save for the related party transactions disclosed in note 29 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries, holding company or fellow subsidiaries was a party and in which a Director had a material interests directly or indirectly subsisted at the end of the Reporting Period or at any time during the Reporting Period.

MANAGEMENT CONTRACTS

No management contracts concerning the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company had not entered into any connected transaction during the Reporting Period which is required to be disclosed under the GEM Listing Rules. Related party transactions entered into by the Group during the Reporting Period are disclosed in Note 29 to the consolidated financial statements. The related party transactions set out in Note 29 to the consolidated financial statements were either discontinued before listing in August 2014, or fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules..

INTERESTS IN COMPETING BUSINESS

Having made specific enquiry of all Directors the controlling shareholders and substantial shareholders, all of them have confirmed that neither themselves nor their respective associates (as defined in the Listing Rules) had held any position or had interest in any businesses or companies that were or might be materially competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the Reporting Period.

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

From the listing of the Company's shares on GEM on 15 August 2014 to 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

From the date of Listing to 31 December 2014, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules (the "Code") except for the deviations from code provision A.2.1 of the Code which are explained above.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the shares of the Company (the "Code of Conduct"). Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the period from the date of Listing to 31 December 2014.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 2 August 2014 ("the Scheme"). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. No share options has been granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2014.

DIRECTORS' REPORT (continued)

INTEREST OF COMPLIANCE ADVISOR

As at 31 December 2014, as notified by the Company's compliance advisor, Messis Capital Limited (the "Compliance Advisor"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated 13 May 2014, neither the Compliance Advisor nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

HLB Hodgson Impey Cheng Limited ("HLB") shall retire in the forthcoming AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of HLB as auditors of the Company will be proposed at the forthcoming AGM. The Company has not changed its external auditors during the year ended 31 December 2014 and up to the date of this annual report.

AUDIT COMMITTEE

The Company has established an Audit Committee on 2 August 2014 with its written terms of reference in compliance with paragraphs C.3.3 and C.3.7 of the Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, namely Mr. Law Yiu Sing (Chariman), Prof. Lam Song Kwong Simon and Ms. Wong Wai Ling.

On behalf of the Board
Pei Wing Fu
Chairman

Hong Kong, 18 March 2015

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
GLORY FLAME HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Glory Flame Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 83, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 18 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	5	**89,392**	74,394
Cost of sales	6	**(58,252)**	(47,014)
Gross profit		**31,140**	27,380
Other income and net gains	5	**1,097**	143
Administrative and other operating expenses	6	**(23,714)**	(14,606)
Operating profit		**8,523**	12,917
Finance costs	9	**(335)**	(381)
Profit before income tax		**8,188**	12,536
Income tax expense	10	**(3,366)**	(2,706)
Profit and total comprehensive income for the year attributable to owners of the Company		**4,822**	9,830
Basic and diluted earnings per share (HK cents)	11	**0.87**	1.92

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	13,507	10,305
Current assets			
Inventories	16	657	1,592
Trade and other receivables	17	27,122	25,400
Amounts due from related companies	18	–	372
Cash and cash equivalents	19	40,996	4,384
		68,775	31,748
Total assets		82,282	42,053
EQUITY			
Capital and reserves			
Share capital	24	6,200	5,000
Share premium	24	34,025	–
Merger reserve	26	15,800	–
Retained earnings		14,954	10,132
Total equity		70,979	15,132
LIABILITIES			
Non-current liabilities			
Borrowings	20	730	3,025
Deferred taxation	23	1,274	765
		2,004	3,790

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Current liabilities			
Trade and other payables	21	**6,139**	9,992
Amount due to a shareholder	22	**–**	3,348
Borrowings	20	**1,881**	8,144
Tax payable		**1,279**	1,647
		9,299	23,131
Total liabilities		**11,303**	26,921
Total equity and liabilities		**82,282**	42,053
Net current assets		**59,476**	8,617
Total assets less current liabilities		**72,983**	18,922

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 March 2015 and signed on its behalf by:

Mr. Pei Wing Fu	**Ms. Pei Wing Sze Clare**
Director	*Director*

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	13	30,577
Current assets		
Trade and other receivables	17	543
Amount due from a subsidiary	13	8,036
Cash and cash equivalents	19	28,603
		37,182
Total assets		67,759
EQUITY		
Capital and reserves		
Share capital	24	6,200
Share premium	24	34,025
Special reserve	26	30,577
Accumulated losses	26	(6,656)
Total equity		64,146
LIABILITIES		
Current liabilities		
Trade and other payables	21	365
Amount due to a subsidiary	13	3,248
Total liabilities		3,613
Total equity and liabilities		67,759
Net current assets		33,569
Total assets less current liabilities		64,146

Mr. Pei Wing Fu
Director

Ms. Pei Wing Sze Clare
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company					
	Share capital HK$'000 *(Note 24)*	**Share premium** HK$'000 *(Note 24)*	**Capital reserve** HK$'000 *(Note 26)*	**Merger reserve** HK$'000 *(Note 26)*	**Retained earnings** HK$'000	**Total equity** HK$'000
Balance at 1 January 2013	5,000	–	–	–	302	5,302
Profit and total comprehensive income for the year	–	–	–	–	9,830	9,830
	–	–	–	–	9,830	9,830
Balance at 31 December 2013	5,000	–	–	–	10,132	15,132
Balance at 1 January 2014	5,000	–	–	–	10,132	15,132
Profit and total comprehensive income for the year	–	–	–	–	4,822	4,822
	–	–	–	–	4,822	4,822
Transactions with owners:						
Deemed contribution from Mr. Pei Wing Fu arising from wavier of a loan (Note 27(b))	–	–	2,800	–	–	2,800
Capitalisation of shareholder's loan (Note 27(b))	8	7,992	–	–	–	8,000
Reorganisation	(5,008)	(7,992)	(2,800)	15,800	–	–
Shares issued pursuant to the capitalisation issue	5,115	(5,115)	–	–	–	–
Proceeds from placing of shares	1,085	42,315	–	–	–	43,400
Share issuance costs	–	(3,175)	–	–	–	(3,175)
	1,200	34,025	–	15,800	–	51,025
Balance at 31 December 2014	6,200	34,025	–	15,800	14,954	70,979

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Net cash generated from operations	27(a)	**10,864**	6,449
Income tax paid		**(3,225)**	(414)
Net cash generated from operating activities		**7,639**	6,035
Cash flows from investing activities			
Purchases of property, plant and equipment		**(10,130)**	(4,900)
Deposits paid for purchases of property, plant and equipment		**(91)**	–
Proceeds from disposal of property, plant and equipment		**102**	88
Interest received		**35**	–
Net cash used in investing activities		**(10,084)**	(4,812)
Cash flows from financing activities			
Proceeds from placing of shares		**43,400**	–
Share issuance costs		**(3,175)**	–
Drawdown of bank borrowings		**6,000**	7,000
Repayment of finance leases		**(3,151)**	(2,816)
Repayment of bank borrowings		**(11,682)**	(2,620)
Interest paid on finance leases		**(179)**	(298)
Interest paid on bank borrowings		**(156)**	(83)
Shareholder's loan prior to the Reorganisation		**8,000**	–
Dividends paid		**–**	(1,500)
Net cash generated from/(used in) financing activities		**39,057**	(317)
Net increase in cash and cash equivalents		**36,612**	906
Cash and cash equivalents at beginning of the year		**4,384**	3,478
Cash and cash equivalents at end of the year	19	**40,996**	4,384

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Glory Flame Holdings Limited (the "Company") was incorporated in the Cayman Islands on 25 April 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 15 August 2014. Its parent and ultimate holding company is Power Key Investments Limited ("Power Key"), a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Pei Wing Fu ("Mr. Pei") and Ms. Lau Kwai Fong ("Mrs. Pei") (hereinafter collectively referred to as the "Controlling Parties").

The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is Suites 2001-2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (collectively referred as to the "Group") are principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor.

Prior to the corporate reorganisation undertaken in preparation for the listing of the Company's shares on the GEM of the Stock Exchange (the "Reorganisation"), the group entities were under the control of the Controlling Parties. Through the Reorganisation, the Company became the holding company of the companies now comprising the Group on 8 May 2014. Accordingly, for the purpose of the preparation of the consolidated financial statements of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the years presented. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group was under the control of the Controlling Parties prior to and after the Reorganisation.

The consolidated financial statements have been prepared as if the Company had been the holding company of the Group throughout the years presented in accordance with Accounting Guideline 5 "*Merger Accounting for Common Control Combinations*" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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 years presented, which include the results, changes in equity and cash flows of the companies now comprising the Group, have been prepared as if the current group structure had been in existence throughout the years presented, or since their respective dates of incorporation, where this is a shorter period. The consolidated statement of financial position as at 31 December 2013 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("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 GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except as otherwise stated in the accounting policies below.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 below.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

Amendment to HKAS 32, "Financial Instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's consolidated financial statements.

Amendments to HKAS 36, "Impairment of Assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in HKAS 36 by the issue of HKFRS 13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

Amendment to HKAS 39, "Financial Instruments: Recognition and Measurement" on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to "over-the-counter" derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group's consolidated financial statements as a result.

HK(IFRIC) 21, "Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

HKFRS 15, "Revenue from Contracts with Customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(a) Business combinations

Except for the business combination under common control including the Reorganisation, the acquisition method of accounting is used to account for the Group's business combination. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date of whom control is obtained, recognising the fair value changes in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transaction with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Transaction with non-controlling interests (Continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Merger accounting for common control combinations

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 consolidated 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 parties' 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 comparative amounts in 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 this is a shorter period, regardless of the date of the common control combination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HKD, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within "Other income and net gains".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of that reporting period;

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in consolidated statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

- Plant and machinery : 25%
- Furniture and fixtures : 20%
- Motor vehicles : 25%
- Decoration : 20%
- Office equipment : 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and net gains" in the consolidated statement of profit or loss and other comprehensive income.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Leases (Continued)

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.9 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "amounts due from related companies" and "cash and cash equivalents" in the consolidated statement of financial position.

2.10 Impairment of financial assets

The Group assesses at the end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2.17 Borrowing costs

General and specific 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.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred taxation liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Retirement benefits

The Group operates a defined contribution plan and pays contributions to a privately administered pension insurance plan on a mandatory, contractual or voluntary basis. 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts returns. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Provision of concrete demolition services

Revenue from provision of concrete demolition services is recognised based on the stage of completion of the jobs, provided that the stage of jobs completion and the gross billing value of the jobs can be measured reliably. Progress billing is made according to the stage of job completion by reference to the work done as reviewed and approved by the customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.23 Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group is primarily exposed to foreign exchange risk arising from United States dollars ("USD") and Euro ("EUR"). Foreign exchange risk primarily arises from future commercial transactions and recognised assets and liabilities denominated in a foreign currency.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. In the opinion of the directors, the HKD are reasonably stable against the USD under the Linked Exchange Rate System, and accordingly, no sensitivity analysis with respect to the USD is performed.

At 31 December 2013 and 2014, if HKD had weakened/strengthened by 100 basis points against the EUR with all other variables held constant, profit before income tax would have been approximately HK$15,000 and HK$2,000 lower/higher respectively, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade and other payables.

(ii) Interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group has not hedged its cash flow interest rate risks.

As at 31 December 2013 and 2014, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's profit before income tax would have been decreased/increased by approximately HK$112,000 and HK$26,000 respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iii) Credit risk

Credit risk arises mainly from trade and other receivables, amounts due from related companies and cash at banks. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The credit risk of bank balances is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2013 and 2014, there were one and three customers which individually contributed over 10% of the Group's trade and other receivables, respectively. The aggregate amount of trade and other receivables from these customers amounted to 11% and 37% of the Group's total trade and other receivables as at 31 December 2013 and 2014.

(iv) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and long term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iv) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group may be required to pay:

Group

	On demand or within one year HK$'000	Between one and two years HK$'000	Between two and five years HK$'000	Total HK$'000
As at 31 December 2014				
Trade and other payables	6,139	–	–	6,139
Borrowings	1,951	739	–	2,690
	8,090	739	–	8,829
As at 31 December 2013				
Trade and other payables	9,992	–	–	9,992
Amount due to a shareholder	3,348	–	–	3,348
Borrowings	8,618	2,243	882	11,743
	21,958	2,243	882	25,083

Company

	On demand or within one year HK$'000	Between one and two years HK$'000	Between two and five years HK$'000	Total HK$'000
As at 31 December 2014				
Trade and other payables	365	–	–	365
Amount due to a subsidiary	3,248	–	–	3,248
	3,613	–	–	3,613

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operation and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the total interest-bearing liabilities divided by the total equity.

The gearing ratios at 31 December 2013 and 2014 were as follows:

	2014 HK$'000	2013 HK$'000
Total borrowings (Note 20)	2,611	11,169
Total equity	70,979	15,132
Gearing ratio	4%	74%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives and impairment of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including decline in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Useful lives and impairment of property, plant and equipment (Continued)

Impairment of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management judgement is required in the area of asset impairment particularly in assessing; (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of the operations.

(b) Impairment of receivables

Management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at the end of the reporting period.

Significant judgement is exercised on the assessment of the collectability of receivables from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents receipts from provision of concrete demolition services in the ordinary course of business. Revenue and other income and net gains recognised during the year are as follows:

	2014 HK$'000	2013 HK$'000
Turnover		
Provision of concrete demolition services	**89,392**	74,394

	2014 HK$'000	2013 HK$'000
Other income and net gains		
Interest income	**35**	–
Exchange gains	**107**	–
Gain on disposal of property, plant and equipment	**56**	44
Recovery of bad debts	**387**	–
Reversal of allowance for impairment of retention receivables	**227**	–
Others	**285**	99
	1,097	143

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors regards the Group's business as a single operating segment and reviews the consolidated financial statements accordingly. Also, the Group only engages its business in Hong Kong. Therefore, no segment information is presented.

For the year ended 31 December 2014, there was one (2013: Nil) customer which individually contributed over 10% of the Group's revenue. The aggregate amount of revenue from this customer amounted to approximately 14% (2013: Nil) of the Group's total revenue.

6. EXPENSES BY NATURE

	2014 HK$'000	2013 HK$'000
Cost of sales		
Raw materials and consumables	9,535	8,246
Subcontracting charges	23,991	19,356
Staff costs (Note 7)	13,429	11,224
Transportation expenses	2,662	1,881
Machinery rental cost	209	300
Repair and maintenance	2,173	1,274
Depreciation of owned assets (Note 14)	3,787	2,314
Depreciation of assets under finance leases (Note 14)	2,294	2,294
Other expenses	172	125
	58,252	47,014
Administrative and other operating expenses		
Auditors' remuneration	600	36
Staff costs, including directors' emoluments (Note 7)	4,850	4,861
Depreciation of owned assets (Note 14)	1,076	484
Depreciation of assets under finance leases (Note 14)	–	604
Operating lease rental on premises	951	1,445
Travelling	30	132
Insurance	377	441
Legal and professional fees	827	–
Listing expenses	8,994	–
Provision for impairment on trade receivables	142	85
Provision for impairment on retention receivables	–	581
Entertainment	1,955	1,836
Motor vehicles expenses	2,031	2,400
Other expenses	1,881	1,701
	23,714	14,606

7. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2014 HK$'000	2013 HK$'000
Salaries and allowances	17,549	15,492
Retirement benefit expenses		
– defined contribution plan	730	593
	18,279	16,085

The Group operates a defined contribution scheme in Hong Kong which complies with the requirements under the Mandatory Provident Fund ("MPF") Schemes Ordinance. All assets under the scheme are held separately from the Group under independently administered funds. Contributions to the MPF scheme follow the MPF Schemes Ordinance.

Salaries and allowances for the year ended 31 December 2014 included rental expenses paid to Grandwin Worldwide Resource Limited ("Grandwin") amounting HK$50,000 (2013: HK$600,000) respectively for the lease of a property as director's quarter (Note 29).

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive for the year ended 31 December 2014 is set out below:

	Fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2014					
Executive directors					
Mr. Pei (Chief Executive Officer)	–	832	–	17	849
Ms. Pei Wing Sze, Clare	–	733	20	17	770
Non-executive directors					
Mr. Zheng Si Rong (Note (i))	–	–	–	–	–
Independent non-executive directors					
Prof. Lam Sing Kwong Simon (Note (ii))	45	–	–	–	45
Mr. Law Yiu Sing (Note (ii))	45	–	–	–	45
Ms. Wong Wai Ling (Note (ii))	45	–	–	–	45
	135	1,565	20	34	1,754

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

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

The remuneration of each director for the year ended 31 December 2013 is set out below:

	Fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2013					
Executive directors					
Mr. Pei	–	1,066	5	15	1,086
Ms. Pei Wing Sze, Clare	–	437	5	15	457
	–	1,503	10	30	1,543

During the year ended 31 December 2014, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2013: Nil). Neither the chief executive nor any of the directors has waived or agreed to waive any emoluments during the year ended 31 December 2014 (2013: Nil).

Notes:

(i) Mr. Zheng Si Rong was appointed as a non-executive director of the Company on 20 January 2015.

(ii) The independent non-executive directors, Prof. Lam Sing Kwong Simon, Mr. Law Yiu Sing and Ms. Wong Wai Ling were appointed as directors of the Company on 2 August 2014. During the year ended 31 December 2013, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of independent non-executive directors.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, two (2013: two) of them are directors and the chief executive for the year ended 31 December 2014 whose emoluments are disclosed above. The emoluments in respect of the remaining three (2013: three) individuals for the year ended 31 December 2014 are as follows:

	2014 HK$'000	2013 HK$'000
Salaries, allowances and benefits in kind	**1,551**	1,353
Discretionary bonuses	**90**	45
Retirement scheme contributions	**50**	45
	1,691	1,443

The emoluments of each of the above non-directors and non-chief executive, highest paid individuals were below HK$1,000,000.

During the year ended 31 December 2014, no emoluments were paid by the Group to the above highest paid individuals as (i) an inducement to join or upon joining the Group or (ii) as compensation for loss of office as a director or management of any members of the Group (2013: Nil).

9. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on finance leases	**179**	298
Interest on bank borrowings wholly repayable within five years	**156**	83
	335	381

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at a rate of 16.5% (2013: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year.

	2014 **HK$'000**	2013 HK$'000
Hong Kong profits tax:		
– Current year	**2,781**	1,941
– Under-provision in prior year	**76**	–
Deferred income tax (Note 23)	**509**	765
Income tax expense	**3,366**	2,706

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2014 **HK$'000**	2013 HK$'000
Profit before income tax	**8,188**	12,536
Calculated at a tax rate of 16.5%	**1,351**	2,069
Expenses not deductible for tax purposes	**1,559**	48
Income not taxable for tax purposes	**(15)**	–
Under-provision in prior year	**76**	–
Tax losses for which no deferred income tax asset was recognised	**351**	–
Others	**44**	–
Adjustment in respect of prior years	**–**	589
Income tax expense	**3,366**	2,706

11. EARNINGS PER SHARE

	2014	2013
Profit attributable to owners of the Company (HK$'000)	**4,822**	9,830
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	**552,819**	511,500
Basic earnings per share (HK cents)	**0.87**	1.92

For the year ended 31 December 2014, the calculation of the basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company and (ii) the weighted average number of ordinary shares issued during the year.

For the year ended 31 December 2013, the calculation of the basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company and (ii) the weighted average number of 511,500,000 shares (comprising 1,000 shares in issue and 511,499,000 shares to be issued under the capitalisation issue), as if these 511,500,000 shares were outstanding throughout the year.

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the year ended 31 December 2014 (2013: Nil).

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of losses of approximately HK$6,656,000 (Note 26(b)).

13. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES

(a) Investments in subsidiaries

	2014 HK$'000
Investment, at cost:	
Unlisted, shares	**30,577**

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

13. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES (Continued)

(a) Investments in subsidiaries (Continued)

The following is a list of the subsidiaries at 31 December 2014:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Nominal value of issued share capital	Interest held
Ultimate Expert Holdings Limited ("Ultimate Expert")	BVI, limited liability company	Investment holding in Hong Kong	Ordinary share USD2,000	100% (direct)
Drillcut Limited ("Drillcut")	Hong Kong, limited liability company	Provision of concrete demolition services in Hong Kong as a subcontractor	Ordinary share HK$5,000,000	100% (indirect)

(b) Balances with subsidiaries

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Plant and machinery HK$'000 (Note a)	Furniture and fixtures HK$'000	Motor vehicles HK$'000 (Note b)	Decoration HK$'000	Office equipment HK$'000	Total HK$'000
Cost						
At 1 January 2013	17,447	1,623	7,152	3,580	–	29,802
Additions	4,866	–	458	–	–	5,324
Disposals	(87)	–	(315)	–	–	(402)
At 31 December 2013	22,226	1,623	7,295	3,580	–	34,724
Accumulated depreciation						
At 1 January 2013	8,873	1,562	5,379	3,267	–	19,081
Charge for the year (Note 6)	4,608	20	962	106	–	5,696
Disposals	(43)	–	(315)	–	–	(358)
At 31 December 2013	13,438	1,582	6,026	3,373	–	24,419
Net book value						
At 31 December 2013	8,788	41	1,269	207	–	10,305
Cost						
At 1 January 2014	22,226	1,623	7,295	3,580	–	34,724
Additions	8,879	24	969	491	42	10,405
Disposals	(63)	–	(114)	–	–	(177)
At 31 December 2014	31,042	1,647	8,150	4,071	42	44,952
Accumulated depreciation						
At 1 January 2014	13,438	1,582	6,026	3,373	–	24,419
Charge for the year (Note 6)	6,081	23	887	159	7	7,157
Disposals	(17)	–	(114)	–	–	(131)
At 31 December 2014	19,502	1,605	6,799	3,532	7	31,445
Net book value						
At 31 December 2014	11,540	42	1,351	539	35	13,507

14. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

Notes:

(a) Plant and machinery includes the following amounts where the Group is a lessee under finance leases:

	2014 HK$'000	2013 HK$'000
Cost – capitalised finance leases	9,175	9,175
Accumulated depreciation	(7,721)	(5,427)
Net book value	1,454	3,748

(b) Motor vehicles includes the following amounts where the Group is a lessee under finance leases:

	2014 HK$'000	2013 HK$'000
Cost – capitalised finance leases	–	2,448
Accumulated depreciation	–	(1,301)
Net book value	–	1,147

15. FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Group

	2014 HK$'000	2013 HK$'000
Assets as per consolidated statement of financial position		
Loans and receivables		
Trade and other receivables excluding prepayments	26,174	25,373
Amounts due from related companies	–	372
Cash and cash equivalents	40,996	4,384
Total	67,170	30,129
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised cost		
Trade and other payables excluding non-financial liabilities	6,139	9,992
Amount due to a shareholder	–	3,348
Borrowings	2,611	11,169
Total	8,750	24,509

15. FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

(b) Company

	2014 HK$'000
Assets as per statement of financial position	
Loans and receivables	
Amount due from a subsidiary	8,036
Cash and cash equivalents	28,603
Total	36,639
Liabilities as per statement of financial position	
Financial liabilities at amortised cost	
Trade and other payables excluding non-financial liabilities	365
Amount due to a subsidiary	3,248
Total	3,613

16. INVENTORIES – GROUP

	2014 HK$'000	2013 HK$'000
Raw materials and consumables	657	1,592

During the year ended 31 December 2014, the cost of inventories recognised as expense and included in "cost of sales" amounted to approximately HK$9,535,000 (2013: HK$8,246,000).

17. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company
	2014	2013	**2014**
	HK$'000	HK$'000	**HK$'000**
Trade receivables	**22,878**	22,501	**–**
Less: allowance for impairment of trade receivables	**(129)**	(85)	**–**
Trade receivables, net	**22,749**	22,416	**–**
Retention receivables	**3,284**	3,491	**–**
Less: allowance for impairment of retention receivables	**(207)**	(581)	**–**
Retention receivables, net	**3,077**	2,910	**–**
Other receivables, deposits and prepayments	**1,296**	74	**543**
	27,122	25,400	**543**

Notes:

(a) Trade receivables are past due when a counterparty has failed to make a payment when contractually due. The credit period granted to customers is 15 days generally. Trade receivables are denominated in HKD.

(b) The ageing analysis of the trade receivables based on invoice date is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
0 – 30 days	**6,247**	6,699
31 – 60 days	**4,510**	5,880
61 – 90 days	**3,747**	6,285
91 – 365 days	**7,679**	2,353
Over 365 days	**566**	1,199
	22,749	22,416

Trade receivables of approximately HK$6,117,000 (2013: HK$6,375,000) as at 31 December 2014 were not yet past due and approximately HK$16,632,000 (2013: HK$16,041,000) as at 31 December 2014 were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default and no provision has therefore been made.

17. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY (Continued)

(b) The ageing analysis of the trade receivables based on invoice date is as follows: (Continued)

Trade receivables of approximately HK$142,000 (2013: HK$85,000) as at 31 December 2014 were impaired. The amount of the provision was approximately HK$129,000 (2013: HK$85,000) as at 31 December 2014. The ageing of these receivables is more than 365 days. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

Movements in the Group's provision for impairment of trade receivables are as follows:

	2014 HK$'000	2013 HK$'000
At 1 January	**85**	–
Allowance for trade receivables	**142**	85
Receivables written off during the year as uncollectible	**(98)**	–
At 31 December	**129**	85

Retention receivables were not yet past due as at 31 December 2014 (2013: Nil) and were settled in accordance with the terms of the respective contracts.

As at 31 December 2014, retention receivables amounted to approximately HK$207,000 (2013: HK$581,000) were individually determined to be impaired, on which the Group experienced unexpected difficulties during the collection process from the customers. The management assessed that the balances are not expected to be recovered and provision for impairment loss was recognised.

Movements in the Group's provision for impairment of retention receivables are as follows:

	2014 HK$'000	2013 HK$'000
At 1 January	**581**	–
Allowance for retention receivables	**–**	581
Receivables written off during the year as uncollectible	**(147)**	–
Reversal of provision for impairment of retention receivables	**(227)**	–
At 31 December	**207**	581

(c) The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

18. AMOUNTS DUE FROM RELATED COMPANIES

	2014 HK$'000	Maximum balance outstanding during the year 2014 HK$'000	2013 HK$'000	Maximum balance outstanding during the year 2013 HK$'000
Grandwin	–	178	178	178
Vincent Engineering Co (“Vincent Engineering”)	–	194	194	194
	–		372	

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

19. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company
	2014 HK$'000	2013 HK$'000	2014 HK$'000
Cash at banks	25,978	4,360	13,603
Cash on hand	18	24	–
Short-term bank deposits	15,000	–	15,000
Cash and cash equivalents	40,996	4,384	28,603

Notes:

(a) The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	Group		Company
	2014 HK$'000	2013 HK$'000	2014 HK$'000
HKD	40,884	4,272	28,603
USD	112	112	–
	40,996	4,384	28,603

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates.

20. BORROWINGS – GROUP

	2014 HK$'000	2013 HK$'000
Non-current		
Finance lease liabilities (Note b)	**730**	3,025
Current		
Bank borrowings (Note a)	**72**	5,754
Finance lease liabilities (Note b)	**1,809**	2,390
	1,881	8,144
Total borrowings	**2,611**	11,169

Notes:

(a) Bank borrowings

Bank borrowings mature until 2015 and bear interest at 4.75% per annum.

As at 31 December 2013, bank borrowings amounting to approximately HK$2,862,000, were drawn under the SME Financing Guarantee Scheme (the "Scheme") launched by The Hong Kong Mortgage Corporation Limited.

The bank borrowings are denominated in HKD.

The bank borrowings are classified as current liabilities according to the HK Interpretation 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA. According to the repayment schedule, the bank borrowings are repayable as follows:

	2014 HK$'000	2013 HK$'000
Within a period not exceeding one year	72	3,063
Within a period of more than one year but not exceeding two years	–	977
Within a period of more than two years but not exceeding five years	–	1,714
	72	5,754

20. BORROWINGS – GROUP (Continued)

(b) Finance lease liabilities

Lease liabilities are secured as the rights to the leased assets revert to the lessors in the event of default.

	2014 HK$'000	2013 HK$'000
Gross finance lease liabilities		
– minimum lease payments		
Within a period not exceeding one year	1,877	2,570
Within a period of more than one year but not exceeding two years	739	2,243
Within a period of more than two year but not exceeding five years	–	882
	2,616	5,695
Future finance charges on finance leases	(77)	(280)
Present value of finance lease liabilities	2,539	5,415

The present value of finance lease liabilities is as follows:

	2014 HK$'000	2013 HK$'000
Within a period not exceeding one year	1,809	2,390
Within a period of more than one year but not exceeding two years	730	2,157
Within a period of more than two year but not exceeding five years	–	868
	2,539	5,415

The carrying amounts of all finance lease liabilities are denominated in HKD.

(c) As at 31 December 2013, the Group had committed banking facilities (including the finance lease facilities) of approximately HK$28,971,000 which bore interest at 2.25% to 6.25% per annum.

As at 31 December 2014, the Group had committed banking facilities (including the finance lease facilities) of approximately HK$11,373,000 which bore interest at 3.25% to 6.25% per annum.

As at 31 December 2013 and 2014, the undrawn banking facilities amounted to approximately HK$12,000,000 and HK$4,000,000 respectively.

20. BORROWINGS – GROUP (Continued)

(c) (Continued)

These banking facilities were secured by:

(i) The Group's plant and machinery with an aggregate net book value of approximately HK$3,748,000 and HK$1,454,000 as at 31 December 2013 and 2014 respectively (Note 14);

(ii) The Group's motor vehicles with an aggregate net book value of approximately HK$1,147,000 and nil as at 31 December 2013 and 2014 respectively (Note 14);

(iii) Personal guarantees given by certain directors as at 31 December 2013 and 2014;

(iv) Corporate guarantee provided by Grandwin, a related company of the Group, as at 31 December 2013 and 2014;

(v) Guarantee by The Hong Kong Mortgage Corporation Limited under the Scheme as at 31 December 2013;

(vi) Guarantee by the Government of Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme as at 31 December 2013; and

(vii) Corporate guarantee provided by the Company as at 31 December 2014.

21. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company
	2014	2013	**2014**
	HK$'000	HK$'000	**HK$'000**
Trade payables	**4,135**	5,767	**–**
Accruals and other payables	**2,004**	4,225	**365**
	6,139	9,992	**365**

Notes:

(a) Payment terms granted by suppliers are 30 days from the invoice date of the relevant purchases.

The ageing analysis of trade payables based on the invoice date is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
0 – 30 days	**1,883**	2,941
31 – 60 days	**5**	642
61 – 90 days	**–**	30
Over 90 days	**2,247**	2,154
	4,135	5,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

21. TRADE AND OTHER PAYABLES – GROUP AND COMPANY (Continued)

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2014 HK$'000	2013 HK$'000
HKD	**5,988**	8,524
EUR	**151**	1,468
	6,139	9,992

22. AMOUNT DUE TO A SHAREHOLDER

The balance is denominated in HKD. The amount was unsecured, non-interest bearing and repayable on demand.

23. DEFERRED TAXATION

The movements in deferred tax liabilities during the year are as follows:

	Accelerated tax depreciation HK$'000
At 1 January 2013	–
Charged to profit or loss (Note 10)	765
At 31 December 2013	765
At 1 January 2014	**765**
Charged to profit or loss (Note 10)	**509**
At 31 December 2014	**1,274**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$351,000 (2013: Nil) in respect of losses amounting to approximately HK$2,127,000 (2013: Nil) that can be carried forward against future taxable income. Tax losses of subsidiaries may be carried forward indefinitely. Certain amounts of unused tax losses are subject to approval from the Hong Kong Inland Revenue Department.

24. SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

	Number of ordinary shares	Ordinary shares HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
On 25 April 2014 (date of incorporation) (Note (b))	38,000,000	380
Increase in authorised share capital (Note (c))	1,962,000,000	19,620
As at 31 December 2014	**2,000,000,000**	**20,000**

	Number of ordinary shares	Ordinary shares HK$'000	Share premium HK$'000
Issued and fully paid:			
On 25 April 2014 (date of incorporation) (Note (b))	1,000	–	–
Shares issued pursuant to the capitalisation issue (Note (d))	511,499,000	5,115	(5,115)
Shares issued pursuant to the placing (Note (e))	108,500,000	1,085	39,140
As at 31 December 2014	**620,000,000**	**6,200**	**34,025**

Notes:

(a) The balance of share capital at 31 December 2013 represents the aggregate of paid up share capital of the subsidiaries comprising the Group prior to Reorganisation.

(b) On 25 April 2014, the Company was incorporated in the Cayman Islands with an initial authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares with a par value of HK$0.01 per share. One nil-paid share was allotted and issued to the subscriber to the memorandum and articles of association of the Company, and was subsequently transferred to Power Key on the same date. On the same date, 785 and 214 nil-paid shares were allotted and issued to Power Key and Talent Great Investments Limited ("Talent Great") respectively. Pursuant to the Reorganisation and as consideration for the acquisition by the Company of the entire issued share capital of Ultimate Expert from Power Key and Talent Great respectively, on 8 May 2014, the 786 and 214 nil-paid shares held by Power Key and Talent Great respectively, were credited as fully paid.

(c) On 2 August 2014, pursuant to the written resolutions of the shareholders of the Company, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 shares, each ranking pari passu with shares then in issue in all respects.

24. SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY (Continued)

(d) On 2 August 2014, the Company issued and allotted a total of 511,499,000 ordinary shares of the Company credited as fully paid at par to the then shareholders of the Company's shares on the register of members at the close of business on 2 August 2014 by way of capitalisation of the sum of HK$5,114,990 standing to the credit of the share premium account of the Company, pursuant to the written resolutions of the shareholders of the Company passed on 2 August 2014.

(e) On 15 August 2014, the Company issued 108,500,000 shares pursuant to the Company's listing on the GEM of the Stock Exchange by way of placing at a price of HK$0.40 per share.

25. SHARE OPTION SCHEME – GROUP AND COMPANY

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 2 August 2014 as to attract and retain the best available personnel and to provide additional incentive to the eligible participants under the Scheme.

Under the Scheme, the directors of the Company may at their absolute discretion and subject to the terms of the Scheme, grant options to any employees (full-time or part-time), directors, consultants or advisors, distributors, contractors, suppliers, agents, customers, business partners or service provider of the Group, to subscribe for shares of the Company. The eligibility of any participants to the grant of any options shall be determined by the directors from time to time on the basis of the directors' opinion as to their contribution to the development and growth of the Group.

Under the Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company as from the adoption date must not in aggregate exceed 10% of all the shares in issue upon the date on which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by obtaining approval of the Company's shareholders in general meeting provided that the total number of Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. The aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his/her close associates abstaining from voting.

25. SHARE OPTION SCHEME – GROUP AND COMPANY (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approval by the independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee). Where any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective close associates would result in the total number of shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in any 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value in excess of HK$5 million must be approved by the Company's shareholders at the general meeting of the Company, with voting to be taken by way of poll.

The offer of a grant of share options might be accepted in writing within 7 days from the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the directors may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof. A nominal consideration of HK$1 is payable on acceptance of the grant of an option with a remittance in favour of the Company within such time as may be specified in the offer (which shall not be later than 7 days from the date of the offer).

The subscription price shall be a price solely determined by the board of directors of the Company and notified to a participant and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date; and (iii) the nominal value of the Company's share on the offer date.

The Scheme shall be valid and effective for a period of ten years commencing on 2 August 2014, subject to early termination provisions contained in the Scheme.

No share options were granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2014.

26. RESERVES

(a) The Group

(i) Share premium

Share premium arose from the issue of shares at a price greater than the par value of the shares and can be utilised for future bonus issue. Prior to the Reorganisation, the balance of share premium represents the aggregate of share premium of the subsidiaries now comprising the Group.

26. RESERVES (Continued)

(a) The Group (Continued)

(ii) Merger reserve

Merger reserve represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the share capital of its subsidiaries arising from the Reorganisation.

(iii) Capital reserve

Capital reserve represents the wavier of the amount due to Mr. Pei from Drillcut, the subsidiary of the Company, and is accounted for as deemed capital contribution from Mr. Pei prior to the Reorganisation.

(b) The Company

	Special reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
On 25 April 2014 (date of incorporation)	–	–	–
Reorganisation	30,577	–	30,577
Loss for the period	–	(6,656)	(6,656)
	30,577	(6,656)	23,921

Note:

Special reserve represents the difference between the fair value of the shares of Ultimate Expert acquired pursuant to the Reorganisation on 8 May 2014 over the nominal value of the Company's share issued in exchange therefore.

27. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash generated from operations

	2014 HK$'000	2013 HK$'000
Profit before income tax	8,188	12,536
Adjustments for:		
Depreciation	7,157	5,696
Interest income	(35)	–
Gain on disposal of property, plant and equipment	(56)	(44)
Reversal of provision for impairment on retention receivables	(227)	–
Provision for impairment on trade receivables	142	85
Provision for impairment on retention receivables	–	581
Interest expense	335	381
Operating profit before working capital changes	15,504	19,235
Decrease/(Increase) in inventories	935	(236)
Increase in trade and other receivables	(1,546)	(11,661)
Decrease/(Increase) in balances with related companies	372	(437)
(Decrease)/Increase in trade and other payables	(3,853)	2,811
Decrease in amount due to a shareholder	(548)	(3,263)
Net cash generated from operations	10,864	6,449

(b) Non-cash transactions

(i) During the year ended 31 December 2014, additions to property, plant and equipment of approximately HK$275,000 (2013: HK$424,000) were financed by finance lease arrangements.

(ii) A deed of release dated 31 March 2014 and executed by Mr. Pei in favour of Drillcut, pursuant to which Mr. Pei unconditionally and irrevocably, among other matters, released and discharged the repayment of a shareholder's loan from Mr. Pei to Drillcut in the amount of HK$2,800,000 and any claim regarding such repayment.

(iii) On 10 April 2014, pursuant to written resolutions of the shareholder of Ultimate Expert, Ultimate Expert allotted and issued 999 shares with a par value of US$1 each, credited as fully paid and ranking pari passu in all respects with the existing issued share as repayment of the shareholder's loan of HK$8,000,000.

28. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the end of reporting period not provided for in the consolidated financial statements were as follows:

	2014 HK$'000	2013 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**211**	–

(b) Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014 HK$'000	2013 HK$'000
No later than one year	**413**	–
Later than one year and no later than five years	**127**	–
	540	–

The Group is the lessee in respect of a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

29. RELATED PARTY TRANSACTIONS

(a) The directors of the Company are of the view that the following companies that had transactions or balances with the Group are related parties:

Name	**Relationship with the Group**
Grandwin	A related company controlled by Mr. Pei
Vincent Engineering	A related company controlled by Mr. Pei
Power Key	A holding company of the Company
Talent Great	A holding company of the Company

29. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

Save as disclosed in Note 18, 20, 22 and 27(b) to the consolidated financial statements, the Group had the following transactions with related companies during the year.

	2014 HK$'000	2013 HK$'000
Operating lease rental expense on premises paid to: (Note i)		
Grandwin	**356**	960
Vincent Engineering (Note ii)	**97**	288
Purchase of machinery from		
Grandwin (Note i)	**–**	404

Notes:

(i) In the opinion of the directors, these transactions were entered into in the normal course of business at mutually agreed prices and terms.

(ii) The Group rented a property from Mr. Pei and Mrs. Pei, where Vincent Engineering had been collecting the rental on their behalf.

(c) The emoluments of the directors and senior executives (representing the key management personnel) during the year are disclosed in Note 8.

30. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2014.

FINANCIAL SUMMARY

For the year ended 31 December 2014

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company dated 7 August 2014, is as follows.

	2014 HK$'000	2013 HK$'000	2012 HK$'000
Revenue	89,392	74,394	56,875
Cost of sales	(57,662)	(47,014)	(41,389)
Gross profit	31,730	27,380	15,486
Other income and net gains	1,097	143	59
Administrative and other operating expenses	(24,304)	(14,606)	(12,703)
Operating profit	8,523	12,917	2,842
Finance costs	(335)	(381)	(353)
Profit before income tax	8,188	12,536	2,489
Income tax expense	(3,366)	(2,706)	(120)
Profit and total comprehensive income for the year attributable to owners of the Company	4,822	9,830	2,369
Asset and liabilities			
Total assets	82,282	42,053	30,154
Total liabilities	(11,303)	(26,921)	(24,852)
Net assets	70,979	15,132	5,302
Equity attributable to equity holders of the Company	70,979	15,132	5,302