

# 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 **2015**

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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. Che Xiaoyan (*Vice Chairman*)  
*(appointed on 22 January 2016)*  
 Ms. Pei Wing Sze Clare  
 Mr. Liu Zhong Ping (*appointed on 8 September 2015*)  
 Mr. Chong Yu Keung (*with effect from 1 February 2016*)

#### Non-executive Director

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

#### Independent Non-executive Directors

Prof. Lam Sing Kwong Simon  
 Ms. Wong Wai Ling  
 Ms. Lee Suk Fong (*appointed on 6 November 2015*)  
 Mr. Tsang Wai Wa (*appointed on 8 December 2015*)  
 Mr. Liu Ping (*appointed on 8 December 2015*)  
 Mr. Law Yiu Sing (*resigned on 22 January 2016*)

#### AUDIT COMMITTEE

Mr. Tsang Wai Wa (*Chairman*)  
*(appointed on 22 January 2016)*  
 Prof. Lam Sing Kwong Simon  
 Ms. Wong Wai Ling  
 Mr. Law Yiu Sing (*resigned on 22 January 2016*)

#### REMUNERATION COMMITTEE

Prof. Lam Sing Kwong Simon (*Chairman*)  
 Ms. Pei Wing Sze Clare  
 Mr. Tsang Wai Wa (*appointed on 22 January 2016*)  
 Mr. Law Yiu Sing (*resigned on 22 January 2016*)

#### NOMINATION COMMITTEE

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

#### COMPANY SECRETARY

Ms. Au Man Yi, *member of HKICPA*

#### COMPLIANCE OFFICER

Ms. Pei Wing Sze Clare

#### AUTHORISED REPRESENTATIVES

Ms. Pei Wing Sze Clare  
 Ms. Au Man Yi

### REGISTERED OFFICE

Clifton House  
 PO Box 1350  
 75 Fort Street  
 Grand Cayman KY1-1108  
 Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### HONG KONG LEGAL ADVISERS

Loong & Yeung

### COMPLIANCE ADVISER

Messis Capital Limited (*terminated with effect from 31 January 2016 upon mutual agreement*)  
 Dakin Capital Limited (*appointed with effect from 1 February 2016*)

### 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  
 Hang Seng Bank Limited

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

### STOCK CODE

8059

### COMPANY'S WEBSITE

[www.drillcut.com.hk](http://www.drillcut.com.hk)

## CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors"), I am honoured to present the annual results of Glory Flame Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2015 (the "Reporting Period"). The revenue and gross profit of the Group increased and decreased by approximately 1.0% and 1.6% respectively in the Reporting Period compared to the year ended 31 December 2014. The profit attributable to shareholders of the Company was approximately HK\$10.6 million (2014: approximately HK\$4.8 million). The Board does not recommend any payment of dividends for the Reporting Period (2014: Nil).

2015 was a challenging year for the Group in view of the tough operating environment of the Group resulting from increasing costs including raw materials and consumables, staff and subcontracting charges as well as the increasing price competition. We will continue to monitor our business and seek to optimize our business strengths and competitive advantages wherever possible.

Although the operating environment of the construction business is expected to remain tough in the coming year, we believe that we have several business strengths that set us apart from our competitors and enable us to continue our growth and enhance our profitability. Such strengths and competitive strengths include: 1) well established presence in the concrete demolition industry in Hong Kong; 2) possession of a variety of machinery for concrete demolition work; and 3) in-house mechanics to repair and maintain our machinery.

In conclusion, on behalf of the Board, I would like to take this opportunity to thank 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, I would also like to express my heartfelt thanks to the shareholders of the Company for their trust and confidence in us.

**Mr Pei Wing Fu**

*Chairman*

Hong Kong, 21 March 2016

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

During the Reporting Period, the construction industry in Hong Kong was confronted with both positive and negative factors. On the one hand, the construction industry in general continued to grow primarily due to the “Ten Major Infrastructure Projects” announced by the government of Hong Kong (the “Government”). Also, there was a rising number of alteration 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. However, on the other hand, construction contractors in Hong Kong faced tough operating environment resulting from increasing costs of operation including, in particular, labour cost and cost of raw materials and consumables. Competition for sizeable and profitable jobs in certain areas of the construction industry, including the concrete demolition sector, remained keen.

### 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 2,080 jobs and as at 31 December 2015, the Group had a total of 81 jobs in our backlog (including jobs that have commenced but not yet completed as well as jobs that have been awarded to the Group but not yet commenced). As at 31 December 2015, the total revenue attributed to backlog recognised and yet to be recognised were approximately HK\$19.7 million and HK\$27.8 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 projects; 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 the Census and Statistics Department of the Government, the gross value of construction works performed for demolition and site preparation industry grew from approximately HK\$13,511.5 million in 2013 to approximately HK\$19,580.1 million in 2014. The increase was mainly due to the Policy Address announced by the Government 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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\$90.3 million, representing an increase of approximately 1.0% from the previous year (2014: approximately HK\$89.4 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 slightly decreased from approximately HK\$31.1 million for the year ended 31 December 2014 to approximately HK\$30.6 million for the Reporting Period, representing a decrease of approximately 1.6%. Such decrease was mainly due to the increase of the Group's cost of sales during the Reporting Period, such as subcontracting charges, staff costs, and transportation expenses.

#### Administrative and Other Operating Expenses

Our Group's general and administrative expenses decreased to approximately HK\$17.1 million for the Reporting Period from approximately HK\$23.7 million for the year ended 31 December 2014, which represented a decrease of approximately 28.1%. Such decrease was mainly due to the listing expenses of approximately HK\$9.0 million incurred during 2014 which was non-recurring in nature.

#### Net Profit and Net Profit Margin

Our Group's net profit for the Reporting Period was approximately HK\$10.6 million (2014: approximately HK\$4.8 million), representing an increase of approximately 120.1% on a year-on-year basis, mainly due to the net effect of the absence of non-recurring listing expenses incurred in 2014 and the increase in staff costs as well as Directors' emoluments. The Group's net profit margin for the Reporting Period amounted to approximately 10.8% (2014: approximately 5.4%).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Use of Proceeds

The net proceeds from the placing of the shares of the Company in connection with the listing (the “**Listing**”) was approximately HK\$ 31.2 million. During the period from 15 August 2014 (the “**Listing Date**”) to 31 December 2015 (the “**Review Period**”), the net proceeds from the Listing were applied as follows:

	<b>Planned use of proceeds as stated in the Prospectus during the Review Period HK\$ million</b>	<b>Actual use of proceeds during the Review Period HK\$ million</b>
Enhancing machinery and equipment	11.4	6.7
Strengthening manpower	3.0	1.7
Increasing marketing efforts	0.9	0.9
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 investors’ return.

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2015, the Group had cash and bank deposits of approximately HK\$95.5 million (2014: approximately HK\$41.0 million). The net increase was mainly due to net cash inflow from operating activities and the proceeds from Directors’ borrowings.

The gearing ratio of the Group as at 31 December 2015 (defined as total borrowings including interest bearing and non-interest bearing, divided by the Group’s total equity) was approximately 0.7 (2014: approximately 0.1).



## 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 Acquisition and Disposal of Subsidiaries and Associated Companies

The Group has no material acquisition and disposal of subsidiaries and associated companies during the Reporting Period.

### Debts and Charge on Assets

As at 31 December 2015, the total borrowings of the Group amounted to approximately HK\$55.7 million as compared to approximately HK\$2.6 million as at 31 December 2014. The increase was principally due to the increase in Directors' borrowings for general working capital purpose. The annual interest rates of the borrowings for the Reporting Period ranged from 3.25% to 6.25% (2014: 3.25% to 6.25%) per annum. All of the borrowings was accounted for as current liabilities of the Group (2014: approximately 72.0%). The borrowings repayable within one year amounted to approximately HK\$730,000. All of the above are denominated in Hong Kong Dollars.

As at 31 December 2015, finance lease liabilities are secured by certain fully depreciated plant and machinery of the Group (2014: secured by aggregated net book value of approximately HK\$1.5 million).

### Commitments

The Group does not have material capital commitments as at 31 December 2015 saved as disclosed in note 26 to the consolidated financial statements.

### Contingent Liability

As at 31 December 2015, the Group had no contingent liabilities.

### Significant Investments and New Business

During the Reporting Period, the Group had no significant investment other than the Group's ordinary principal activities, and the Group had not commenced any new business.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Events after the Reporting Period

#### Memorandum of understanding

As disclosed in the Company's announcement dated 22 January 2016, the Company entered into a memorandum of understanding (the "MOU") dated 22 January 2016 with Time Season Investments Limited (the "Target Company"), pursuant to which the Company proposed to acquire the issued share capital of the Target Company (the "Proposed Acquisition"). The Target Company is a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. LED International (Far East) Limited ("LED Company") is a company incorporated in Hong Kong with limited liability and is an investment holding company. As at the date of this report and to the best knowledge of the Directors, the entire issued share capital of LED Company is owned by the Target Company. Kepu Electronic Technical (Shenzhen) Company Limited ("Kepu Company") is a company established in the PRC with limited liability and is principally in, among others, the research, development and manufacturing of LED digital modules, LED digital tube, LED full color matrix, LED light strips. As at the date of this report and to the best knowledge of the Directors, the entire equity interest of Kepu Company is owned by LED Company.

#### Acquisition of Listed Securities

On 7 March 2016, Forever Rise Investment Limited (長昇投資有限公司), an indirect wholly-owned subsidiary of the Company, acquired 9,611,000 shares of JF Household Furnishings Limited (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (Stock Code: 776)) from an independent third party at the consideration of approximately HK\$38.9 million (excluding transaction cost) in cash (the "Acquisition"). As one or more of the applicable percentage ratios in respect of the Acquisition as calculated under Rule 19.07 of the GEM Listing Rules is greater than 5% and all the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting and announcement requirements. For details, please refer to the announcement of the Company dated 8 March 2016.

#### Employee and Remuneration Policies

As at 31 December 2015, the Group employed 76 staff. Total employee costs for the Reporting Period including directors' emoluments, amounted to approximately HK\$20.4 million (2014: approximately HK\$18.3 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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:

<b>Business objectives for the Review Period</b>	<b>Actual business progress from the Listing Date up to the date of this annual report</b>
1. Enhancing machinery and equipment	
<ul style="list-style-type: none"> <li>Purchase additional new machinery including 1 set of additional remote controlled demolition robot as well as other concrete demolition machinery, equipment, tools and accessories to improve our efficiency and technical capability</li> <li>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</li> </ul>	<p>New machinery with the amount of approximately HK\$6.7 million was acquired to enhance our efficiency and technical capability, including 2 sets of additional remote controlled demolition robot amounting to approximately HK\$2.7 million</p> <p>Search and identification of suitable machinery on an ongoing basis 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</p>
2. Strengthening manpower	
<ul style="list-style-type: none"> <li>Recruit about 7 additional experienced project management and execution staff to strengthen our frontline manpower</li> <li>Recruit about 3 additional experienced staff to strengthen our machinery repair and maintenance team</li> <li>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</li> </ul>	<p>8 experienced execution staff were recruited to strengthen our frontline manpower</p> <p>1 experienced staff was recruited to strengthen our machinery repair and maintenance team</p> <p>The Group has incurred approximately HK\$240,000 in supporting our workers to attend training and workshop in order to increase safety awareness and improve productivity</p>
3. Increasing marketing efforts	
<ul style="list-style-type: none"> <li>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</li> </ul>	<p>The Group had incurred approximately HK\$2.7 million in marketing effort</p>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business objectives for the Review Period	Actual business progress from the Listing Date up to the date of this annual report
<ul style="list-style-type: none"> <li>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</li> </ul>	<p>The Group has revamped its corporate website and brochure as planned. In addition, the Group constantly monitors potential construction and engineering projects in Hong Kong by way of subscription to relevant industry database. When an opportunity arises, the Group will actively secure the potential project by deploying various direct marking efforts</p>
<ul style="list-style-type: none"> <li>Actively approach and develop relationship with main contractors to obtain and secure new business opportunities</li> </ul>	<p>The Group continues to actively maintain good and/or develop new relationship with main contractors to obtain and secure new business opportunities</p>

### 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) 34 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 Directors consider that there will be both opportunities and challenges for the Group's concrete demolition business in 2016. On the one hand, 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. However, on the other hand, the Group is expected to continue to face tough operating environment resulting from increasing costs of operation including, in particular, labour cost and cost of raw materials and consumables, as well as keen price competition from competitors in the concrete demolition sector in Hong Kong. Furthermore, some of the concrete demolition jobs undertaken by the Group were part of certain public sector projects, which may be postponed due to the slow approval progress of infrastructure projects by the Legislative Council of Hong Kong and the Finance Committee of the Legislative Council of Hong Kong, resulting in potential delays and possible decrease in job opportunities in the concrete demolition sector in Hong Kong.

In addition, as disclosed in the Company's announcement dated 22 January 2016, the Company is contemplating the Proposed Acquisition. In order to maximise return to the Company and its shareholders in the long run, the Directors consider that it is in the interest of the Company and its shareholders to enter into the MOU to explore the possibility of diversification of the business of the Company and its subsidiaries. The Proposed Acquisition, should it materialise, will improve the Group's future earnings ability which will be in the best interests of the Company and its shareholders as a whole.

As disclosed in the announcement of the Company dated 22 January 2016, in order to maximize return to the Group and the shareholders of the Company in the long run, the Group is seeking an opportunity to enter into the market for environmentally friendly products, which will include but not limited to the manufacture of LED digital modules, LED related matrix, LED digital tube and LED light strips. In connection with the above objective, the Group has also been contemplating trading opportunity in relation to products of complete illuminating and light management systems as well as lighting solutions.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. PEI Wing Fu (Mr. Pei)**, aged 63, 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 34 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.

As at the date of this report, Power Key Investments Limited (“Power Key”) beneficially owns 24.80% 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 a director of Power Key.

**Ms. PEI Wing Sze Clare (Ms. Pei)**, aged 36, 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.

As at the date of this report, Talent Great Investments Limited (“Talent Great”) beneficially owns 3.14% 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 a director of Talent Great.

**Mr. Liu Zhong Ping (“Mr. Liu”)**, aged 49, was appointed as an executive Director of our Group on 8 September 2015. Mr. Liu graduated from the Guangdong University of Technology with a Bachelor’s degree in materials science and engineering. Mr. Liu has extensive working experience in management and leadership role. Mr. Liu has been engaged in various business management positions in logistic management and import and export trade companies since 1989. He had been an executive director of Seamless Green China (Holdings) Limited (stock code: 8150) from June 2013 to October 2014, the shares of which are listed on the GEM of the Stock Exchange.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

**Ms. Che Xiaoyan (“Ms. Che”)**, aged 32, was appointed as the vice chairman of the Board and an executive Director of our Group on 22 January 2016. Ms Che obtained a bachelor’s degree in International Business Trading from Hunan International Economics University in 2011. Ms. Che is experienced in the ecofriendly and energy saving industry. Ms. Che is the founder of Shenzhen Weixing Biological Technology Company Limited, a company established in the People’s Republic of China (“PRC”) in 2013 and is principally engaged in, among others, the development of products and services related to energy saving and reduction of carbon emission. She is also the founder of Shenzhen Changyi Energy Saving Technology Company Limited, a company established in the PRC in 2013 and is principally engaged in, among others, the research, development, production and sale of new energy batteries and solar energy products.

**Mr. Chong Yu Keung (“Mr. Chong”)**, aged 51, holds a Bachelor’s degree in E-commerce with over 20 years of financial experience in securities brokerage, investment, corporate finance, wealth management and private banking. Mr. Chong held Responsible Officer licences from the Hong Kong Securities and Futures Commission to carry on type 1, 2, 4 and 5 regulated activities under the SFO.

Mr. Chong had served various positions in leading financial companies and banks including The Chase Manhattan Bank N.A., Prudential-Bache Securities (HK) Ltd., UBS Warburg, Dryden Securities (HK) Ltd., Fortis Bank, Hong Kong, Forties Wealth Management (HK) Ltd., FT Securities (HK) Ltd. and Standard Chartered Bank Hong Kong. Mr. Chong had served as a director in a number of non-listed financial institutions in the past 10 years. Mr. Chong joined our Group on 1 February 2016.

### NON-EXECUTIVE DIRECTOR

**Mr. ZHENG Si Rong (“Mr. Zheng”)**, aged 53, was appointed as a non-executive director on 20 January 2015. Mr. Zheng 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).

### INDEPENDENT NON-EXECUTIVE DIRECTORS (“INED”)

**Professor LAM Sing Kwong Simon (“Prof. Lam”)**, aged 57, 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 Beijing Enterprises Clean Energy Group Limited (stock code: 1250) since June 2013, Oversea 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 and Kwan On Holdings Limited (stock code: 8305) since March 2015, the issued shares of which are listed on the GEM of the Stock Exchange.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT** (continued)

**Ms. WONG Wai Ling (“Ms. Wong”)**, aged 54, 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. (Stock Code: 6893), a Hong Kong Main Board listed company.

**Ms. Lee Suk Fong (“Ms. Lee”)**, aged 32, was appointed as an INED on 6 November 2015. Ms. Lee obtained a Bachelor of Science degree in economics and finance from The Hong Kong University of Science and Technology in 2005. She is experienced in sales and management. Ms. Lee is the founder of Liberal Arts Culture Limited, a company incorporated in Hong Kong in 2009 and is principally engaged in the provision of education services, and has been its director since its establishment.

**Mr. Tsang Wai Wa (“Mr. Tsang”)**, aged 54, was appointed as an INED on 8 December 2015. Mr. Tsang holds a Bachelor degree in Finance and Accounting from South Bank University and a Master degree in Business Administration from University of Lincolnshire & Humberside. He is a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years’ experience in auditing, accounting, company secretary and corporate finance experiences. From November 2009 to February 2015, Mr. Tsang was an independent non-executive director of Culturecom Holdings Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (Stock Code: 343). From August 2011 to March 2014, he was an independent non-executive director of China Bio Cassava Holdings Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8129). Mr. Tsang is currently the company secretary of Wanjia Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 401).

**Mr. Liu Ping (“Mr. Liu”)**, aged 42, was appointed as an INED on 8 December 2015. Mr. Liu obtained a bachelor degree in Technology and Economics from Xian Jiaotong University, and a master’s degree in Engineering Management from Zhejiang University. Mr. Liu has more than ten years of experience in high tech enterprise, equity investment and start-ups. Mr. Liu is currently the managing director of China Capital Management Company Ltd.. He has been working as an investment manager, investment director and a general manager of the investment and development department at China Merchants Technology Group Co., Ltd. since August 2004.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### SENIOR MANAGEMENT

The following are the senior management team of our Group:

**Mr. CHOW Kwok Fai (周國徽)**, aged 42, 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 20 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 40, 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 16 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 Reporting Period.

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. Throughout the Reporting Period, the Company had complied with the applicable code provisions of the Code 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 Wing Fu ("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 during the Reporting Period.

### 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 Code and disclosure in the corporate governance report of the Company.

## CORPORATE GOVERNANCE REPORT (continued)

### Composition of the Board

During the Reporting Period and as of the date of this report, the number of independent non-executive Directors was in compliance with the requirement under Rules 5.05(1) and 5.05A of 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. Che Xiaoyan (*Vice Chairman*) (*appointed on 22 January 2016*)  
Ms. Pei Wing Sze Clare  
Mr. Liu Zhong Ping (*appointed on 8 September 2015*)  
Mr. Chong Yu Keung (*with effect from 1 February 2016*)

#### Non-executive Director

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

#### Independent Non-executive Directors

Mr. Law Yiu Sing (*resigned on 22 January 2016*)  
Prof. Lam Sing Kwong Simon  
Ms. Wong Wai Ling  
Ms. Lee Suk Fong (*appointed on 6 November 2015*)  
Mr. Tsang Wai Wa (*appointed on 8 December 2015*)  
Mr. Liu Ping (*appointed on 8 December 2015*)

Mr. Liu Zhong Ping, Ms. Che Xiaoyan and Mr. Chong Yu Keung served as executive Directors with effect from 8 September 2015, 22 January 2016 and 1 February 2016 respectively with 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.

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 Ms. Wong Wai Ling and Prof. Lam Sing Kwong Simon, being independent non-executive Directors, has entered into a service agreement with the Company on 15 August 2014 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.

The remaining independent non-executive Directors, namely Ms. Lee Suk Fong, Mr. Tsang Wai Wan and Mr. Liu Ping, have entered into a service agreement with the Company for a term of three years commencing from 6 November 2015, 8 December 2015 and 8 December 2015 respectively, which may be terminated earlier by no less than two months' written notice served by either party on the other. Mr. Law Yiu Sing resigned as an independent non-executive Director, the chairman of the audit committee and a member of the remuneration committee of the Company on 22 January 2016.

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.

## CORPORATE GOVERNANCE REPORT (continued)

Specific enquiry has been made by the Company to each of the independent non-executive Directors to confirm their independence. In this connection, the Company has received positive confirmations from all of the independent non-executive Directors. Based on the confirmations received, the Company is of the view that all independent non-executive Directors 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

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of our Group. Directors may participate either in person or through electronic means of communications.

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

	Attendance/ Number of Board meetings during the Reporting Period	Attendance/ Number of Board meetings between 1 January 2016 and the date of this report	Attendance/ Number of general meeting during the Reporting Period
<b>Executive Directors</b>			
Mr. Pei Wing Fu ( <i>Chairman and Chief Executive Officer</i> )	5/5	3/3	1/1
Ms. Che Xiaoyan ( <i>Vice Chairman</i> ) ( <i>appointed on 22 January 2016</i> )	–	2/2	–
Ms. Pei Wing Sze Clare	5/5	3/3	1/1
Mr. Liu Zhong Ping ( <i>appointed on 8 September 2015</i> )	2/2	3/3	–
Mr. Chong Yu Keung ( <i>with effect from 1 February 2016</i> )	–	2/2	–
<b>Non-executive Director</b>			
Mr. Zheng Si Rong ( <i>appointed on 20 January 2015</i> )	5/5	2/3	1/1
<b>Independent Non-executive Directors</b>			
Mr. Law Yiu Sing ( <i>resigned on 22 January 2016</i> )	5/5	2/2	1/1
Prof. Lam Sing Kwong Simon	5/5	3/3	1/1
Ms. Wong Wai Ling	5/5	3/3	1/1
Ms. Lee Suk Fong ( <i>appointed on 6 November 2015</i> )	1/1	3/3	–
Mr. Tsang Wai Wa ( <i>appointed on 8 December 2015</i> )	1/1	2/3	–
Mr. Liu Ping ( <i>appointed on 8 December 2015</i> )	1/1	3/3	–

## CORPORATE GOVERNANCE REPORT (continued)

### 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 of all the Directors 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 throughout the Reporting Period.

### 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 are kept abreast with the latest 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.

Below is a summary of the training the Directors had received during the Reporting Period:

<b>Directors</b>	<b>Update on GEM Listing Rules in relation to corporate practices governance</b>
<b>Executive Directors</b>	
Mr. Pei Wing Fu	✓
Ms. Che Xiaoyan ( <i>appointed on 22 January 2016</i> )	–
Ms. Pei Wing Sze Clare	✓
Mr. Liu Zhong Ping ( <i>appointed on 8 September 2015</i> )	✓
Mr. Chong Yu Keung ( <i>with effect from 1 February 2016</i> )	–
<b>Non-executive Director</b>	
Mr. Zheng Si Rong ( <i>appointed on 20 January 2015</i> )	✓
<b>Independent Non-executive Directors</b>	
Mr. Law Yiu Sing ( <i>resigned on 22 January 2016</i> )	–
Prof. Lam Sing Kwong Simon	✓
Ms. Wong Wai Ling	✓
Ms. Lee Suk Fong ( <i>appointed on 6 November 2015</i> )	✓
Mr. Tsang Wai Wa ( <i>appointed on 8 December 2015</i> )	✓
Mr. Liu Ping ( <i>appointed on 8 December 2015</i> )	✓

## CORPORATE GOVERNANCE REPORT (continued)

### 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 website ([www.drillcut.com.hk](http://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 independent non-executive Director 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 independent non-executive Directors. The Audit Committee comprises three members, namely Mr. Tsang Wai Wa (Chairman), Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling, all of whom are independent non-executive Directors. Mr. Law Yiu Sing ceased to be a member of the Audit Committee on 22 January 2016 due to his resignation as an independent non-executive Director on the aforesaid date.

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 at [www.drillcut.com.hk](http://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;

## CORPORATE GOVERNANCE REPORT (continued)

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 audited results for the year ended 31 December 2014, the unaudited quarterly results for the three months ended 31 March 2015 and the nine months ended 30 September 2015 and the unaudited interim results for the six months ended 30 June 2015 and discussed internal controls and financial reporting matters. The Audit Committee had also reviewed the Group's audited annual results for the Reporting Period, 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 four meetings. Between 1 January 2016 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:

	<b>Attendance/Number of meetings during the Reporting Period</b>	<b>Attendance/Number of meetings between 1 January 2016 and the date of this report</b>
Mr. Law Yiu Sing ( <i>resigned on 22 January 2016</i> )	4/4	–
Mr. Tsang Wai Wa ( <i>Chairman</i> ) ( <i>appointed on 22 January 2016</i> )	–	1/1
Prof. Lam Sing Kwong Simon	4/4	1/1
Ms. Wong Wai Ling	4/4	1/1

## CORPORATE GOVERNANCE REPORT (continued)

### 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. Tsang Wai Wa. Ms. Pei Wing Sze Clare is an executive Director and Prof. Lam and Mr. Tsang are independent non-executive Directors. Mr. Law Yiu Sing ceased to be a member of the Remuneration Committee on 22 January 2016 due to his resignation as an independent non-executive Director on the aforesaid date.

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 at [www.drillcut.com.hk](http://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.

## CORPORATE GOVERNANCE REPORT (continued)

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

	Attendance/Number of meetings during the Reporting Period	Attendance/Number of meetings between 1 January 2016 and the date of this report
Prof. Lam Sing Kwong Simon ( <i>Chairman</i> )	2/2	2/2
Ms. Pei Wing Sze Clare	2/2	2/2
Mr. Law Yiu Sing ( <i>resigned on 22 January 2016</i> )	2/2	0/1
Mr. Tsang Wai Wa ( <i>appointed on 22 January 2016</i> )	–	1/1

At the meetings, the Remuneration Committee had reviewed (1) the remuneration of Ms. Che Xiaoyan, Mr. Liu Zhong Ping and Mr. Chong Yu Keung (each an executive Director), Mr. Zheng Si Rong (a non-executive Director), Ms. Lee Suk Fong, Mr. Tsang Wai Wa and Mr. Liu Ping (each an independent non-executive Director); (2) the terms of the service agreements with the said Directors; and (3) the remuneration packages and performance of the Directors during the year ended 31 December 2014.

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. Mr. Pei is an executive Director and Prof. Lam and Ms. Wong are independent non-executive Directors.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include (for the complete terms of reference, please refer to the Group's website at [www.drillcut.com.hk](http://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 independent non-executive Directors; 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.



## CORPORATE GOVERNANCE REPORT (continued)

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

	<b>Attendance/Number of meetings during the Reporting Period</b>	<b>Attendance/Number of meetings between 1 January 2016 and the date of this report</b>
Mr. Pei Wing Fu ( <i>Chairman</i> )	1/1	2/2
Prof. Lam Sing Kwong Simon	1/1	2/2
Ms. Wong Wai Ling	1/1	2/2

At the meetings, the Nomination Committee had reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors, reviewed the qualifications of the Directors and the progress on the implementation of the board diversity policy.

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.

### 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 to conduct audit of the financial results of the Group for the year ended 31 December 2014 with the remuneration payable of HK\$600,000. No non-audit services had been provided by HLB to the Group during the Reporting Period.

## CORPORATE GOVERNANCE REPORT (continued)

### COMPANY SECRETARY

**Ms. Au Man Yi (“Ms. Au”)**, aged 32, is the company secretary of our Group. Ms. Au has over 10 years of experience in auditing, financial reporting and financial management. Ms. Au holds a bachelor’s degree in accountancy and a master’s degree in corporate governance from The Hong Kong Polytechnic University. She is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of The Hong Kong Institute of Chartered Secretaries and also an associate member of The Institute of Chartered Secretaries And Administrators.

From September 2013 to September 2015, Ms. Au was the chief financial officer of Long Success International (Holdings) Ltd (stock code: 8017), the shares of which are listed on the GEM of the Stock Exchange. Ms. Au is currently an executive director and will be the company secretary with effect from 18 April 2016 of KSL Holdings Limited (stock code: 8170), the shares of which are listed on the the GEM of the Stock Exchange. Ms. Au is an independent non-executive director of JC Group Holdings Limited (stock code: 8326) and King Force Security Holdings Limited (stock code: 8315), the shares of which are listed on the GEM of the Stock Exchange. Ms. Au also acts as the chairperson of the audit committee of each of these listed companies.

For the year ended 31 December 2015, 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. The Board had conducted an annual review of the internal control system of the Group and is of the view that the Group has established a proper internal control system which is effective and adequate.

### SENIOR MANAGEMENT’S REMUNERATION

The senior management’s remuneration payment of the Group for the Reporting Period falls within the following band:

	<b>Number of individuals</b>
HK\$500,001 to HK\$1,000,000	2

## CORPORATE GOVERNANCE REPORT (continued)

### 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 under 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 are 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 annual 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) will answer 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 forthcoming AGM of the Company will be held on 20 May 2016, 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. Such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

## CORPORATE GOVERNANCE REPORT (continued)

### 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 Articles 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](mailto:feedback@drillcut.com.hk).

The addresses of the Company's head office and the Company's share registrars can be found in the section headed "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](http://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](mailto:feedback@drillcut.com)

### Significant Changes in Constitutional Documents

During the Reporting Period, there had been no significant changes in the constitutional documents of the Company.

## DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements for the Reporting Period.

### 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.

### BUSINESS REVIEW

Further discussion and analysis of these activities, including a business review of the Group for the Reporting Period and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis as set out on pages 5 to 11 of this annual report. These discussions form part of this directors' report.

### PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the concrete demolition business and some are from external sources. Major risks are summarized below.

#### **The Group is reliant on the availability of public and private sector construction and civil engineering projects in Hong Kong**

The results of operations of the Group are affected by the number and availability of public and private sector construction and civil engineering projects in Hong Kong, which in turn are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the Hong Kong property markets, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure. A downturn in either sector, or both, may result in a significant decrease in the number of concrete demolition jobs available in Hong Kong in general.

#### **The pricing of the Group is determined based on the estimated time and costs involved in a job which may deviate from the actual time and costs involved and any material inaccurate estimation may affect the Group's financial results**

The Group needs to estimate the time and costs involved in a concrete demolition job in order to determine the fee. There is no assurance that the actual amount of time and costs would not exceed the Group's estimation during the performance of the concrete demolition jobs. The actual amount of time and costs involved in completing a concrete demolition job may be adversely affected by many factors, including adverse weather conditions, accidents, breakdown of machinery and equipment, unforeseen site conditions. Any material inaccurate estimation in the time and costs involved in a job may adversely affect the profit margin and results of operations of the Group.

## DIRECTORS' REPORT (continued)

### **The general economic conditions in Hong Kong may affect the business and financial positions of the Group**

The performance and financial position of the Group is heavily dependent on the state of economy in Hong Kong as all of the Group's revenue was derived from concrete demolition services rendered to customers in Hong Kong. In the event that there is a downturn in the economy of Hong Kong, the results of operations and financial position of the Group may be affected.

### **ENVIRONMENTAL POLICIES, PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS**

The Group is committed to maintaining sustainable working practices and pays close attention to ensure all resources are efficiently utilized. The Group strives to become an environmental-friendly corporation by saving electricity and encouraging recycling of office supplies and other materials.

The Group and its activities are subject to requirements under various laws. The laws and regulations which have a significant impact on the Group include, among others, the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) and Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong). The Group has put in place in-house rules containing measures and work procedures to ensure that the Group's operation is in compliance with applicable laws and regulations.

### **KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS**

The Directors recognizes that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and regular training courses are provided for its workers on different types of concrete demolition methods, operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

### **RESULT AND APPROPRIATIONS**

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 40.

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

## **DIRECTORS' REPORT** (continued)

### **CLOSURE OF REGISTER OF MEMBERS**

As the forthcoming AGM of the Company will be held on 20 May 2016 (Friday), the register of members of the Company will be closed from 18 May 2016 (Wednesday) to 20 May 2016 (Friday) (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 17 May 2016 (Tuesday) in order to qualify for the right to attend and vote at the AGM (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 four financial years are set out on page 92.

### **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 13 to the consolidated financial statements.

### **SUBSIDIARIES**

Particulars of the Company's principal subsidiaries as at 31 December 2015 and details of the acquisition of subsidiaries during the Reporting Period are set out in note 12 to the consolidated financial statements.

## DIRECTORS' REPORT (continued)

### SHARE CAPITAL AND SHARE PREMIUM

The Company's total issued share capital as at 31 December 2015 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 22 to the consolidated financial statements.

### EMOLUMENT POLICY FOR DIRECTORS

The 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 24 to the consolidated financial statements.

As at 31 December 2015, 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\$42.3 million (2014: approximately HK\$27.4 million) 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 23 to the consolidated financial statements.

No share options were granted since the adoption of the Scheme and there were no share options outstanding as at 31 December 2015.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (fulltime and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and services providers of the Group and to promote the success of the business of the Group.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or services provider of the Group, options to subscribe for such number of shares of the Company as it may determine in accordance with the terms of the Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.



## DIRECTORS' REPORT (continued)

As at the date of this report, no share options have been granted under the Scheme and the outstanding number of options available for issue under the Share Option Scheme is 62,000,000, representing 10% of the issued share capital of the Company.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of the shares of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to the approval of the shareholders of the Company in accordance with the GEM Listing Rules.

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

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

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

The Scheme will remain in force for a period of ten years commencing on the date on the adoption date, being 2 August 2014 and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the shareholders of the Company in general meeting.

**DIRECTORS' REPORT** (continued)**DIRECTORS**

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

**Executive Directors**

Mr. Pei Wing Fu (*Chairman*)  
 Ms. Che Xiaoyan (*Vice Chairman*) (*appointed on 22 January 2016*)  
 Ms. Pei Wing Sze Clare  
 Mr. Liu Zhong Ping (*appointed on 8 September 2015*)  
 Mr. Chong Yu Keung (*with effect from 1 February 2016*)

**Non-executive Director**

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

**Independent Non-executive Directors**

Mr. Law Yiu Sing (*resigned on 22 January 2016*)  
 Prof. Lam Sing Kwong Simon  
 Ms. Wong Wai Ling  
 Ms. Lee Suk Fong (*appointed on 6 November 2015*)  
 Mr. Tsang Wai Wa (*appointed on 8 December 2015*)  
 Mr. Liu Ping (*appointed on 8 December 2015*)

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 independent non-executive Directors.

**DIRECTORS' SERVICE CONTRACT**

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 to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and is 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.

## DIRECTORS' REPORT (continued)

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.

Pursuant to article 112 of the Articles, Ms. Che Xiaoyan, Mr. Liu Zhong Ping, Mr. Chong Yu Keung, Ms. Lee Suk Fong, Mr. Tsang Wai Wa and Mr. Liu Ping and pursuant to article 108 of the Articles, Ms. Pei Wing Sze Clare and Mr. Pei Wing Fu 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 2015, 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

<u>Name of Directors</u>	<u>Capacity/Nature</u>	<u>Number of Shares held/interested in</u>	<u>Approximate percentage of shareholding</u>
Mr. Pei Wing Fu ("Mr. Pei") (Note 1)	Interest in controlled corporation	201,539,000	32.50%
Ms. Pei Wing Sze Clare ("Ms. Pei") (Note 2)	Interest in controlled corporation	19,461,000	3.14%

Notes:

- 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 a director of Power Key.
- 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 a director of Talent Great.

**DIRECTORS' REPORT** (continued)**(ii) Long position in the ordinary shares of associated corporations**

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

**(iii) Short positions**

As at 31 December 2015, 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 2015 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.

<b>Name of Shareholder</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares held/interested in</b>	<b>Long/short position</b>	<b>Approximate percentage of shareholdings</b>
Ms. Lau Kwai Fong (Note 1)	Interest of spouse	201,539,000	Long	32.50%
Power Key	Beneficial owner	201,539,000	Long	32.50%
Zhou Chuxiong	Beneficial owner	40,000,000	Long	6.45%

Note:

- 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%.

**MAJOR CUSTOMERS**

During the Reporting Period, the Group's five largest customers accounted for approximately 28.9% (2014: approximately 39.6%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 15.8% (2014: approximately 14.2%) of the total revenue.

None of the Directors or any of their close associates (as defined under the GEM Listing Rules), 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.

## **DIRECTORS' REPORT** (continued)

### **MAJOR SUPPLIERS**

During the Reporting Period, the Group's five largest suppliers accounted for approximately 48.7% (2014: approximately 50.5%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 19.2% (2014: approximately 17.6%) of the total purchases.

None of the Directors or any of their close associates (as defined under the GEM Listing Rules), 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 subcontractors accounted for approximately 65.6% (2014: approximately 71.5%) of the total subcontractings of the Group and the largest subcontractor of the Group accounted for approximately 20.6% (2014: approximately 30.2%) of the total purchases.

None of the Directors or any of their close associates (as defined under the GEM Listing Rules), 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 27 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 Reporting Period 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**

Details of the significant related party and connected transactions of the Group are set out in note 27 to the consolidated financial statements.

## DIRECTORS' REPORT (continued)

The related party transactions set out in Note 27 to the consolidated financial statements were 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 and the controlling shareholders of the Company, all of them have confirmed that neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had held any position or had interest in any businesses or companies that were or might be competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the Reporting Period.

All the independent non-executive Directors are delegated with the authority to review the non-competition undertakings (the "Non-Competition Undertakings") given under the deeds of non-competition dated 2 August 2014 entered into by each of Mr. Pei Wing Fu ("Mr. Pei"), Ms. Lau Kwai Fong ("Mrs. Pei") and Power Key Investments Limited ("Power Key") in favour of the Company and its subsidiaries. The independent non-executive Directors were not aware of any non-compliance of the Non-Competition Undertakings given by Mr. Pei, Mrs. Pei and Power Key from the date of the Non-Competition Undertakings and up to the date of this annual report. Each of Mr. Pei, Mrs. Pei and Power Key has confirmed that he/she/it had complied with the Non-Competition Undertakings given by him/her/it from the date of the Non-Competition Undertakings and up to the date of this annual report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

### CORPORATE GOVERNANCE CODE

Throughout the Reporting Period, the Company has complied with the applicable code provisions of the Code except for the deviations from code provision A.2.1 of the Code which are explained in the section headed "Compliance with the Corporate Governance Code" of the Corporate Governance Report.

### 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 throughout the Reporting Period.

### INTERESTS OF COMPLIANCE ADVISER

As at the date of this annual report, as notified by the Company's compliance adviser, Dakin Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 29 January 2016, neither the Compliance Adviser 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.

## DIRECTORS' REPORT (continued)

### CHANGE OF COMPLIANCE ADVISER

The Company and Messis Capital Limited (“MCL”) have mutually agreed to terminate the compliance adviser’s agreement dated 13 May 2014 entered into between the Company and MCL with effect from 31 January 2016 due to the consideration of fee levels. Dakin Capital Limited has been appointed as the new compliance adviser to the Company pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 1 February 2016. For further details, please refer to the announcement of the Company dated 29 January 2016.

### PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

### EVENTS AFTER THE REPORTING PERIOD

Details of important events affecting the Group after the end of the Reporting Period are set out in the paragraph headed “Events after the Reporting Period” in the Management Discussion and Analysis section of this annual report.

### 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 Reporting Period and up to the date of this annual report.

### AUDIT COMMITTEE

The Company has established the 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. Tsang Wai Wa (Chairman), Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling.

On behalf of the Board

**Pei Wing Fu**  
*Chairman*

Hong Kong, 21 March 2016

# INDEPENDENT AUDITORS' REPORT



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 40 to 91, which comprise the consolidated statement of financial position as at 31 December 2015, 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. This report is made 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.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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, 21 March 2016



**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME***For the year ended 31 December 2015*

	Note	2015 HK\$'000	2014 HK\$'000
Revenue	5	90,260	89,392
Cost of sales	6	(59,627)	(58,252)
Gross profit		30,633	31,140
Other income and net gains	5	393	1,097
Administrative and other operating expenses	6	(17,055)	(23,714)
Operating profit		13,971	8,523
Finance costs	9	(308)	(335)
Profit before income tax		13,663	8,188
Income tax expense	10	(3,049)	(3,366)
Profit and total comprehensive income for the year attributable to owners of the Company		10,614	4,822
Basic and diluted earnings per share (HK cents)	11	1.71	0.87

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	14,167	13,507
<b>Current assets</b>			
Inventories	15	1,272	657
Trade and other receivables	16	35,816	27,122
Cash and cash equivalents	17	95,528	40,996
		132,616	68,775
<b>Total assets</b>		<b>146,783</b>	<b>82,282</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	22	6,200	6,200
Share premium	22	34,025	34,025
Other reserves	24	41,368	30,754
<b>Total equity</b>		<b>81,593</b>	<b>70,979</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	18	–	730
Deferred taxation	21	1,431	1,274
		1,431	2,004

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)

As at 31 December 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>Current liabilities</b>			
Trade and other payables	19	7,101	6,139
Loan from a director	20	55,000	–
Borrowings	18	730	1,881
Tax payable		928	1,279
		63,759	9,299
<b>Total liabilities</b>		65,190	11,303
<b>Total equity and liabilities</b>		146,783	82,282

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2016 and signed on its behalf by:

**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 2015*

	Attributable to owners of the Company			Total equity HK\$'000
	Share capital HK\$'000 <i>(Note 22)</i>	Share premium HK\$'000 <i>(Note 22)</i>	Other reserves HK\$'000 <i>(Note 24)</i>	
<b>Balance at 1 January 2014</b>	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 <i>(Note 25(b))</i>	–	–	2,800	2,800
Capitalisation of shareholder's loan <i>(Note 25(b))</i>	8	7,992	–	8,000
Reorganisation	(5,008)	(7,992)	13,000	–
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
<b>Balance at 31 December 2014</b>	6,200	34,025	30,754	70,979
<b>Balance at 1 January 2015</b>	6,200	34,025	30,754	70,979
Profit and total comprehensive income for the year	–	–	10,614	10,614
	–	–	10,614	10,614
<b>Balance at 31 December 2015</b>	6,200	34,025	41,368	81,593

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash generated from operations	25(a)	12,245	10,864
Income tax paid		(3,243)	(3,225)
<b>Net cash generated from operating activities</b>		<b>9,002</b>	<b>7,639</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(5,187)	(10,130)
Deposits paid for purchases of property, plant and equipment		–	(91)
Proceeds from disposal of property, plant and equipment		141	102
Interest received		62	35
<b>Net cash used in investing activities</b>		<b>(4,984)</b>	<b>(10,084)</b>
<b>Cash flows from financing activities</b>			
Proceeds from placing of shares		–	43,400
Share issuance costs		–	(3,175)
Loan from a director		55,000	–
Drawdown of bank borrowings		–	6,000
Repayment of finance leases		(4,309)	(3,151)
Repayment of bank borrowings		(72)	(11,682)
Interest paid on finance leases		(103)	(179)
Interest paid on bank borrowings		(2)	(156)
Shareholder's loan prior to the Reorganisation		–	8,000
<b>Net cash generated from financing activities</b>		<b>50,514</b>	<b>39,057</b>
<b>Net increase in cash and cash equivalents</b>		<b>54,532</b>	<b>36,612</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>40,996</b>	<b>4,384</b>
<b>Cash and cash equivalents at end of the year</b>	17	<b>95,528</b>	<b>40,996</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 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.

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 Mr. Pei Wing Fu (“Mr. Pei”) and Ms. Lau Kwai Fong (“Mrs. Pei”) (hereinafter collectively referred to as 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 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 21 March 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 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 all applicable 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 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.

##### 2.1.1 Changes in accounting policy and disclosures

###### (a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs – 2010-2012 Cycle, on HKFRS 8, “Operating Segments”, HKAS 16, “Property, Plant and Equipment” and HKAS 38, “Intangible Assets” and HKAS 24, “Related Party Disclosures”.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

## 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)*

Amendments from annual improvements to HKFRSs – 2011-2013 Cycle, on HKFRS 3, “Business Combinations”, HKFRS 13, “Fair Value Measurement” and HKAS 40, “Investment Property”.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Group.

(b) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *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 2015, 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:

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.1 Basis of preparation (Continued)

##### 2.1.1 Changes in accounting policy and disclosures (Continued)

###### (c) New standards and interpretations not yet adopted (Continued)

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 2018 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.

#### 2.2 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.2 Subsidiaries (Continued)

##### 2.2.1 Consolidation (Continued)

###### (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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.2 Subsidiaries (Continued)

##### 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.

#### 2.4 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.5 Foreign currency translation (Continued)

##### (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.

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%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*For the year ended 31 December 2015*

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.6 Property, plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each 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 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 each reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.9 Impairment of financial assets

The Group assesses at the end of each 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.

#### 2.10 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.

#### 2.11 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*For the year ended 31 December 2015*

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 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).

#### 2.13 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.

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

#### 2.15 Borrowings

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.

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.

#### 2.16 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.17 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.

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.

#### 2.18 Employee benefits

##### (a) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.18 Employee benefits (Continued)

##### (b) 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 at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. 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 their present value.

##### (c) 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 each reporting period.

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

##### (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.

#### 2.19 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.20 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.

#### 2.21 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 and 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.

##### (b) *Interest income*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*For the year ended 31 December 2015*

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.22 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 employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (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); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.23 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss by way of a reduced depreciation charge.

#### 2.24 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 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 2014 and 2015, 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\$2,000 and HK\$3,000 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 2014 and 2015, 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\$26,000 and HK\$7,000 respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)*For the year ended 31 December 2015***3. FINANCIAL RISK MANAGEMENT (Continued)****3.1 Financial risk factors (Continued)****(iii) Credit risk**

Credit risk arises mainly from trade and other receivables, and cash at banks. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period 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 2015, there was one customer (2014: 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 this customer amounted to 22% of the Group's total trade and other receivables as at 31 December 2015 (2014: 37%).

**(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 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:

	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
<b>As at 31 December 2015</b>				
Trade and other payables	7,101	–	–	7,101
Loan from a director	56,797	–	–	56,797
Borrowings	739	–	–	739
	<b>64,637</b>	<b>–</b>	<b>–</b>	<b>64,637</b>
<b>As at 31 December 2014</b>				
Trade and other payables	6,139	–	–	6,139
Borrowings	1,951	739	–	2,690
	<b>8,090</b>	<b>739</b>	<b>–</b>	<b>8,829</b>

#### 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**3. FINANCIAL RISK MANAGEMENT (Continued)****3.2 Capital management (Continued)**

The gearing ratios at 31 December 2014 and 2015 were as follows:

	2015 HK\$'000	2014 HK\$'000
Loan from a director ( <i>Note 20</i> )	40,000	–
Borrowings ( <i>Note 18</i> )	730	2,611
Total interest-bearing liabilities	40,730	2,611
Total equity	81,593	70,979
Gearing ratio	50%	4%

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)*For the year ended 31 December 2015***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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**5. REVENUE AND SEGMENT INFORMATION**

Revenue 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:

	2015 HK\$'000	2014 HK\$'000
<b>Revenue</b>		
Provision of concrete demolition services	90,260	89,392
	2015 HK\$'000	2014 HK\$'000
<b>Other income and net gains</b>		
Interest income	62	35
Exchange (losses)/gains	(39)	107
Gain on disposal of property, plant and equipment	112	56
Recovery of bad debts	10	387
Reversal of allowance for impairment of trade receivables	58	–
Reversal of allowance for impairment of retention receivables	52	227
Others ( <i>Note</i> )	138	285
	393	1,097

*Note:* Included in "Others" was government grants of approximately HK\$137,000 received by the Group during the year ended 31 December 2015 upon the disposal of pre-Euro IV diesel vehicles and de-registration of the vehicles. There are no unfulfilled conditions or contingencies relating to these grants.

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 2015, there was one (2014: one) customer which individually contributed over 10% of the Group's revenue. The aggregate amount of revenue from this customer amounted to approximately HK\$14,274,000 (2014: HK\$12,675,000) of the Group's total revenue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 6. EXPENSES BY NATURE

	2015 HK\$'000	2014 HK\$'000
Cost of sales		
Raw materials and consumables	4,851	9,535
Subcontracting charges	28,628	23,991
Staff costs ( <i>Note 7</i> )	14,183	13,429
Transportation expenses	3,116	2,662
Machinery rental cost	260	209
Repair and maintenance	2,371	2,173
Depreciation of owned assets ( <i>Note 13</i> )	4,598	3,787
Depreciation of assets under finance leases ( <i>Note 13</i> )	1,454	2,294
Other expenses	166	172
	59,627	58,252
Administrative and other operating expenses		
Auditors' remuneration	600	600
Staff costs, including directors' emoluments ( <i>Note 7</i> )	6,216	4,850
Depreciation of owned assets ( <i>Note 13</i> )	1,037	1,076
Operating lease rental on premises	825	951
Travelling	38	30
Insurance	644	377
Legal and professional fees	1,477	827
Listing expenses	–	8,994
Allowance for impairment on trade receivables	141	142
Entertainment	1,811	1,955
Motor vehicles expenses	2,015	2,031
Other expenses	2,251	1,881
	17,055	23,714

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)*For the year ended 31 December 2015***7. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS**

	2015 HK\$'000	2014 HK\$'000
Salaries and allowances	19,597	17,549
Retirement benefit expenses – defined contribution plan	802	730
	<b>20,399</b>	<b>18,279</b>

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 for the lease of a property as director’s quarter (Note 27).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 8. BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of each director and the chief executive for the year ended 31 December 2015 is set out below:

	Fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to a retirement scheme HK\$'000	Total HK\$'000
<b>Year ended 31 December 2015</b>					
<i>Executive directors</i>					
Mr. Pei (Chief Executive Officer)	–	936	–	18	954
Ms. Pei Wing Sze, Clare	–	936	–	18	954
Mr. Liu Zhong Ping (Note (i))	–	113	–	–	113
Ms. Che Xiaoyan (Note (ii))	–	–	–	–	–
Mr. Chong Yu Keung (Note (iii))	–	–	–	–	–
<i>Non-executive director</i>					
Mr. Zheng Si Rong (Note (iv))	114	–	–	–	114
<i>Independent non-executive directors</i>					
Prof. Lam Sing Kwong Simon (Note (v))	120	–	–	–	120
Mr. Law Yiu Sing (Note (v and vi))	120	–	–	–	120
Ms. Wong Wai Ling (Note (v))	120	–	–	–	120
Ms. Lee Suk Fong (Note (vii))	31	–	–	–	31
Mr. Tsang Wai Wa (Note (viii))	8	–	–	–	8
Mr. Liu Ping (Note (viii))	8	–	–	–	8
	521	1,985	–	36	2,542

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 8. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

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	Employer's contribution to a retirement scheme HK\$'000	Total HK\$'000
Year ended 31 December 2014					
<i>Executive directors</i>					
Mr. Pei (Chief Executive Officer)	-	832	-	17	849
Ms. Pei Wing Sze, Clare	-	733	20	17	770
<i>Non-executive director</i>					
Mr. Zheng Si Rong (Note (iv))	-	-	-	-	-
<i>Independent non-executive directors</i>					
Prof. Lam Sing Kwong Simon (Note (v))	45	-	-	-	45
Mr. Law Yiu Sing (Note (v and vi))	45	-	-	-	45
Ms. Wong Wai Ling (Note (v))	45	-	-	-	45
	135	1,565	20	34	1,754

During the year ended 31 December 2015, 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 (2014: Nil). Neither the chief executive nor any of the directors has waived or agreed to waive any emoluments during the year ended 31 December 2015 (2014: Nil).

Notes:

- (i) Appointed on 8 September 2015.
- (ii) Appointed on 22 January 2016.
- (iii) With effect from 1 February 2016.
- (iv) Appointed on 20 January 2015.
- (v) Appointed on 2 August 2014.
- (vi) Resigned on 22 January 2016.
- (vii) Appointed on 6 November 2015.
- (viii) Appointed on 8 December 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 8. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group include two (2014: two) directors whose emoluments are disclosed above. The emoluments payable to the remaining three (2014: three) individuals during the year are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	1,545	1,551
Discretionary bonuses	95	90
Contribution to pension scheme	54	50
	<b>1,694</b>	<b>1,691</b>

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 2015, 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 (2014: Nil).

### 9. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on finance leases	103	179
Interest on bank borrowings	2	156
Interest on loan from a director	203	-
	<b>308</b>	<b>335</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**10. INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at a rate of 16.5% (2014: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year.

	2015 HK\$'000	2014 HK\$'000
Hong Kong profits tax:		
– Current year	2,964	2,781
– Adjustment in respect of prior years	(72)	76
Deferred income tax ( <i>Note 21</i> )	157	509
<b>Income tax expense</b>	<b>3,049</b>	<b>3,366</b>

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:

	2015 HK\$'000	2014 HK\$'000
Profit before income tax	13,663	8,188
Calculated at a tax rate of 16.5%	2,254	1,351
Income not subject to tax	(63)	(15)
Expenses not deductible for tax purposes	40	1,559
Tax losses for which no deferred income tax asset was recognised	881	351
Adjustment in respect of prior years	(72)	76
Others	9	44
<b>Tax charge</b>	<b>3,049</b>	<b>3,366</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 11. EARNINGS PER SHARE

	2015	2014
Profit attributable to owners of the Company (HK\$'000)	10,614	4,822
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	620,000	552,819
Basic earnings per share (HK cents)	1.71	0.87

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.

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 2015 (2014: Nil).

### 12. SUBSIDIARIES

The following is a list of the subsidiaries at 31 December 2015:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Percentage of interest held
Ultimate Expert Holdings Limited ("Ultimate Expert")	BVI, limited liability company	Investment holding in Hong Kong	Ordinary share USD2,000	100% (direct)
Leisure Peace Limited	BVI, limited liability company	Investment holding in Hong Kong	Ordinary share USD1	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)
Forever Rise Investment Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	Ordinary share HK\$1	100% (indirect)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**13. PROPERTY, PLANT AND EQUIPMENT**

	Plant and machinery	Furniture and fixtures	Motor vehicles	Decoration	Office equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)					
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At 31 December 2014	11,540	42	1,351	539	35	13,507
<b>Cost</b>						
At 1 January 2015	31,042	1,647	8,150	4,071	42	44,952
Additions	5,325	-	2,431	-	22	7,778
Disposals	(63)	-	(894)	-	-	(957)
At 31 December 2015	36,304	1,647	9,687	4,071	64	51,773
<b>Accumulated depreciation</b>						
At 1 January 2015	19,502	1,605	6,799	3,532	7	31,445
Charge for the year (Note 6)	6,052	24	807	195	11	7,089
Disposals	(34)	-	(894)	-	-	(928)
At 31 December 2015	25,520	1,629	6,712	3,727	18	37,606
<b>Net book value</b>						
At 31 December 2015	10,784	18	2,975	344	46	14,167

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

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

	2015 HK\$'000	2014 HK\$'000
Cost – capitalised finance leases	9,175	9,175
Accumulated depreciation	(9,175)	(7,721)
Net book value	–	1,454

The Group leases various plant and machinery under non-cancellable finance lease agreements. The lease terms are 4 years, and ownership of the assets lie within the Group.

### 14. FINANCIAL INSTRUMENTS BY CATEGORY

	2015 HK\$'000	2014 HK\$'000
<b>Assets as per consolidated statement of financial position</b>		
<i>Loans and receivables</i>		
Trade and other receivables excluding prepayments	35,083	26,174
Cash and cash equivalents	95,528	40,996
<b>Total</b>	<b>130,611</b>	<b>67,170</b>
<b>Liabilities as per consolidated statement of financial position</b>		
<i>Financial liabilities at amortised cost</i>		
Trade and other payables excluding non-financial liabilities	7,101	6,139
Loan from a director	55,000	–
Borrowings	730	2,611
<b>Total</b>	<b>62,831</b>	<b>8,750</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**15. INVENTORIES**

	2015 HK\$'000	2014 HK\$'000
Raw materials and consumables	1,272	657

During the year ended 31 December 2015, the cost of inventories recognised as expense and included in “cost of sales” amounted to approximately HK\$4,851,000 (2014: HK\$9,535,000).

**16. TRADE AND OTHER RECEIVABLES**

	2015 HK\$'000	2014 HK\$'000
Trade receivables	29,559	22,878
Less: allowance for impairment of trade receivables	(176)	(129)
Trade receivables, net	29,383	22,749
Retention receivables	5,361	3,284
Less: allowance for impairment of retention receivables	(92)	(207)
Retention receivables, net	5,269	3,077
Other receivables, deposits and prepayments	1,164	1,296
	35,816	27,122

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 16. TRADE AND OTHER RECEIVABLES (Continued)

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:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	7,693	6,247
31 – 60 days	6,767	4,510
61 – 90 days	3,721	3,747
91 – 365 days	8,759	7,679
Over 365 days	2,443	566
	<b>29,383</b>	<b>22,749</b>

Trade receivables of approximately HK\$7,120,000 (2014: HK\$6,117,000) as at 31 December 2015 were not yet past due and approximately HK\$22,263,000 (2014: HK\$16,632,000) as at 31 December 2015 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 allowance has therefore been made. The ageing analysis of the these trade receivables is as follows:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	7,275	3,665
31 – 60 days	3,575	4,298
61 – 90 days	3,625	2,490
91 – 365 days	5,519	5,620
Over 365 days	2,269	559
	<b>22,263</b>	<b>16,632</b>

Trade receivables of approximately HK\$141,000 (2014: HK\$142,000) as at 31 December 2015 were impaired. The amount of the allowance was approximately HK\$176,000 (2014: HK\$129,000) as at 31 December 2015. 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 allowance for impairment of trade receivables are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	129	85
Allowance for trade receivables	141	142
Receivables written off during the year as uncollectible	(36)	(98)
Reversal of allowance for impairment of trade receivables	(58)	–
At 31 December	<b>176</b>	<b>129</b>

Retention receivables of approximately HK\$5,269,000 (2014: HK\$3,077,000) as at 31 December 2015 were not yet past due and were settled in accordance with the terms of the respective contracts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**16. TRADE AND OTHER RECEIVABLES (Continued)**

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

As at 31 December 2015, retention receivables amounted to approximately HK\$92,000 (2014: HK\$207,000) 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 allowance for impairment of retention receivables are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	207	581
Receivables written off during the year as uncollectible	(63)	(147)
Reversal of allowance for impairment of retention receivables	(52)	(227)
At 31 December	92	207

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

**17. CASH AND CASH EQUIVALENTS**

	2015 HK\$'000	2014 HK\$'000
Cash at banks	95,518	25,978
Cash on hand	10	18
Short-term bank deposits	–	15,000
Cash and cash equivalents	95,528	40,996

Notes:

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

	2015 HK\$'000	2014 HK\$'000
HKD	95,528	40,884
USD	–	112
	95,528	40,996

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 18. BORROWINGS

	2015 HK\$'000	2014 HK\$'000
<b>Non-current</b>		
Finance lease liabilities (Note b)	–	730
<b>Current</b>		
Bank borrowings (Note a)	–	72
Finance lease liabilities (Note b)	730	1,809
	730	1,881
<b>Total borrowings</b>	<b>730</b>	<b>2,611</b>

Notes:

(a) Bank borrowings

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

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:

	2015 HK\$'000	2014 HK\$'000
Within a period not exceeding one year	–	72

(b) Finance lease liabilities

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

	2015 HK\$'000	2014 HK\$'000
Gross finance lease liabilities – minimum lease payments		
Within a period not exceeding one year	739	1,877
Within a period of more than one year but not exceeding two years	–	739
	739	2,616
Future finance charges on finance leases	(9)	(77)
Present value of finance lease liabilities	730	2,539



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**18. BORROWINGS (Continued)**

## (b) Finance lease liabilities (Continued)

The present value of finance lease liabilities is as follows:

	2015 HK\$'000	2014 HK\$'000
Within a period not exceeding one year	730	1,809
Within a period of more than one year but not exceeding two years	–	730
	730	2,539

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

## (c) As at 31 December 2015, the banking facilities (including the finance lease facilities) of the Group bore interest at 3.25% to 6.25% (2014: 3.25% to 6.25%) per annum.

As at 31 December 2015, the undrawn banking facilities amounted to approximately HK\$4,000,000 (2014: HK\$4,000,000).

These banking facilities were secured by:

- (i) The Group's plant and machinery with an aggregate net book value of approximately HK\$1,454,000 and nil as at 31 December 2014 and 2015 respectively (Note 13);
- (ii) Personal guarantees given by certain directors as at 31 December 2014;
- (iii) Corporate guarantee provided by Grandwin, a related company of the Group, as at 31 December 2014; and
- (iv) Corporate guarantee provided by the Company as at 31 December 2014 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 19. TRADE AND OTHER PAYABLES

	2015 HK\$'000	2014 HK\$'000
Trade payables	4,680	4,135
Accruals and other payables	2,421	2,004
	<b>7,101</b>	<b>6,139</b>

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:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	2,380	1,883
31 – 60 days	114	5
Over 90 days	2,186	2,247
	<b>4,680</b>	<b>4,135</b>

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

	2015 HK\$'000	2014 HK\$'000
HKD	6,753	5,988
EUR	348	151
	<b>7,101</b>	<b>6,139</b>

### 20. LOAN FROM A DIRECTOR

Included in loan from a director at 31 December 2015 was an interest-bearing portion of HK\$40,000,000 which was unsecured, interest bearing at 5% per annum and repayable on 25 November 2016. Other than the abovementioned, the remaining amount included in loan from a director was unsecured, interest-free and repayable on demand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**21. DEFERRED TAXATION**

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

	<b>Accelerated tax depreciation</b> HK\$'000
At 1 January 2014	765
Charged to profit or loss ( <i>Note 10</i> )	509
At 31 December 2014	1,274
At 1 January 2015	1,274
Charged to profit or loss ( <i>Note 10</i> )	157
At 31 December 2015	1,431

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\$881,000 (2014: HK\$351,000) in respect of losses amounting to approximately HK\$5,339,000 (2014: HK\$2,127,000) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 22. SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Ordinary shares HK\$'000
<i>Ordinary shares of HK\$0.01 each:</i>		
<b>Authorised:</b>		
On 25 April 2014 (date of incorporation) (Note (a))	38,000,000	380
Increase in authorised share capital (Note (b))	1,962,000,000	19,620
As at 31 December 2014 and 2015	2,000,000,000	20,000

	Number of ordinary shares	Ordinary shares HK\$'000	Share premium HK\$'000
<b>Issued and fully paid:</b>			
On 25 April 2014 (date of incorporation) (Note (a))	1,000	–	–
Shares issued pursuant to the capitalisation issue (Note (c))	511,499,000	5,115	(5,115)
Shares issued pursuant to the placing (Note (d))	108,500,000	1,085	39,140
As at 31 December 2014 and 2015	620,000,000	6,200	34,025

Notes:

- (a) 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 Investments Limited (“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.
- (b) 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.
- (c) 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.
- (d) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

### 23. SHARE OPTION SCHEME

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)*For the year ended 31 December 2015***23. SHARE OPTION SCHEME (Continued)**

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved 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 and 2015.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**24. OTHER RESERVES**

	Capital reserve HK\$'000 (Note i)	Merger reserve HK\$'000 (Note ii)	Retained earnings HK\$'000	Total HK\$'000
<b>Balance at 1 January 2014</b>	–	–	10,132	10,132
Profit and total comprehensive income for the year	–	–	4,822	4,822
	–	–	4,822	4,822
Transactions with owners:				
Deemed contribution from Mr. Pei arising from waiver of a loan (Note 25(b))	2,800	–	–	2,800
Reorganisation	(2,800)	15,800	–	13,000
	–	15,800	–	15,800
<b>Balance at 31 December 2014</b>	–	15,800	14,954	30,754
<b>Balance at 1 January 2015</b>	–	15,800	14,954	30,754
Profit and total comprehensive income for the year	–	–	10,614	10,614
	–	–	10,614	10,614
<b>Balance at 31 December 2015</b>	–	15,800	25,568	41,368

*Notes:*

## (i) Capital reserve

Capital reserve represents the waiver 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.

## (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 25. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2015 HK\$'000	2014 HK\$'000
Profit before income tax	13,663	8,188
Adjustments for:		
Depreciation	7,089	7,157
Interest income	(62)	(35)
Gain on disposal of property, plant and equipment	(112)	(56)
Reversal of allowance for impairment on trade receivables	(58)	-
Reversal of allowance for impairment on retention receivables	(52)	(227)
Allowance for impairment on trade receivables	141	142
Interest expense	308	335
<b>Operating profit before working capital changes</b>	<b>20,917</b>	<b>15,504</b>
(Increase)/Decrease in inventories	(615)	935
Increase in trade and other receivables	(8,816)	(1,546)
Decrease in balances with related companies	-	372
Increase/(Decrease) in trade and other payables	759	(3,853)
Decrease in amount due to a shareholder	-	(548)
Net cash generated from operations	12,245	10,864

(b) **Non-cash transactions**

- (i) During the year ended 31 December 2015, additions to property, plant and equipment of approximately HK\$2,500,000 (2014: HK\$275,000) 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**26. COMMITMENTS****(a) Capital commitments**

Capital commitments contracted for at the end of the year but not yet incurred is as follows:

	2015 HK\$'000	2014 HK\$'000
Property, plant and equipment	–	211

**(b) Operating lease commitments – Group as lessee**

The Group leases a number of properties under non-cancellable operating lease agreements. The lease terms are between 1 and 2 years.

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

	2015 HK\$'000	2014 HK\$'000
No later than one year	559	413
Later than one year and no later than five years	200	127
	759	540

**27. 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 27. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

Save as disclosed in Note 18, 20 and 25(b) to the consolidated financial statements, the Group had the following transactions with related companies during the year.

	2015 HK\$'000	2014 HK\$'000
Operating lease rental expense on premises paid to: <i>(Note i)</i>		
Grandwin	288	356
Vincent Engineering <i>(Note ii)</i>	–	97
Interest on loan from a director paid to: <i>(Note i)</i>		
Mr. Pei	203	–

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2015

**28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY****(a) Statement of financial position**

	2015 HK\$'000	2014 HK\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	20	–
Investments in subsidiaries	10,577	30,577
	10,597	30,577
<b>Current assets</b>		
Trade and other receivables	364	543
Amounts due from subsidiaries	39	8,036
Cash and cash equivalents	79,257	28,603
	79,660	37,182
<b>Total assets</b>	<b>90,257</b>	<b>67,759</b>
<b>EQUITY</b>		
<b>Capital and reserves</b>		
Share capital	6,200	6,200
Share premium	34,025	34,025
Reserve (Note b)	38,878	23,921
<b>Total equity</b>	<b>79,103</b>	<b>64,146</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	600	365
Amounts due to subsidiaries	10,554	3,248
<b>Total liabilities</b>	<b>11,154</b>	<b>3,613</b>
<b>Total equity and liabilities</b>	<b>90,257</b>	<b>67,759</b>

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 21 March 2016 and signed on its behalf by:

**Mr. Pei Wing Fu**  
Director

**Ms. Pei Wing Sze Clare**  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*For the year ended 31 December 2015*

### 28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

#### (b) Reserve movement

	Special reserve HK\$'000 <i>(Note)</i>	(Accumulated losses)/ Retained earnings 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)
<b>Balance as at 31 December 2014</b>	<b>30,577</b>	<b>(6,656)</b>	<b>23,921</b>
<b>Balance as at 1 January 2015</b>	<b>30,577</b>	<b>(6,656)</b>	<b>23,921</b>
Profit for the year	–	14,957	14,957
<b>Balance as at 31 December 2015</b>	<b>30,577</b>	<b>8,301</b>	<b>38,878</b>

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.

## FINANCIAL SUMMARY

For the year ended 31 December 2015

A summary of the results and of the assets and liabilities of the Group for the last four 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.

	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Revenue	90,260	89,392	74,394	56,875
Cost of sales	(59,627)	(57,662)	(47,014)	(41,389)
Gross profit	30,633	31,730	27,380	15,486
Other income and net gains	393	1,097	143	59
Administrative and other operating expenses	(17,055)	(24,304)	(14,606)	(12,703)
Operating profit	13,971	8,523	12,917	2,842
Finance costs	(308)	(335)	(381)	(353)
Profit before income tax	13,663	8,188	12,536	2,489
Income tax expense	(3,049)	(3,366)	(2,706)	(120)
Profit and total comprehensive income for the year attributable to owners of the Company	10,614	4,822	9,830	2,369
<b>Asset and liabilities</b>				
Total assets	146,783	82,282	42,053	30,154
Total liabilities	(65,190)	(11,303)	(26,921)	(24,852)
Net assets	81,593	70,979	15,132	5,302
Equity attributable to equity holders of the Company	81,593	70,979	15,132	5,302