# Affluent Foundation Holdings Limited
# 俊裕地基集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1757

# ANNUAL REPORT


# 2017/18

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Chan Siu Cheong *(Chairman and Chief Executive Officer)*
Mr. Sin Ka Pong

### Independent Non-executive Directors

Mr. Ho Chi Wai
Mr. Cheung Kwok Yan Wilfred
Mr. Lau Leong Ho

## AUDIT COMMITTEE

Mr. Ho Chi Wai *(Chairman)*
Mr. Lau Leong Ho
Mr. Cheung Kwok Yan Wilfred

## NOMINATION COMMITTEE

Mr. Chan Siu Cheong *(Chairman)*
Mr. Lau Leong Ho
Mr. Ho Chi Wai

## REMUNERATION COMMITTEE

Mr. Cheung Kwok Yan Wilfred *(Chairman)*
Mr. Sin Ka Pong
Mr. Lau Leong Ho

## COMPANY SECRETARY

Mr. Kyaw Sai Hong

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 903–905, 9/F
The Octagon
No. 6 Sha Tsui Road, Tsuen Wan
New Territories, Hong Kong

## REGISTERED OFFICE

Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## COMPLIANCE ADVISER

Dakin Capital Limited
Room 2701, Admiralty Centre Tower 1
18 Harcourt Road
Admiralty, Hong Kong

## PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited

## AUDITOR

Grant Thornton Hong Kong Limited
Level 12
28 Hennessy Road
Wanchai, Hong Kong

## LEGAL ADVISER AS TO HONG KONG LAW

Guantao & Chow Solicitors and Notaries
Suites 1604–06
16/F, ICBC Tower, 3 Garden Road
Central, Hong Kong

## WEBSITE

www.hcho.com.hk

## STOCK CODE

1757

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Affluent Foundation Holdings Limited (the "Company"), it is my pleasure to present to you the first annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2018 (the "Year").

The shares of the Company (the "Shares") were successfully listed (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 June 2018 (the "Listing Date"). It marked an important milestone for the Group and laid a solid foundation for future development. On behalf of the Group, I would like to extend our appreciation to all parties who have helped us build our business over the years as well as to those who helped bringing our Company to the Listing of the Stock Exchange.

The Group is a Hong Kong-based subcontractor engaged in the provision of services related to foundation works in Hong Kong.

The revenue from the provision of services related to foundation works of the Group for the Year amounted to approximately HK$367.2 million, representing a decrease of approximately HK$29.7 million, or 7.5% compared to approximately HK$396.9 million for the year ended 31 March 2017. The decrease in revenue was primarily due to a significant project located in Wan Chai contributed revenue of approximately HK$103.1 million during the year ended 31 March 2017 whereas some sizable projects were in early stage and not in full swing during the Year. The Group's gross profits increase from approximately HK$40.5 million for the year ended 31 March 2017 to approximately HK$40.7 million for the Year. The increase in gross profit was primarily due to the increase of gross profit margin contributed by projects newly operated during the Year.

The Hong Kong Government continues to stress for more efforts to increase land supply for both residential and commercial developments. Therefore, the Group remains positive with the prospects of the construction industry in Hong Kong even though we are facing keen competition in the industry and increase in the cost of production. The Group will continue to focus on its competitive edge and maintain its competitive position in the market.

On behalf of the Board, I would like to take this opportunity to thank our committed staff and Directors for their dedications and contributions. I also wish to sincerely thank our customers, business partners and investors for their continuous support and trust.

**Chan Siu Cheong**
*Chairman and Chief Executive Officer*

Hong Kong, 29 June 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a subcontractor engaged in the provision of services related to foundation works in Hong Kong including excavation and lateral support ("ELS") works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks. To a lesser extent, the Group also engages in leasing of machineries to third party construction companies.

According to the research conducted by an independent market research and consulting firm, the gross output value of Hong Kong's foundation industry reached HK$13.9 billion in 2017 with compound annual growth rate ("CAGR") of approximately -2.4% between 2013 and 2017. The increasing demand of residential units in Hong Kong as well as Hong Kong Government's plan for increasing public housing supply together will help the foundation industry to keep growing in the future. It is expected that the gross output value of Hong Kong's foundation industry will further reach approximately HK$19.4 billion in 2022, representing a CAGR of approximately 6.9% from 2017 to 2022. The Group believes that more foundation projects will be launched in the near future.

Despite keen competition in the foundation industry and the increase in cost of production, the Group is still optimistic about the prospects of the construction industry in Hong Kong. The Group will continue to strengthen its market position and look forward to achieving continuous growth of business.

## RISKS AND UNCERTAINTIES

The Group's results of operation may vary significantly from period to period depending on, among other factors, the political and economic environment, level of competitiveness, the quality of service and timeliness of subcontractors, and the adequacy and efficiency of internal processes implemented by staff and systems. The Group believes that there are certain risks and uncertainties involved both in the markets and in the operations which can be summarised as below.

### Operational Risks

Due to unexpected circumstances such as bad weather and geological issues, the actual time and costs incurred in construction project may exceed our estimation at the time of tendering submission and the work in progress may be interrupted. As the result, such variances could adversely affect the Group's operations and financial results. In such situations, the Group will implement measures such as re-allocating human resources and recruit additional manpower including subcontracting the works in order to expedite the work progress.

On the other hand, chance of industrial accident is inevitable. In order to minimise the rate of accidents, the Group has already recruited two qualified safety officers to regularly monitor the work environment, implementation of safety rules and regulations and establishing safety policies. In addition, the Group also appointed a registered safety auditor to conduct corporate safety audit semi-annually to maximise the effectiveness of safety management.

It is quite common in the construction industry that collection of receivables takes longer time and it may lead to late settlement by customers especially at the times of unexpected crises due to political and economic factors. To mitigate the pressure of financial liquidity, the Group produces aging analysis on regular basis and contacts the management level of the customers so as to get better understanding of their solvency status.

### Market Risks

Due to the construction industry in Hong Kong is dominantly subject to Government's large-scale infrastructure projects and such projects required pro-longed process of legislative approval, it is more passive toward the future's prospect of the industry. Nevertheless, the Group will not just rely on participating in projects from public sector, we will also be more involved in projects from private sectors.

In the meantime, demand of residential and commercial buildings is growing continuously. The Group perceived that such demand will sustain the booming in the construction industry and attract more competitive entrants to the industry. In order to grip holding of the market shares, the Group planned to acquire new fleets of machineries to cope with the demand. With its in-depth experience and knowledge in the field, the Group are capable to continue providing one-stop construction machinery service to meet the needs of various customers.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

During the Year, the Group had been awarded 16 new contracts, with an aggregate original contract sum of approximately HK$645.6 million and had completed 2 projects with an aggregate original contract sum of approximately HK$35.0 million. As at 31 March 2018, the Group had 32 projects on hand (including projects in progress as well as projects that have been awarded to us but not yet commenced) with a total original contract sum of approximately HK$1,037.1 million.

### Revenue

The revenue from foundation works of the Group for the Year amounted to approximately HK$367.2 million, representing a decrease of approximately HK$29.7 million, or 7.5% compared to approximately HK$396.9 million for the year ended 31 March 2017. The decrease in revenue was primarily due to a significant project located in Wan Chai contributed revenue of approximately HK$103.1 million during the year ended 31 March 2017 whereas some sizable projects were in early stage and not in full swing during the Year.

### Gross Profit and Gross Profit Margin

The gross profit of the Group for the Year amounted to approximately HK$40.7 million, representing an increase of approximately HK$0.2 million, or 0.6%, compared to approximately HK$40.5 million for the year ended 31 March 2017. The increase in gross profit was primary due to the increase of gross profit margin contributed by projects newly operated during the Year. The gross profit margin has increased from 10.2% for the year ended 31 March 2017 to 11.1% for the Year. The increase in the gross profit margin was mainly attributable to the pricing of new projects awarded to the Group is better under the higher demand of our service in the market during the Year.

The Group prices its services based on various factors, including but not limited to the scope of works and the complexity of the projects. In this regard, the Group's profitability depends on the nature of projects engaged by the Group.

### Other Income

The other income of the Group for the Year amounted to approximately HK$7.1 million, representing an increase of approximately HK$2.9 million or 68.8% compared to approximately HK$4.2 million for the year ended 31 March 2017. The increase was primarily due to increase of machinery rental income and sales of construction wastes for the Year.

### Administrative Expenses

The administrative expenses of the Group for the Year amounted to approximately HK$25.5 million, representing an increase of approximately HK$13.4 million or 111.2% compared to approximately HK$12.1 million for the year ended 31 March 2017. The increase was primarily due to the one-off listing expenses of approximately HK$11.3 million for the Year (2017: approximately HK$2.7 million) and increase of salaries for the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (Continued)

### Finance Costs

The finance costs of the Group for the Year amounted to approximately HK$0.7 million, representing a decrease of approximately HK$0.5 million or 38.3% compared to approximately HK$1.2 million for the year ended 31 March 2017. The decrease was primarily due to the decrease in obligation under finance lease during the Year.

### Profit attributable to equity holders of the Company

The Group reported profit attributable to equity holders of the Company of approximately HK$16.0 million for the Year as compared to approximately HK$25.8 million for the year ended 31 March 2017, representing a decrease of approximately HK$9.8 million or 37.9%. Excluding the listing expenses of approximately HK$11.3 million for the Year (2017: approximately HK$2.7 million), the Group would have an adjusted net profit of approximately HK$27.3 million for the Year (2017: approximately HK$28.5 million).

## LIQUIDITY, FINANCIAL POSITION AND CAPITAL STRUCTURE

The Group has funded its liquidity and capital requirements primarily through capital contributions from shareholders, bank borrowings, cash inflows from operating activities and proceeds received from the Listing on the Main Board of the Stock Exchange.

The Shares were successfully listed on the Main Board of the Stock Exchange on the Listing Date and there has been no change in the capital structure of the Group since then.

As at 31 March 2018, the Group had in total cash and cash equivalents of approximately HK$11.0 million (31 March 2017: approximately HK$25.3 million). The decrease was primarily due to the repayment of finance leases and amount due to a director, and payment of listing expenses during the Year.

As at 31 March 2018, the gearing ratio of the Group, calculated by the total debts (defined as the sum of the amount due to a director, bank borrowings and obligations under finance leases) divided by the total equity is approximately 35.2% (31 March 2017: approximately 46.4%). The decrease was primarily due to increase in total equity and repayment of amount due to a director.

## TREASURY POLICY

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Board closely monitors the Group’s liquidity position to ensure that the Group can meet its funding requirements for business development.

## PLEDGE OF ASSETS

As at 31 March 2018, the Group’s property, plant and equipment with an aggregate net book value of approximately HK$6.6 million (31 March 2017: approximately HK$12.3 million) were pledged under finance lease.

## EXPOSURE TO FOREIGN EXCHANGE RATE RISKS

As the Group only operates in Hong Kong and almost all of the revenue and transactions arising from its operations were settled in Hong Kong dollar, the Board is of the view that the Group’s foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk during the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL EXPENDITURE

During the Year, the Group invested approximately HK$4.8 million on acquisition of property, plant and equipment. Capital expenditure was principally funded by finance leases and internal resources.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2018, the Group had no material capital commitments or contingent liabilities.

## EVENTS AFTER THE REPORTING PERIOD

The Shares are listed on the Main Board of the Stock Exchange on 7 June 2018.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Year, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies apart from the Reorganisation in relation to the Listing as disclosed in the Company's prospectus dated 23 May 2018 (the "Prospectus").

## SIGNIFICANT INVESTMENT HELD

During the Year, the Group had no significant investment held.

## FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed on the section headed "Future plans and use of proceeds" in the Prospectus, the Group does not have other plans for material investments and capital assets.

## USE OF PROCEEDS

The receipts of the proceeds, net of listing expenses (including underwriting fee), including both recognised in the combined statement of profit or loss and other comprehensive income and deducted from the share premium ("Net Proceeds") from the Listing were approximately HK$70.6 million. The Group intends to apply the Net Proceeds in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the Prospectus.

The Net Proceeds were not yet received during the Year.

An analysis of the utilisation of the Net Proceeds up to the date of this annual report is set out below:

| | | Planned<br>HK$'000 | Actual use of Net Proceeds up to the date of this annual report<br>HK$'000 |
|---|---|---|---|
| 1 | Acquire additional machineries and equipment | 39,996 | – |
| 2 | Strengthen the Group's manpower | 14,000 | – |
| 3 | Secure more contracts the Group intends to tender | 10,000 | – |
| 4 | General working capital | 6,554 | – |
| | | 70,550 | – |

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS (Continued)

As at the date of this annual report, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong.

The Directors regularly evaluates the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the Year, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2018, the Group employed a total of 200 employees (including Executive Directors), as compared to a total of 155 employees as at 31 March 2017. Total staff costs which include Directors' emoluments for the Year was approximately HK$68.0 million (year ended 31 March 2017: approximately HK$67.5 million). The salary and benefit level of the employees of the Group are competitive and individual performance is rewarded through the Group's salary and bonus system. The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee.

The emoluments of the Directors are decided by the Board after recommendation from the Remuneration Committee of the Company, having considered the factors such as the Group's financial performance and the individual performance of the Directors, etc.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees.

During the Year, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

## FINAL DIVIDEND

The Board has resolved not to recommend the declaration of final dividend to shareholders of the Company for the Year.

## FUTURE PROSPECTS

The Hong Kong Government continues to stress for more efforts to increase land supply for both residential and commercial developments. Therefore, the Group remains positive with the prospects of the construction industry in Hong Kong even though we are facing keen competition in the industry and increase in the cost of production. The Group will continue to focus on its competitive edge and maintain its competitive position in the market.

## COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited ("Dakin"), as at 31 March 2018, except for the compliance adviser agreement entered into between the Company and Dakin dated 14 May 2018, Dakin nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

# REPORT OF THE DIRECTORS

The Board is pleased to present to the shareholders this annual report together with the audited combined financial statements for the Year.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company while the principal subsidiaries are principally engaged in the provision of services related to foundation works and provision of construction machinery rental. Details of the principal activities of its subsidiaries are set out in note 1.2 to the combined financial statements. There was no significant change in the Group's principal activities during the Year.

## BUSINESS REVIEW

Discussion and analysis of principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622), including a discussion of the principal risks facing the Group and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" set out on pages 4 to 8 of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the combined statement of profit or loss and other comprehensive income on page 33 of this annual report. The Board has resolved not to recommend the declaration of final dividend to shareholders of the Company for the Year.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the combined financial statements of this annual report.

## RELATIONSHIP WITH KEY STAKEHOLDERS

The Directors are of view that employees, customers, sub-contractors and suppliers are the keys to the sustainable development of the Group.

### Employees

Employees are regarded as valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise well-performed staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives. In particular, the Group promotes career development and advancement by providing appropriate training and opportunities in order to enhance the employees' work performance.

### Customers

Our major customers include construction work companies engaged in public and/or private construction projects in Hong Kong. The Group has established long-term business relationship with these customers for many years and committed to offer quality service to meet their requirement. The Group endeavours to maintain contacts with these customers regularly in order to understand their needs and provide required service to support their business.

### Sub-contractors and Suppliers

Our Group has developed long-standing relationship with a number of sub-contractors and suppliers. We have always been communicating closely with them to ensure that good quality and sustainable goods and services will be provided to the Group. When selecting sub-contractors and suppliers, we often require them to satisfy certain criteria such as experience and capability, financial strength, track record, and reputation.

# REPORT OF THE DIRECTORS

## SHARE CAPITAL AND SHARES ISSUED DURING THE YEAR

Details of movements during the Year in the share capital of the Company are set out in note 22 to the combined financial statements of this annual report.

## RESERVES

Details of movements in the reserves of the Group during the Year are set out in the combined statement of changes in equity on page 35 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 March 2018, the Company did not have reserves available for distribution.

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 14 May 2018. The principal terms of the Share Option Scheme is summarised in Appendix V to the Prospectus. The main purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption on 14 May 2018 and up to the date of this annual report.

## DIRECTORS

The Directors who held office during the Year and up to the date of this annual report were:

### Executive Directors

Mr. Chan Siu Cheong *(Appointed on 2 June 2017)*
Mr. Sin Ka Pong *(Appointed on 2 June 2017)*

### Independent Non-executive Directors

Mr. Ho Chi Wai *(Appointed on 13 May 2018)*
Mr. Cheung Kwok Yan Wilfred *(Appointed on 13 May 2018)*
Mr. Lau Leong Ho *(Appointed on 13 May 2018)*

In accordance with article 108 of the Company's articles of association (the "Articles"), Mr. Sin Ka Pong and Mr. Lau Leong Ho will retire from office as Directors at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

# REPORT OF THE DIRECTORS

## DIRECTORS (Continued)

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

Information regarding Directors' emoluments is set out in note 12(a) to the combined financial statements of this annual report. An annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules has been received from each of the independent non-executive Directors. The Group considers all independent non-executive Directors to be independent under the Listing Rules.

## DIRECTORS' SERVICE CONTRACT

All the independent non-executive Directors have respectively entered into a letter of appointment with the Company for a term of one year unless terminated by not less than one month's notice in writing served by either party on the other.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## MANAGEMENT CONTRACTS

During the Year, no contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed.

## DIRECTORS'/CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a director or controlling shareholders of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group since the Listing Date and up to date of this annual report.

## NON-COMPETITION UNDERTAKING

Each of the controlling shareholders has made an annual declaration to the Company that since the Listing Date and up to date of this annual report, he/it has complied with the terms of non-competition undertakings ("Non-Competition Undertakings") given in favour of the Company. The independent non-executive Directors have also reviewed the status of compliance by each of the controlling shareholders with the undertakings stipulated in the Non-Competition Undertakings and have confirmed that, as far as the independent non-executive Directors can ascertain, there is no breach of any of such undertakings.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As the Company was not listed on the Stock Exchange as of 31 March 2018, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as of 31 March 2018.

As at the date of this annual report, interests and long positions in the Shares, underlying Shares of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules are as follows:

### (i) Long position in the Shares

| Name of Director | Capacity/ Nature of interest | Shares held | Approximate number of shareholding percentage |
|---|---|---|---|
| Mr. Chan Siu Cheong (Mr. Chan) (Note) | Interest in a controlled corporation | 900,000,000 | 75% |

Note: Oriental Castle Group Limited ("Oriental Castle") is beneficially owned as to 90% by Mr. Chan and 10% by Ms. Chu Wai Ling ("Ms. Chu"). By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Oriental Castle. Ms. Chu is the spouse of Mr. Chan. Accordingly, Ms. Chu is deemed or taken to be interested in the Shares Mr. Chan is interested in under the SFO.

### (ii) Long position in the ordinary shares of associated corporation

| Name of Director | Name of associated corporation | Capacity/Nature | Number of share(s) held | Percentage of interest |
|---|---|---|---|---|
| Mr. Chan (Note) | Oriental Castle | Benefit owner | 90 | 90% |

Note: Oriental Castle is the direct shareholder of our Company and is an associated corporation within the meaning of Part XV of the SFO.

### (iii) Short positions

Other than as disclosed above, as at the date of this annual report, none of the Directors nor chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As the Company was not listed on the Stock Exchange as of 31 March 2018, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company as of 31 March 2018.

As at the date of this annual report, so far as it is known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or individuals (other than a Director or chief executive of the Company) who had or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept under section 336 of the SFO were as follows:

### Long position in the Company:

| Name | Capacity/Nature of interest | Number of Shares held/ interest in | Percentage of shareholding |
|---|---|---|---|
| Oriental Castle | Beneficial Owner (Note 1) | 900,000,000 | 75% |
| Ms. Chu | Interest of a spouse (Note 2) | 900,000,000 | 75% |

Notes:

1. Oriental Castle is the direct shareholder of our Company. Oriental Castle is beneficially owned as to 90% by Mr. Chan and 10% by Ms. Chu. By virtue of the SFO, Mr. Chan is deemed to be interested in all the Shares held by Oriental Castle.

2. Ms. Chu is the spouse of Mr. Chan. Accordingly, Ms. Chu is deemed or taken to be interested in the Shares Mr. Chan is interested in under the SFO.

Save as disclosed above, as at the date of this annual report, the Directors are not aware of any other corporation or individual (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have, any interests or short positions in any Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or any entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any body corporate.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

The approximate percentages of the Group's revenue and cost of services attributable to major customers, subcontractors and suppliers during the Year and 2017 are as follows:

| | **Year ended 31 March 2018** | Year ended 31 March 2017 |
|---|---|---|
| Approximate % of total revenue: | | |
| from the largest customer | **27.2** | 26.0 |
| from the five largest customers in aggregate | **88.5** | 82.0 |
| Approximate % of total subcontracting charges incurred: | | |
| from the largest subcontractor | **18.6** | 46.4 |
| from the five largest subcontractors in aggregate | **71.7** | 85.3 |
| Approximate % of total purchases (excluding subcontracting charges incurred): | | |
| from the largest supplier | **37.9** | 36.3 |
| from the five largest suppliers in aggregate | **75.7** | 77.3 |

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors who owned more than 5% of the Company's share capital) had any interest in the five largest customers nor suppliers during the Year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Year are set out in note 26 to the combined financial statements of this annual report. Save as mentioned in the section headed "Continuing Connected Transactions" below, other related party transactions are fully exempted from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are set out in the section headed "Connected Transactions" in the Prospectus. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in relation to any connected transactions and continuing connected transactions.

## CONTINUING CONNECTED TRANSACTIONS

### Framework Transportation Agreement

On 14 May 2018, the Company (for itself and for the benefits of the subsidiaries of the Company) and Kam Lung Transport Co. ("Kam Lung") entered into a framework transportation agreement (the "Framework Transportation Agreement") in respect of the provision of construction waste disposal services by Kam Lung to the Group. The Framework Transportation Agreement is for a term commencing on the Listing Date and expiring on 31 March 2021. Under the Framework Transportation Agreement, the parties agree that the supply of such services shall be based on normal commercial terms agreed after good faith and arm's length negotiations between the parties. Furthermore, the parties shall review and negotiate the service fees from time to time as a result of prevailing market price for construction waste disposal services of comparable nature and scale, which should be in any event no less favourable to the Group than is available to independent third parties. Specific supply arrangement relating to particular services shall be governed by separate sub-agreements or orders agreed between Kam Lung and a member of Group and the general principles of supply under the Framework Transportation Agreement.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS (Continued)

### Framework Transportation Agreement (Continued)

As disclosed in the Prospectus, the Board estimated that the annual cap under the Framework Transportation Agreement shall not exceed HK$15,000,000, HK$15,000,000, and HK$15,000,000 for the years ending 31 March 2019, 2020 and 2021, respectively.

For the years ended 31 March 2015, 2016, 2017 and 2018, the service fees payable by the Company to Kam Lung in respect of construction waste disposal services were approximately HK$19.3 million, HK$26.3 million, HK$9.2 million and HK$10.9 million, respectively.

Kam Lung is a sole proprietorship owned by Mr. Tsang Leung Lung, the brother-in-law of Mr. Chan Siu Cheong, an executive Director and controlling shareholder of the Company. As such, Mr. Tsang Leung Lung is a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the Framework Transportation Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since at least one of the applicable percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules, where applicable, in respect of the Framework Transportation Agreement, on an annual basis, is expected to be more than 5%, which constitutes continuing connected transaction, and will be subject to reporting, annual review, announcement, circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Group has applied to the Stock Exchange for, and the Stock Exchange has granted it, a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules subject to the condition that the aggregate value of the transactions under the Framework Transportation Agreement for each financial year does not exceed the relevant annual cap amount as stated above.

### Annual Review of Continuing Connected Transactions

The continuing connected transactions mentioned above have been reviewed by the independent non-executive Directors who have confirmed that the transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) on normal commercial terms or better; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions. The auditor has issued a letter to the Board containing their findings and conclusions in respect of the non-exempt continuing connected transactions under the Framework Transportation Agreement mentioned above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules since the Listing Date and up to the date of this annual report.

## EVENTS AFTER THE REPORTING PERIOD

The Shares are listed on the Main Board of the Stock Exchange on 7 June 2018.

# REPORT OF THE DIRECTORS

## INDEPENDENT AUDITOR

The combined financial statements for the Year have been audited by Grant Thornton Hong Kong Limited, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

## CORPORATE GOVERNANCE CODE

The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules since the Listing Date and up to the date of this annual report except for the deviation from code provision A2.1 of the CG Code as explained in the Corporate Governance Report.

The details of Group's compliance with the CG Code is set out in the Corporate Governance Report from pages 20 to 26 of this annual report.

## ENVIRONMENTAL POLICIES

Sustainability is one of the key factors to the Group's development, as well as for the viability of its business and the welfare of the community. The Group is committed to offering premium products and services to obtain customer satisfaction all round. In recent years, the Group has been looking for ways to minimise the adverse impact of our businesses on the environment (i.e. air and noise pollution) by improving operational efficiencies and implementing eco-friendly measures. The Group will continue to strive for energy-saving and environmental-friendly equipment and materials for our construction projects. The Group will formulate policy to promote awareness and practices on resource usage reduction, waste reduction and energy conservation, and be more active in involving various community programs and contributing to the society.

## COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in the Prospectus, as far as the Directors and management are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operations of the Group during the Year.

On behalf of the Board
**Chan Siu Cheong**
*Chairman and Chief Executive Officer*

Hong Kong, 29 June 2018

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. CHAN Siu Cheong (陳紹昌)**, aged 62, is the chairman of our Board, the chief executive officer of our Company and an executive Director. He was appointed as a Director on 2 June 2017 and was re-designated as an executive Director, the chairman of the Board and the chief executive officer of our Company on 14 May 2018. Mr. Chan is also the chairman of the nomination committee. Mr. Chan is the founder of our Group and has been a director of HCC Foundations and HCC Transportation since their year of incorporation in 2009 and 1996 respectively. Prior to founding our Group, Mr. Chan worked in the foundation industry as a sub-contractor engaged in foundation works including excavation, concreting and underground drainage works in the early 1980s until he founded HCC Transportation. Mr. Chan has over 30 years of experience in the construction industry. Mr. Chan is responsible for overall management and overseeing and monitoring of projects and machineries of our Group.

**Mr. SIN Ka Pong (單家邦)**, aged 60, is an executive Director. He was appointed as a Director on 2 June 2017 and was re-designated as an executive Director on 14 May 2018. Mr. Sin is also a member of the remuneration committee. Mr. Sin joined our Group in December 2016 with the title of Executive Director of HCC Foundations. Mr. Sin was officially appointed and has been a director of HCC Transportation since March 2017. Mr. Sin is responsible for overall management and business development of our Group.

Mr. Sin has over 30 years of experience in the construction industry. From July 1986 to May 1989, Mr. Sin was employed by Chun Yip Construction Company Limited and his position was contracts officer at the time of his departure. From June 1989 to November 1994, he was employed as a subletting manager by Sun Fook Kong Construction Limited. From January 1995 to June 1996, he was employed as a senior associate by Wexler Consultants (Hong Kong) Limited. From May 1997 to September 2001, he was employed as a subletting and procurement manager by Win House Industries Limited (a subsidiary of Kerry Properties Ltd. (stock code: 683)). From February 2003 to May 2004, Mr. Sin was employed as a managing quantity surveyor by China Railway Construction Corporation. From June 2004 to March 2006, he was employed as a senior project manager by Ming Wah Engineering (Development) Co., Ltd. From August 2012 to March 2014, he was employed as a manager (budget control) for New World Construction Company Limited (a subsidiary of New World Development Company Limited (stock code: 17). From March 2014 to November 2016, he was seconded to Paul Y. – Yau Lee Joint Venture, a joint venture established for among others, construction of a Macau studio city project, as a senior commercial manager. Mr. Sin obtained a Bachelor of Quantity Surveying degree from the Polytechnic of Central London, now known as the University of Westminster in July 1983. He was elected as an associate of the Hong Kong Institute of Surveyors in September 1987. He was also a registered professional surveyor in quantity surveying division under the Surveyors Registration Board of Hong Kong in July 1996.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. HO Chi Wai (何志威)**, aged 43, was appointed as an independent non-executive Director on 13 May 2018. He is also the chairman of the audit committee and a member of the nomination committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Ho is currently a partner of SRF Partners & Co., CPAs. He obtained a Bachelor of Business Administration degree from Lingnan University (formerly known as Lingnan College) in November 1997 and a Master of Finance degree from Jinan University in December 2012. He is currently a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a certified tax adviser at the Taxation Institute of Hong Kong, an associate of the Taxation Institute of Hong Kong, and a fellow member of the Association of International Accountants. Mr. Ho has over 20 years of experience in audit assurance and business consulting. Prior to his own practice in 2012, Mr. Ho worked as an audit staff in a local accounting firm from 1997 to 2000, where he was promoted to an audit senior assistant in 1999. Mr. Ho joined a sizeable accounting firm as an audit senior in 2000 and from 2010 to 2011 he became a principal of the practice development department of the firm.

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Ho is currently an independent non-executive director of Wai Chi Holdings Company Limited (stock code: 1305), the issued shares of which are listed on the Main Board. Mr. Ho was an independent non-executive director of Ming Kei Holdings Limited (now known as Capital Finance Holdings Limited) (stock code: 8239, a company listed on GEM of the Stock Exchange) from June 2012 to October 2013.

**Mr. Cheung Kwok Yan Wilfred (張國仁)**, aged 38, was appointed as an independent non-executive Director on 13 May 2018. He is also the chairman of the remuneration committee and a member of the audit committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Cheung graduated from the University of Buckingham in the United Kingdom with a Bachelor of Science (Economics) in February 2005. Mr. Cheung is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors, a member of the Institute of Chartered Accountants in England and Wales. Mr. Cheung joined Moores Rowland Mazars in September 2005 as an associate and was later transferred to Mazars CPA Limited after its reorganisation in June 2007. Mr. Cheung left Mazars CPA Limited in October 2007 as an associate and joined Grant Thornton as senior accountant in its China practice division until December 2008. Mr. Cheung then worked for the Royal Bank of Canada Europe Limited as accounts preparer in its CEES UK Department from March 2009 to January 2010. Mr. Cheung was employed by Rainbow Brothers Limited from February 2010 to August 2010 as senior associate in corporate finance. Mr. Cheung later joined Mega International Food Limited as its financial controller in September 2010 and was appointed as general manager of its fellow subsidiary, Poly Shining Limited, and Mr. Cheung left the group in March 2013. In August 2013, Mr. Cheung joined The Gate Worldwide Limited, an international advertising and marketing agency, as a senior finance manager and was promoted to a finance director in July 2015. He ceased his employment with The Gate Worldwide Limited in May 2018.

Mr. Cheung has been an independent non-executive director of HKE Holdings Limited (stock code: 1726), the issued shares of which are listed on the Main Board, since March 2018. He was an independent non-executive director of Chun Sing Engineering Holdings Limited (stock code: 2277) (currently known as Huarong Investment Stock Corporation Limited), the issued shares of which are listed on the Main Board, from December 2014 to June 2016 and was an independent non-executive director of LEAP Holdings Group Limited (stock code: 1499), the issued shares of which are listed on the Main Board, from August 2015 to November 2017.

**Mr. LAU Leong Ho (劉亮豪)**, aged 34, was appointed as an independent non-executive Director on 13 May 2018. He is also a member of the audit committee, remuneration committee and nomination committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Lau has over 10 years of experience in the legal industry. He was admitted as a solicitor in Hong Kong in August 2008. He joined Tsang, Chan & Woo Solicitors & Notaries as a trainee solicitor in March 2007, became an assistant solicitor from August 2008 to November 2013 and has been a partner since December 2013. Mr. Lau graduated from City University of Hong Kong with a Bachelor of Laws degree on 8 November 2005 and obtained Postgraduate Certificate in Laws also from City University of Hong Kong on 14 July 2006.

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. LAM Tak Keung (林德強)**, aged 53, is our project manager and he is responsible for overall management of site works including quality control and safety supervision. Mr. Lam joined our Group in August 2012. He has over five years of experience in the construction industry in Hong Kong.

## COMPANY SECRETARY

**Mr. Kyaw Sai Hong (左世康)**, aged 36, is the company secretary of the Company (the "Company Secretary"). He joined our Group in February 2017 as the financial controller of HCC Foundations and was appointed as the Company Secretary on 2 June 2017. Mr. Kyaw has over 13 years of experience in the fields of accounting and auditing including experience with financial matters of listed companies. From November 2004 to January 2006, he was employed by a local auditing firm with his last position as an audit intermediate. From February 2006 to November 2006, he was employed by BDO Limited (then known as BDO McCabe Lo Limited) with his last position as an associate in the audit department. In November 2006, he was employed by Grant Thornton as a semi-senior in the Assurance Division and transferred to BDO Limited due to a merger of business between Grant Thornton and BDO Limited. Mr. Kyaw resigned from BDO Limited in July 2011 with his last position as a manager. From December 2011 to March 2013, he was employed by Shinewing (HK) CPA Limited as an audit manager. From May 2013 to April 2016, he was employed by Kwang Sung Technology Holdings Co. Limited as an accounting manager. From June 2016 to January 2017, he was employed by HF Management (HK) Limited as a financial controller. Mr. Kyaw is currently providing audit services and practising under his own name as Roy Kyaw Certified Public Accountant (Practising).

Mr. Kyaw obtained a Bachelor of Arts degree in Accounting and Finance from Leeds Beckett University (formerly named as Leeds Metropolitan University) in July 2004. Mr. Kyaw is currently a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants and has been a member of Hong Kong Institute of Certified Public Accountants since January 2009.

# CORPORATE GOVERNANCE REPORT

The Company strives to attain and maintain a high standard of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholders' value and safeguarding interests of shareholders and other stakeholders. Accordingly, the Board attributes a high priority to identifying and implementing appropriate corporate governance practices to ensure transparency, accountability and effective internal controls.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the CG Code as set out in Appendix 14 of the Listing Rules. Since the Listing Date and up to the date of this annual report, the Company has complied with the code provisions under the CG Code, except for the deviation from code provision A.2.1 of the CG Code as explained below. The Company will continue to enhance its corporate governance practices appropriate to the operation and growth of the business of the Group.

According to code provision A.2.1 of the CG Code, the role of the chairman and the chief executive officer of the Company should be separate and should not be performed by the same individual. Since the Listing Date and up to the date of this annual report, the role of the chairman and the chief executive officer of the Company are both performed by Mr. Chan Siu Cheong. In view of Mr. Chan's role in the day-to-day management and operations of the Group, being the founder of our Group and as one of the Directors if not the sole Director of other members of our Group, as at the date of this annual report, our Board believes that it is more effective and efficient overall business planning and implementation of business decisions and strategies of the Group that it shall be in the best interests of our Group for Mr. Chan to take up the dual roles of chairman and chief executive officer of the Company. Therefore, our Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstance and that there are sufficient checks and balances in place by the operations of the Board, which comprises experienced and high calibre individuals and adequate independent element in the composition of the Board.

Our Board will continue to review and consider splitting the roles of chairman and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole. Our Directors are aware that we are expected to comply with the CG Code. Any deviation from the CG Code should be carefully considered and disclosed in the interim and annual report. Save as disclosed above, we will continue to comply with the CG Code to protect the best interests of our shareholders.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "Securities Dealing Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. As the Company's shares were not listed on the Stock Exchange as at 31 March 2018, related rules under the Listing Rules concerning the Model Code that Directors shall observe do not apply to the Company for the Year.

## BOARD OF DIRECTORS

The Board is responsible for formulating business strategies and monitoring the performance of the business of the Group. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules during the Year. The Board constituted by five members, including two executive Directors and three independent non-executive Directors.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (Continued)

The composition of the Board is as follows:

### Executive Directors

Mr. Chan Siu Cheong *(Chairman and Chief Executive Officer)*
Mr. Sin Ka Pong

### Independent Non-executive Directors

Mr. Ho Chi Wai
Mr. Cheung Kwok Yan Wilfred
Mr. Lau Leong Ho

Biographical details of each Director and relationship between board members are set out on pages 17 to 18 of this annual report.

The Company has signed a letter of appointment with each of the independent non-executive directors on 13 May 2018. The principal particulars of these appointment letters are (a) each of them agreed to act for an initial term of one year commencing from the Listing Date with a director's fee, which may be terminated by not less than one month' written notice served by either party on the other, and (b) is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Articles.

Pursuant to article 108(a) of 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.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The Company has also complied with Rule 3.10(2) of the Listing Rules. One of the independent non-executive Directors possesses the appropriate professional accounting qualifications and financial management expertise.

From the Listing Date and up to the date of this annual report, one Board meeting and no general meetings were held and the attendance record of each Director is set out in the table below:

| Directors | Attendance/ Number of Board Meetings |
|---|---|
| **Executive Directors** | |
| Mr. Chan Siu Cheong | 1/1 |
| Mr. Sin Ka Pong | 1/1 |
| **Independent Non-executive Directors** | |
| Mr. Ho Chi Wai | 1/1 |
| Mr. Cheung Kwok Yan Wilfred | 1/1 |
| Mr. Lau Leong Ho | 1/1 |

Every Director is entitled to have access to Board papers and related materials, and the advice and services of the Company Secretary, and has the liberty to seek independent professional advice at the Company's expense if so reasonably required. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

# CORPORATE GOVERNANCE REPORT

## BOARD DIVERSITY

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company encourages the Directors to attend any relevant programme to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively. Immediately prior to the Listing, all Directors have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest. Such induction materials and briefing will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

All Directors have provided record of their training attendance and the Company will continue to arrange and fund the training in accordance with the CG Code provisions.

## BOARD COMMITTEES

The Board has established three committees, namely the audit committee, the nomination committee and the remuneration committee. The table below provides the membership information of these committees on which certain Board members served:

| Directors | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Mr. Chan Siu Cheong | – | C | – |
| Mr. Sin Ka Pong | – | M | M |
| Mr. Ho Chi Wai | C | – | – |
| Mr. Cheung Kwok Yan Wilfred | M | – | C |
| Mr. Lau Leong Ho | M | M | M |

Notes:

C – Chairman of the relevant Committee
M – Member of the relevant Committee

## AUDIT COMMITTEE

The Company established the audit committee on 14 May 2018 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3.3 of the CG Code. The primary duties of our audit committee include, among others, (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor; (b) reviewing our financial statements, our annual report and accounts and our half-year report and significant financial reporting judgments contained therein; and (c) reviewing our financial controls, internal control and risk management systems. Our audit committee comprises three independent non-executive Directors, namely Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho. Mr. Ho Chi Wai is the chairman of our audit committee.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE (Continued)

No meeting had been held by the audit committee during the Year as the Company was listed on the main board of the Stock Exchange on 7 June 2018. From the Listing Date and up to the date of this annual report, one Audit Committee meeting was held on 29 June 2018 to review, and recommend to the Board for approval, of the Company's annual financial statements for the Year. The individual attendance record of each member at the meeting of Audit Committee is set out below:

| Name of member of the Audit Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Ho Chi Wai | 1/1 |
| Mr. Cheung Kwok Yan Wilfred | 1/1 |
| Mr. Lau Leong Ho | 1/1 |

## NOMINATION COMMITTEE

The Company established the nomination committee on 14 May 2018 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The primary duties of our nomination committee include, among others, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment and succession planning for our Directors. Our nomination committee comprises two independent non-executive Directors, namely Mr. Ho Chi Wai and Mr. Lau Leong Ho, and one executive Director, namely Mr. Chan. Mr. Chan is the chairman of our nomination committee.

During the period from the Listing Date to 31 March 2018, the nomination committee did not hold any meeting. Subsequent to the year end, the Nomination Committee held a meeting to (i) review the structure, size and diversity of the Board; (ii) assess the independence of the independent non-executive Directors; and (iii) recommend to the Board for consideration the re-election of all the retiring Directors at the forthcoming annual general meeting.

No meeting had been held by the remuneration committee during the Year as the Company was listed on the main board of the Stock Exchange on 7 June 2018. From the Listing Date and up to the date of this annual report, one remuneration committee meeting was held on 29 June 2018 for considering and recommending to the Board the remuneration and other benefits paid by the Company to the Directors and senior management. The individual attendance record of each member at the meeting of remuneration committee is set out below:

| Name of member of the Nomination Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Chan Siu Cheong | 1/1 |
| Mr. Lau Leong Ho | 1/1 |
| Mr. Ho Chi Wai | 1/1 |

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Company established the remuneration committee on 14 May 2018 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1.2 of the CG Code. The primary duties of our remuneration committee, under the principle that no Director or any of his associates should be involved in deciding his own remuneration include, among others, making recommendations to our Board on (a) our remuneration policy and structure for all of our Directors and senior management; (b) the establishment of a formal and transparent procedure for developing remuneration policies; (c) the remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments; and (d) the remuneration of our non-executive Directors. Our remuneration committee comprises two independent non-executive Directors, namely Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho, and one executive Director, namely Mr. Sin Ka Pong. Mr. Cheung Kwok Yan Wilfred is the chairman of our remuneration committee.

No meeting had been held by the nomination committee during the year ended 31 March 2018 as the Company was listed on the main board of the Stock Exchange on 7 June 2018. From the Listing Date and up to the date of this annual report, one nomination committee meeting was held on 29 June 2018 and determined and adopted the Board diversity policy, reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors and made recommendation to the Board on the appointment or re-appointment of Directors. The individual attendance record of each member at the meeting of remuneration committee is set out below:

| Name of member of the Remuneration Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Cheung Kwok Yan Wilfred | 1/1 |
| Mr. Sin Ka Pong | 1/1 |
| Mr. Lau Leong Ho | 1/1 |

No Director takes part in any discussion about his own remuneration. Full details of remuneration of the Directors and the five highest paid employees are provided in Note 12 to the combined financial statements of this annual report.

## COMPANY SECRETARY

Mr. Kyaw Sai Hong was appointed as the Company Secretary on 2 June 2017. Mr. Kyaw is currently a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants and has been a member of Hong Kong Institute of Certified Public Accountants since January 2009. During the Year, he has undertaken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE COMBINED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the combined financial statements of the Group for the Year. The Directors aim to present a clear and understandable assessment of the Group's financial position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the combined financial statements of the Group. The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules, and reports to the regulators.

The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor's Report of this annual report.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROLS

One of the major functions of the Board is to maintain an adequate risk management and internal control systems to safeguard shareholders' investments and the Group's assets, and reviewing their effectiveness annually through the audit committee. The audit committee reports to the Board on any material issues and makes recommendations to the Board.

Policies and procedures have been designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with applicable law, rules and regulations. The policies and procedures provide a reasonable assurance that material misstatements or losses are prevented, potential interruption of the Group's management system is detected, and risks existing in the course of arriving at the Group's objectives are properly managed.

During the Year, the Company engaged an external independent consulting firm to review the effectiveness of certain of the Group's risk management and internal controls systems. Relevant recommendations made by the consultant have already been implemented in stages by the Group to further enhance its internal control policies, procedures and practices. The Board considered that the Group's risk management and internal control systems were effective during the Year.

The Group has conducted an annual review on whether there is a need for an internal audit department. Given the Group's relatively simple corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness.

## AUDITOR'S REMUNERATION

During the Year, the remuneration paid or payable to the Company's auditor, Grant Thornton Hong Kong Limited, and its affiliated firms, in respect of their audit and non-audit services was as follows:

| | **Service Fee**<br>HK$'000 |
|---|---|
| Audit services | 650 |
| Non-audit services | |
| – Reporting Accountant in relation to the Listing | 3,150 |
| | 3,800 |

## DIRECTORS AND OFFICERS INSURANCE

Appropriate insurance covers on directors' liabilities have been in force to protect the Directors and officers of the Group from their risk exposure from the business of the Group since the Listing Date.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations.

The Company has established several communication channels, including (a) the annual and extraordinary general meetings which provide a forum for shareholders to communicate directly with the Board; (b) printed corporate documents mailing to shareholders; (c) announcement disseminating the latest activities of the Group on the web-sites of the Company and the Stock Exchange; and (d) the Company's web-site providing an electronic means of communication.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### How shareholder can convene an extraordinary general meeting

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

(a) Pursuant to article 64 of the Articles, any 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 (the "Eligible Shareholder(s)") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition;

(b) The written requisition must state the purposes of the meeting, signed by the Eligible Shareholder(s) and deposit it to the Board or the Company Secretary at the Company's principal place of business at Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists;

(c) The requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders;

(d) The requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered shareholders. On the contrary, if the requisition has been verified as not in order or the shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM; and

(e) If within 21 days of such deposit the Board fails to proceed to convene such meeting the Eligible Shareholder(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the Eligible Shareholder(s) as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) by the Company.

### Procedures by which enquiries may be put to the Board

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the Company Secretary in writing by mail to the Company's principal place of business in Hong Kong at Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

### Procedures for putting forward proposals at shareholders' meeting

There are no provisions in the Articles or the Companies Law of the Cayman Islands for Shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out in the above paragraph heading "How shareholder can convene an extraordinary general meeting".

## SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

As of the Listing Date to the date of this annual report, there were no changes made to the constitutional documents of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to contributing to the sustainability of the environment and has implemented policies to minimise the impact on the environment from its business activities. The Group endeavors to refine the approach to addressing its environmental, social and ethical responsibilities along with improving its corporate governance in order to generate greater value for all stakeholders.

The “Environmental, Social and Governance Report” of the Company to be prepared in accordance with Appendix 27 of the Listing Rules will be published within three months after the publication of this annual report.

# INDEPENDENT AUDITOR'S REPORT

Grant Thornton
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**To the members of Affluent Foundation Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the combined financial statements of Affluent Foundation Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 75, which comprise the combined statement of financial position as at 31 March 2018, and the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the combined financial statements give a true and fair view of the combined financial position of the Group as at 31 March 2018, and of its combined financial performance and its combined cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Accounting for construction contracts

***Refer to Notes 2.7, 2.13, 4(a) and 5 to the combined financial statements.***

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| The Group recognised revenue and cost from construction contracts amounted to approximately HK$367,220,000 and HK$326,487,000 respectively for the year ended 31 March 2018, and recorded the amounts due from customers on construction contracts and the amounts due to customers on construction contracts of HK$77,329,000 and HK$2,362,000 respectively as at 31 March 2018.<br><br>The Group's revenue and costs of construction contracts are recognised by reference to the stage of completion of the construction contracts during the year with reference to the progress certificates issued by the customers or their agents. The stage of completion requires the management's estimation of the final outcome of the construction contracts. In addition, significant judgement is required in estimating the contract revenue, the contract costs and variation works which may have an impact on percentage of completion of the construction contracts and the corresponding profit taken. | Our procedures in relation to construction contracts included the following:<br><br>– Understood the basis of estimation of the budgets through discussion with the management who is responsible for the budgeting of the construction contracts, and evaluated the reasonableness of the estimated profit margins by taking into account of the profit margins of historical similar projects;<br><br>– Inspected the terms and conditions of construction contracts such as contract sum, construction period, performance obligations, payment schedule, retention and warranty clauses, etc.;<br><br>– Assessed and checked, on a sample basis, the accuracy of the budgeted construction revenue by agreeing to contract sum or variation orders as set out in the construction contracts or the agreements entered with customers;<br><br>– Selected, on a sample basis, the construction contracts to examine project managers' budget of the cost components, such as cost of materials, subcontracting charges and labour costs, etc. We compared the budgeted construction costs to supporting documents including but not limited to invoices, quotations and rate of labour costs, etc.;<br><br>– Checked, on a sample basis, the progress certificates issued by the customers or their agents and the actual costs incurred on construction works to supporting documents during the reporting period; and<br><br>– Evaluated the management's assessment on the stage of completion of the construction contracts, on a sample basis, based on the latest progress certificates issued by the customers or their agents, including the certified contract work and variation orders, if any, and discussed with management and the respective project managers about the progress of the projects.<br><br>We found management's judgements and estimates used in accounting for construction contracts were supported by available evidence. |

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the combined financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE COMBINED FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE COMBINED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE COMBINED FINANCIAL STATEMENTS

(Continued)

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

- identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE COMBINED FINANCIAL STATEMENTS

(Continued)

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

**Grant Thornton Hong Kong Limited**
*Certified Public Accountants*
Level 12
28 Hennessy Road
Wanchai
Hong Kong

29 June 2018

Chan Tze Kit
Practising Certificate No.: P05707

# COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **367,220** | 396,880 |
| Direct costs | | **(326,487)** | (356,375) |
| **Gross profit** | | **40,733** | 40,505 |
| Other income | 6 | **7,132** | 4,224 |
| Administrative expenses | | **(25,496)** | (12,070) |
| Finance costs | 7 | **(746)** | (1,209) |
| **Profit before income tax** | 8 | **21,623** | 31,450 |
| Income tax expense | 9 | **(5,574)** | (5,625) |
| **Profit and total comprehensive income for the year attributable to equity holders of the Company** | | **16,049** | 25,825 |
| **Earnings per share attributable to equity holders of the Company** | | **HK cents** | HK cents |
| Basic and diluted | 11 | **1.78** | 2.87 |

The notes on pages 37 to 75 are an integral part of these combined financial statements.

# COMBINED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **19,128** | 25,142 |
| **Current assets** | | | |
| Trade and other receivables | 14 | **77,688** | 86,936 |
| Amounts due from customers for contract work | 15 | **77,329** | 38,103 |
| Cash and bank balances | 16 | **10,995** | 25,268 |
| | | **166,012** | 150,307 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **67,348** | 71,895 |
| Bank borrowings, secured | 18 | **23,223** | 13,308 |
| Obligations under finance leases | 19 | **2,996** | 4,611 |
| Amounts due to customers for contract work | 15 | **2,362** | 1,483 |
| Amount due to a director | 20 | **1,687** | 8,553 |
| Tax payable | | **2,401** | 2,967 |
| | | **100,017** | 102,817 |
| **Net current assets** | | **65,995** | 47,490 |
| **Total assets less current liabilities** | | **85,123** | 72,632 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 19 | **817** | 3,942 |
| Deferred tax liabilities | 21 | **2,722** | 3,155 |
| | | **3,539** | 7,097 |
| **Net assets** | | **81,584** | 65,535 |
| **EQUITY** | | | |
| Share capital | 22 | **–** | – |
| Reserves | 23 | **81,584** | 65,535 |
| **Equity attributable to equity holders of the Company** | | **81,584** | 65,535 |

| | |
|---|---|
| **Chan Siu Cheong**<br>*Director* | **Sin Ka Pong**<br>*Director* |

The notes on pages 37 to 75 are an integral part of these combined financial statements.

# COMBINED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

| | Share capital HK$'000 (Note 22) | Capital reserve HK$'000 (Note 23) | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Balance at 1 April 2016 | – | 301 | 39,409 | 39,710 |
| Profit and total comprehensive income for the year | – | – | 25,825 | 25,825 |
| Balance at 31 March 2017 and 1 April 2017 | **–** | **301** | **65,234** | **65,535** |
| Profit and total comprehensive income for the year | **–** | **–** | **16,049** | **16,049** |
| **Balance at 31 March 2018** | **–** | **301** | **81,283** | **81,584** |

The notes on pages 37 to 75 are an integral part of these combined financial statements.

# COMBINED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 21,623 | 31,450 |
| Adjustments for: | | |
| Depreciation | 8,993 | 10,225 |
| Gain on disposal of property, plant and equipment | (2,143) | (3,551) |
| Finance costs | 746 | 1,209 |
| Operating profit before working capital changes | 29,219 | 39,333 |
| Decrease/(Increase) in trade and other receivables | 9,248 | (28,172) |
| Increase in amounts due from customers for contract work | (39,226) | (369) |
| (Decrease)/Increase in trade and other payables | (4,547) | 24,679 |
| Increase in amounts due to customers for contract work | 879 | 990 |
| Decrease in amount due to a director | (6,866) | (5,848) |
| Cash (used in)/generated from operations | (11,293) | 30,613 |
| Income tax paid | (6,573) | (8,032) |
| *Net cash (used in)/from operating activities* | (17,866) | 22,581 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (3,933) | (4,529) |
| Proceeds from disposal of property, plant and equipment | 3,977 | 5,130 |
| *Net cash from investing activities* | 44 | 601 |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 25,372 | 22,969 |
| Repayment of borrowings | (15,457) | (17,400) |
| Repayment of finance lease liabilities | (5,620) | (6,367) |
| Interest paid | (746) | (1,209) |
| *Net cash from/(used in) financing activities* | 3,549 | (2,007) |
| **Net (decrease)/increase in cash and cash equivalents** | (14,273) | 21,175 |
| Cash and cash equivalents at the beginning of year | 25,268 | 4,093 |
| **Cash and cash equivalents at end of year (Note 16)** | 10,995 | 25,268 |

The notes on pages 37 to 75 are an integral part of these combined financial statements.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

### 1.1 General information

Affluent Foundation Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 2 June 2017. The address of the Company’s registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company’s principal place of business is Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, the New Territories, Hong Kong.

The Company is an investment holding company, and companies now comprising the group (collectively referred to as the “Group”) are principally engaged as subcontractor in the provision of services related to foundation works in Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 7 June 2018.

These combined financial statements for the year ended 31 March 2018 were approved for issue by the board of directors (the “Board”) on 29 June 2018.

### 1.2 Reorganisation and basis of presentation

As at 31 March 2018, the Company’s immediate and ultimate holding company is Oriental Castle Group Limited (“Oriental Castle”), a company incorporated in the British Virgin Islands (the “BVI”) and owned by Mr. Chan Siu Cheong (“Mr. Chan”) and Ms. Chu Wai Ling (“Ms. Chu”). Mr. Chan, Ms. Chu and Oriental Castle are collectively referred to as the controlling shareholders (the “Controlling Shareholders”) of the Company.

Pursuant to a group reorganisation (the “Reorganisation”) of the Company in connection with the listing of its shares on the Stock Exchange (the “Listing”), which was completed on 23 April 2018, the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section headed “History, reorganisation and corporate structure – Reorganisation” in the Company’s prospectus dated 23 May 2018 (the “Prospectus”).

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

### 1.2 Reorganisation and basis of presentation (Continued)

Upon the completion of the Reorganisation on 23 April 2018, the Company had direct or indirect interest in the following subsidiaries:

| Name of Company | Place of incorporation | Date of incorporation | Particulars of issued and paid up capital | Proportion of ownership interest Group's effective interest | Principal activities |
|---|---|---|---|---|---|
| **Directly held by the Company** | | | | | |
| Affluent Century Investments Limited ("Affluent Century") | The BVI | 16 March 2017 | 1 ordinary share | 100% | Investment holding |
| **Indirectly held by the Company** | | | | | |
| Art Ventures Worldwide Limited ("Art Ventures") | The BVI | 20 March 2017 | 2 ordinary shares | 100% | Investment holding |
| Luxury Golden Worldwide Limited ("Luxury Golden") | The BVI | 20 March 2017 | 2 ordinary shares | 100% | Investment holding |
| Hong Chang Construction Foundations (Holdings) Limited ("HCC Foundations") | Hong Kong | 14 April 2009 | 1,000 ordinary shares | 100% | Undertaking foundation works in Hong Kong |
| Hong Chang Construction Transportation Engineering Company Limited ("HCC Transportation") | Hong Kong | 15 October 1996 | 100,000 ordinary shares | 100% | Provision of equipment rental |

For the purpose of the preparation of these combined financial statements, the Company has been considered as the holding company of the companies and business now comprising the Group for the years ended 31 March 2018 and 2017. The Group is under the common control of Mr. Chan and Ms. Chu prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the years ended 31 March 2018 and 2017 which include the financial performance, changes in equity and cash flows of the companies now comprising the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended 31 March 2018 and 2017, or since their respective dates of incorporation where this is a shorter period. The combined statements of financial position as at 31 March 2018 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those respective dates.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these combined 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 combined financial statements has been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The combined financial statements has been prepared under the historical cost basis. The combined financial statements are presented in Hong Kong dollars ("HK$" or "HKD"), and all values are rounded to the nearest thousand (HK$'000), except where otherwise indicated.

The preparation of the combined 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 combined financial statements are disclosed in Note 4 below.

### 2.2 Basis of consolidation and combination

The combined financial statements incorporates the financial statements of the Company and all its subsidiaries made up to 31 March each year.

Subsidiaries are 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. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the combined financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.3 Foreign currency translation

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

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

### 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Furniture, fixtures and equipment | 15% |
| Plant and machinery | 20% |
| Motor vehicles | 25% |
| Leasehold improvements | Over the term of lease or 20%, whichever is shorter |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.5 Financial assets

The Group's accounting policies for financial assets are set out below.

Financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

***Impairment of financial assets***

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- The disappearance of an active market for that financial asset because of financial difficulties.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.5 Financial assets (Continued)

***Impairment of financial assets*** (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (i.e., the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in 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, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than trade and retention receivables that are stated at amortised cost are written off against the corresponding assets directly. Where the recovery of trade and retention receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade and retention receivables is remote, the amount considered irrecoverable is written off against trade and retention receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.6 Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

### 2.7 Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 2.13.

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the reporting date are recorded in the combined statement of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented as "Amounts due from customers for contract work" (an asset) or "Amounts due to customers for contract work" (a liability). Progress billings not yet paid by customers are included in the combined statement of financial position under "Trade and other receivables". Amounts received before the related work is performed are recorded under "Trade and other payables".

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.9 Financial liabilities

The Group's financial liabilities include obligations under finance leases, bank borrowings, amount due to a director and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2.15).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

***Obligations under finance leases***

Obligations under finance leases are measured at initial value less the capital element of lease repayments (see Note 2.10).

***Bank borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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 twelve months after the reporting date.

***Trade and other payables and amount due to a director***

Trade and other payables and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

***Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

***Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

***Operating lease charges as the lessee***

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the combined statement of profit or loss and other comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.10 Leases (Continued)

***Assets leased out under operating leases as the lessor***

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

### 2.11 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

### 2.12 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) are deducted from share premium to the extent they are incremental cost directly attributable to the equity transaction.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of services in the ordinary course of the Group's activities. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

***(i) Contract revenue***

When the outcome of a construction contract can be estimated reliably, revenue from construction contract is recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work can be measured reliably. The stage of completion of a contract is generally established according to the progress certificate (by reference to the construction works certified by the customers or their agents) issued by the customer or its agent.

In practice, the Group makes application to the customer for progress payment normally on a monthly basis or upon the completion of the project. After examination by the customer or its agent, a payment certificate will be issued to the Group certifying the portion of works completed during the period for which progress payment is applied, which normally takes around one month from the date of application, and therefore the stage of completion for the period is established by reference to the payment certificate issued to the Group.

However, progress certifications might not necessarily take place as at the financial year-end. In case where progress certifications do not take place as at the financial year-end or where the last progress certificate for a work contract during a financial year does not cover a period up to the financial year-end, the revenue for the period from the last progress certification up to the financial year-end is estimated based on the estimated stage of completion with reference to the actual amounts of works performed during such period as indicated by the relevant site records as well as the rates for the relevant works items as agreed between the customer and the Group.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer or the outcome of which can be estimated reliably by management and are capable of being reliably measured.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

***(ii) Interest income***

Interest income is recognised on an accrual basis using the effective interest method.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.14 Employee benefits

***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

***Short-term employee benefits***

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 reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 2.15 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### 2.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.16 Accounting for income taxes (Continued)

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the combined financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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

### 2.17 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components for their review of the performance of those components.

### 2.18 Related parties

For the purposes of the combined financial statements, 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 if that person:

- (i) has control or joint control of 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.

(b) the party is an entity and if 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 an associate or joint venture of a member of a group of which the other entity is a member);
- (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 (if the Group is itself such a plan) and the sponsoring employers are also 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 the key management personnel of the entity (or of a parent of the entity); or
- (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.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied all the amended HKFRSs issued by the HKICPA, which are relevant to the Group's combined financial statements and effective for the annual period beginning on 1 April 2017.

The Group have not early applied the following new and amended Standards, Amendments and Interpretations ("new and amended HKFRSs") that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[2] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014-2016 Cycle[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[2] |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[2] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date not yet determined.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

The directors anticipate that all the relevant new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of such standards. The Group is in the process of making an assessment of the impact of these new and amended HKFRSs upon initial application. Currently it has been considered that adoption of them is unlikely to have an impact on the Group's results of operations and financial position, except for the following:

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations. HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group have started to assess the impact of HKFRS 15 and expects to apply HKFRS 15, in accordance with modified retrospective approach under which the cumulative effect of initially applying this standard recognised at the date of initial application (i.e. 1 April 2018). When applying HKFRS 15, the directors consider that an output method will be used in measuring the work progress and the directors do not anticipate that the application of HKFRS 15 will have a material impact on the Group's combined financial statements but will result in more disclosures to be made in the financial statements.

### HKFRS 9 Financial Instruments

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 and will replace HKAS 39 in its entirety. The new standard introduces changes to HKAS 39's guidance on the classification and measurement of financial assets. Under HKFRS 9, each financial asset is classified into one of three main classification categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. An entity may make an irrevocable election at initial recognition to present in other comprehensive income for the subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

### HKFRS 9 Financial Instruments (Continued)

Most of the HKAS 39's requirements for financial liabilities were carried forward unchanged to HKFRS 9. The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, HKFRS 9 requires the amount of the change in fair value to changes in the entity's own credit risk to be presented in other comprehensive income, unless effect of changes in the entity's own credit risk would create or enlarge an accounting mismatch in profit or loss, in which case, all gains or losses on that liability are to be presented in profit or loss.

HKFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

HKFRS 9 also provides new guidance on the application of hedge accounting. The new hedge accounting models retain the three types of hedge accounting and the requirements of formal designation and documentation of hedge accounting relationships. The new hedge accounting requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assess hedge effectiveness.

The directors consider that the application of HKFRS 9 in the future will not have a significant impact on the Group's results and financial position.

### HKFRS 16 Leases

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. HKFRS 16 is effective from periods beginning on or after 1 January 2019. The directors are yet to fully assess the impact of HKFR 16 and therefore is unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under HKFRS 16's new definition;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are on-off choices; and
- assessing their current disclosures for finance leases (Note 19) and operating leases (Note 25) as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions assessing the additional disclosures that will be required.

The directors confirms the adoption of HKFRS 16 would not result in a significant impact on the Group's financial position and performance. As at 31 March 2018, the operating lease commitments amounted to HK$1,575,000 and which will be required to be recognised in the combined financial statements as right-of-use assets and lease liabilities if HKFRS 16 would have been applied.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. 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 discussed below:

### (a) Construction contracts

As explained in Notes 2.7 and 2.13, revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts, with reference to the progress certificates issued by the customers and their agents. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs by comparing the budgeted amounts to the actual costs incurred.

Significant judgement is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit taken.

Management exercised their judgements and estimated based on contract costs and revenues with reference to the latest available information, which includes detailed contract sum and works performed. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the timing and recognition of payments and the age and recoverability of any unagreed income from variations to the contract scope or claims. The impact of the changes in accounting estimates is then reflected in the ongoing results.

Details of the amounts due from/(to) customers for contract work are disclosed in Note 15.

### (b) Provision for impairment of trade receivables

The Group determines the provision for impairment of trade receivables. This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

Details of the trade receivables are disclosed in Note 14.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 5. REVENUE

The Group's principal activities are disclosed in Note 1.1 to the combined financial statements.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contracting revenue | 367,220 | 396,880 |

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of foundation works as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Customer A | 99,734 | 103,081 |
| Customer B | 98,444 | 99,734 |
| Customer C | 61,449 | 61,676 |

## 6. OTHER INCOME

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 2,143 | 3,551 |
| Machinery rental income | 2,580 | 388 |
| Sundry income | 2,409 | 285 |
| | 7,132 | 4,224 |

## 7. FINANCE COSTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Bank loans interest wholly repayable within five years | 405 | 537 |
| Finance charge on obligations under finance leases | 341 | 672 |
| | 746 | 1,209 |

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 8. PROFIT BEFORE INCOME TAX

| | | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Profit before income tax is stated after charging: | | | |
| (a) | Staff costs (including directors' emoluments (Note 12(a))) (note (i)) | | |
| | – Salaries, wages and other benefits | **65,932** | 65,281 |
| | – Contributions to defined contribution retirement plans | **2,060** | 2,239 |
| | | **67,992** | 67,520 |
| (b) | Other items | | |
| | Depreciation, included in: | | |
| | Direct costs | | |
| | – Owned assets | **4,641** | 5,134 |
| | – Leased assets | **2,808** | 3,420 |
| | Administrative expenses | | |
| | – Owned assets | **565** | 585 |
| | – Leased assets | **979** | 1,086 |
| | | **8,993** | 10,225 |
| | Subcontracting charges (included in direct costs) | **65,242** | 75,271 |
| | Auditor's remuneration | **730** | 80 |
| | Operating lease charges in respect of premises | **1,667** | 2,800 |
| | Listing expenses | **11,259** | 2,713 |

Note:

(i) Staff costs (including directors' emoluments)

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Direct costs | **60,903** | 64,074 |
| Administrative expenses | **7,089** | 3,446 |
| | **67,992** | 67,520 |

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 9. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the year ended 31 March 2018 (2017: 16.5%).

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Provision for Hong Kong Profits Tax | | |
| – Current tax | 6,007 | 5,576 |
| – Statutory tax concession | – | (20) |
| | 6,007 | 5,556 |
| Deferred tax (Note 21) | (433) | 69 |
| | 5,574 | 5,625 |

Reconciliation between income tax expense and accounting profit at applicable tax rate:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit before income tax | 21,623 | 31,450 |
| Tax at Hong Kong Profits Tax rate of 16.5% | 3,568 | 5,189 |
| Tax effect of non-deductible expenses | 2,006 | 456 |
| Statutory tax concession | – | (20) |
| Income tax expense | 5,574 | 5,625 |

## 10. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 March 2018.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 11. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

| | 2018 | 2017 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to equity holders of the Company (in HK$'000) | **16,049** | 25,825 |
| **Number of shares** | | |
| Weighted average number of ordinary shares (in '000) | **900,000** | 900,000 |
| **Basic earnings per share (in HK cents)** | **1.78** | 2.87 |

The weighted average number of ordinary shares used to calculate the basic earnings per share for the years ended 31 March 2018 and 2017 includes (i) 1 ordinary share in issue as at 31 March 2018; (ii) 9,999 ordinary shares issued on 23 April 2018 as part of the Reorganisation; and (iii) 899,990,000 ordinary shares issued on 7 June 2018 pursuant to the Capitalisation Issue (as defined in the Prospectus), as if all these shares had been in issue since 1 April 2016 and throughout the years ended 31 March 2017 and 2018.

### (b) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding during the years ended 31 March 2018 and 2017 and therefore, diluted earnings per share equals to basic earnings per share.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

**(a)** Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Fees HK$'000 | Salaries, allowances, and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contribution HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 March 2018** | | | | | |
| Executive directors: | | | | | |
| Mr. Chan Siu Cheong (note (i)) | **–** | **96** | **–** | **–** | **96** |
| Mr. Sin Ka Pong (note (ii)) | **–** | **1,127** | **–** | **18** | **1,145** |
| | **–** | **1,223** | **–** | **18** | **1,241** |
| **Year ended 31 March 2017** | | | | | |
| Executive directors: | | | | | |
| Mr. Chan Siu Cheong (note (i)) | – | 614 | – | – | 614 |
| Mr. Sin Ka Pong (note (ii)) | – | 294 | – | 6 | 300 |
| | – | 908 | – | 6 | 914 |

(i) Mr. Chan Siu Cheong was appointed as a director of the Company on 2 June 2017 and was re-designated as an executive director, the chairman of the board of directors and the chief executive officer of the Company on 14 May 2018.

(ii) Mr. Sin Ka Pong were appointed as a director of the Company on 2 June 2017 and was re-designated as an executive director of the Company on 14 May 2018.

(iii) The emoluments shown above represent emoluments received by the directors in their capacity as a/an director/employee of the companies comprising the Group during the years ended 31 March 2018 and 2017.

(iv) The independent non-executive directors, Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho were appointed as directors of the Company on 13 May 2018. During the year ended 31 March 2018, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2017: nil) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2017: five) individuals during the year are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Salaries, fee and allowances | 3,006 | 2,957 |
| Retirement scheme contributions | 72 | 90 |
| | 3,078 | 3,047 |

The emoluments fell within the following bands:

| | 2018 | 2017 |
|---|---|---|
| Emolument bands: | | |
| HK$nil – HK$1,000,000 | 4 | 5 |

For the years ended 31 March 2018 and 2017, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2017: nil).

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 1 April 2016** | | | | | |
| Cost | 904 | 78,076 | 8,530 | 312 | 87,822 |
| Accumulated depreciation | (571) | (52,831) | (5,160) | (186) | (58,748) |
| Net book amount | 333 | 25,245 | 3,370 | 126 | 29,074 |
| **Year ended 31 March 2017** | | | | | |
| Opening net book amount | 333 | 25,245 | 3,370 | 126 | 29,074 |
| Additions | 12 | 5,683 | 1,776 | 401 | 7,872 |
| Disposals | – | (1,133) | (446) | – | (1,579) |
| Depreciation | (94) | (8,704) | (1,338) | (89) | (10,225) |
| Closing net book amount | 251 | 21,091 | 3,362 | 438 | 25,142 |
| **At 31 March 2017 and 1 April 2018** | | | | | |
| Cost | 904 | 61,910 | 8,465 | 713 | 71,992 |
| Accumulated depreciation | (653) | (40,819) | (5,103) | (275) | (46,850) |
| Net book amount | 251 | 21,091 | 3,362 | 438 | 25,142 |
| **Year ended 31 March 2018** | | | | | |
| Opening net book amount | **251** | **21,091** | **3,362** | **438** | **25,142** |
| Additions | **200** | **4,303** | **310** | **–** | **4,813** |
| Disposals | **–** | **(1,455)** | **(379)** | **–** | **(1,834)** |
| Depreciation | **(107)** | **(7,539)** | **(1,204)** | **(143)** | **(8,993)** |
| Net book amount | **344** | **16,400** | **2,089** | **295** | **19,128** |
| **At 31 March 2018** | | | | | |
| Cost | **1,104** | **59,889** | **7,649** | **713** | **69,355** |
| Accumulated depreciation | **(760)** | **(43,489)** | **(5,560)** | **(418)** | **(50,227)** |
| Net book amount | **344** | **16,400** | **2,089** | **295** | **19,128** |

As at 31 March 2018, the Group's plant and machinery and motor vehicles of HK$6,640,000 (2017: HK$12,296,000) are held under finance leases (Note 19).

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 14. TRADE AND OTHER RECEIVABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade receivables | 22,159 | 56,257 |
| Retention receivables | 30,983 | 18,900 |
| Other receivables and prepayment | 23,346 | 10,554 |
| Utility and other deposits | 1,200 | 1,225 |
| | 77,688 | 86,936 |

The directors of the Group consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

### Trade receivables

The Group usually provide customers with a credit term of 30 to 45 days. For the settlement of trade receivables from provision of construction services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management.

Based on the invoice dates, the ageing analysis of the trade receivables, net of provision for impairment, was as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| 0 – 30 days | 15,411 | 42,513 |
| 31 – 60 days | 4,127 | 8,783 |
| 61 – 90 days | – | 4,684 |
| Over 90 days | 2,622 | 277 |
| | 22,159 | 56,257 |

At each reporting date, the Group reviewed trade receivables for evidence of impairment on both an individual and collective basis. Based on this assessment, no provision for impairment has been recognised at 31 March 2018 (2017: nil).

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 14. TRADE AND OTHER RECEIVABLES (Continued)

### Trade receivables (Continued)

Ageing of trade receivables which are past due but not impaired were as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | 15,411 | 42,513 |
| 1 – 30 days past due | 4,127 | 8,783 |
| 31 – 60 days past due | – | 4,684 |
| 61 – 90 days past due | 953 | – |
| Over 90 days past due | 1,668 | 277 |
| | 22,159 | 56,257 |

Trade receivables which were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### Retention receivables

Retention receivables represents certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

Retention receivables are interest-free and repayable approximately one year after the expiry of the maintenance period of construction projects. No material amounts in relation to retention receivables were past due at 31 March 2018 (2017: nil).

### Other receivables

No amounts in relation to other receivables were past due at 31 March 2018 (2017: nil).

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 15. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | 751,261 | 422,741 |
| Less: progress billings | (676,294) | (386,121) |
| Contract work-in-progress | 74,967 | 36,620 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | 77,329 | 38,103 |
| Amounts due to customers for contract work | (2,362) | (1,483) |
| | 74,967 | 36,620 |

The gross amounts due from/(to) customers for contract work are expected to be recovered/settled within one year.

## 16. CASH AND BANK BALANCES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cash at banks | 10,995 | 25,268 |

Note: Cash at banks earns interest at floating rates based on daily bank deposit rates.

## 17. TRADE AND OTHER PAYABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade payables (note (a)) | 40,659 | 49,434 |
| Retention payables | 7,180 | 4,022 |
| Accruals and other payables | 19,509 | 18,439 |
| | 67,348 | 71,895 |

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 17. TRADE AND OTHER PAYABLES (Continued)

Notes:

(a) The Group is usually granted by suppliers with a credit term of 30 days.

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

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| 0 – 30 days | **17,173** | 18,738 |
| 31 – 60 days | **7,546** | 11,783 |
| 61 – 90 days | **1,742** | 7,189 |
| Over 90 days | **14,198** | 11,724 |
| | **40,659** | 49,434 |

(b) All amounts are short-term and hence, the carrying values of the Group's trade payables and accruals and other payables are considered to be a reasonable approximation of fair value.

## 18. BANK BORROWINGS, SECURED

At 31 March 2018 and 2017, the secured bank loans were repayable as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Bank loans shown under current liabilities | **23,223** | 13,308 |
| Carrying amount based on scheduled repayment date repayable: | | |
| Within one year or on demand | **21,040** | 9,306 |
| More than one year, but not exceeding two years | **2,183** | 4,002 |
| | **23,223** | 13,308 |

(a) As at 31 March 2018, the bank loans are interest-bearing at 2.2% to 5.0% (2017: 2.2% to 5.5%) per annum.

(b) As at 31 March 2018, the banking facilities of the Group, of which HK$23,223,000 (2017: HK$13,308,000) were utilised for bank borrowings, and HK$5,744,000 (2017: HK$nil) were utilised for surety bonds given by a bank in favour of a customer of the Group, were secured by:

(1) Personal guarantee given by Mr. Chan;

(2) Cross corporate guarantee given between HCC Foundations and HCC Transportation; and

(3) All monies legal charge over the property with Mr. Chan as the mortgagor.

(c) The surety bonds were given as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and the customer. If the Group fails to provide the satisfactory performance to the customer to whom surety bonds have been given, such customer may demand the bank to pay to it the sum or sums stipulated in such demand. The Group will then become liable to compensate such bank accordingly. The surety bonds will be released upon completion of the contract work.

(d) Bank loans contain a repayment on demand clause and are therefore classified as current liabilities. None of the portion of bank loans due from repayment after one year is expected to be settled within one year.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 19. OBLIGATIONS UNDER FINANCE LEASES

The analysis of the Group's obligations under finance leases is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Total minimum lease payments: | | |
| Due within one year | **3,094** | 4,949 |
| Due in the second to fifth year | **841** | 4,042 |
| | **3,935** | 8,991 |
| Future finance charges | **(122)** | (438) |
| Present value of lease obligations | **3,813** | 8,553 |

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Present value of minimum lease payment: | | |
| Due within one year | **2,996** | 4,611 |
| Due in the second to fifth year | **817** | 3,942 |
| | **3,813** | 8,553 |
| Less: Portion due within one year Included under current liabilities | **(2,996)** | (4,611) |
| Portion due after one year included under non-current liabilities | **817** | 3,942 |

The Group has entered into finance leases for plant and machinery and motor vehicles. These lease periods are for one to three years. At the end of the lease term, the Group has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. None of the leases including contingent rentals. The effective interest rate on these finance leases was 2.3% to 10.2% for the year ended 31 March 2018 (2017: 3.6% to 10.2%).

Obligations under finance leases are effectively secured by the underlying assets at the rights to the leased assets would be converted to the lessor in the event of default by repayment by the Group.

## 20. AMOUNT DUE TO A DIRECTOR

Particulars of amount due to a director as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Mr. Chan | **1,687** | 8,553 |

The amount due to a director is non-trade in nature. The amount due is unsecured, non-interest bearing and repayable on demand.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 21. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% in Hong Kong.

The movement in deferred tax (assets)/liabilities and recognised in the combined statement of the financial position during the years ended 31 March 2018 and 2017 are as follows:

| | Tax loss HK$'000 | Accelerated tax depreciation HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 April 2016 | (490) | 3,576 | 3,086 |
| (Credited)/Charged to profit or loss (Note 9) | 490 | (421) | 69 |
| As at 31 March 2017 and 1 April 2017 | – | 3,155 | 3,155 |
| (Credited)/Charged to profit or loss (Note 9) | – | (433) | (433) |
| **As at 31 March 2018** | **–** | **2,722** | **2,722** |

As at 31 March 2018, the Group did not have any material unrecognised deferred tax assets/liabilities (2017: nil).

## 22. SHARE CAPITAL

| | Number of shares | HK$'000 |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of HK$0.01 each upon incorporation on 2 June 2017 | 10,000,000 | 100 |
| **As at 31 March 2018** | **10,000,000** | **100** |
| **Issued:** | | |
| Ordinary shares of HK$0.01 each upon incorporation on 2 June 2017 | 1 | – |
| **As at 31 March 2018** | **1** | **–** |
| **Fully paid:** | | |
| Ordinary shares of HK$0.01 each upon incorporation on 2 June 2017 | – | – |
| **As at 31 March 2018** | **–** | **–** |

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 22. SHARE CAPITAL (Continued)

(a) The Company was incorporated in the Cayman Islands as an exempted company under the Company Law of the Cayman Islands with limited liability on 2 June 2017 with an initial authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. One nil-paid share was issued upon incorporation.

(b) Subsequent to the reporting date of 31 March 2018, as part of the Reorganisation for the Listing:

(1) On 23 April 2018, 9,999 new ordinary shares and the one issued ordinary share were credited as fully paid. The issued and fully paid share capital was HK$100 divided into 10,000 shares.

(2) On 14 May 2018, the authorised share capital was increased from HK$100,000 divided into 10,000,000 ordinary shares of par value HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 ordinary shares of par value HK$0.01 each, by the creation of an additional 3,990,000,000 Shares.

(3) On 7 June 2018, 899,990,000 new ordinary shares of nominal value of HK$8,999,900 were issued and credited as fully paid pursuant to the Capitalisation Issue as detailed in the Prospectus.

(4) On 7 June 2018, 300,000,000 new ordinary shares of nominal value of HK$3,000,000 were issued and credited as fully paid pursuant to the Share Offer as detailed in the Prospectus.

Upon the completion of the Reorganisation and on 7 June 2018, being the date of listing, the issued and fully paid share capital was HK$12,000,000 divided into 1,200,000,000 shares.

## 23. RESERVES

Capital reserve represents the aggregate of the paid up share capital of the subsidiaries comprising the Group as at 31 March 2018 and 2017.

## 24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | At 31 March 2018 HK$'000 |
|---|---|---|
| **ASSETS AND LIABILITIES** | | |
| **Current assets** | | |
| Prepayments | | **491** |
| **Current liabilities** | | |
| Amount due to a related company | | **14,538** |
| Net liabilities | | **(14,047)** |
| **EQUITY** | | |
| Share capital | 22 | **–** |
| Accumulated losses | | **(14,047)** |
| **Capital deficiency** | | **(14,047)** |

**Chan Siu Cheong**
*Director*

**Sin Ka Pong**
*Director*

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

The movement of the Company's reserves are as follows:

| | **Share capital** HK$'000 (Note 22) | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Balance at 2 June 2017 (date of incorporation) | – | – | – |
| Loss and total comprehensive loss for the period | – | (14,047) | (14,047) |
| **Balance at 31 March 2018** | **–** | **(14,047)** | **(14,047)** |

## 25. OPERATING LEASE COMMITMENTS

### As lessee

At 31 March 2018, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Within one year | **1,380** | 1,293 |
| In the second to fifth years | **195** | 572 |
| | **1,575** | 1,865 |

The Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of one to three years. The leases do not include contingent rentals.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 26. RELATED PARTY TRANSACTIONS

In addition to the balances and transactions detailed elsewhere in the combined financial statements, the Group had the following related party transactions during the year ended 31 March 2018.

### (a) Key management personnel remuneration

The emoluments of the directors and senior management of the Company, who represent the key management personnel during the year ended 31 March 2018 are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Salaries, fee and allowances | **2,344** | 1,351 |
| Retirement benefit scheme Contributions | **55** | 23 |
| | **2,399** | 1,374 |

### (b) Material related party transactions

| Name of related party | Nature | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Kam Lung Transport Co. (Note (a)) | Transportation expense for construction waste disposal | **10,900** | 9,233 |
| Ms. Chan Sze Nga (Note (b)) | Consultancy fee | **–** | 1,056 |
| Ms. Chan Sze Nga (Note (b)) | Salary and allowances | **910** | – |
| Ms. Chan Mei Po (Note (c)) | Salary and allowances | **551** | 364 |
| Mr. Tsang Ue Sum (Note (d)) | Salary and allowances | **364** | 112 |

Notes:

(a) Kam Lung Transport Co. is a sole proprietorship established by Mr. Tsang Leung Lung. Mr. Tsang Leung Lung was a director of HCC Transportation during the year ended 31 March 2017 and resigned on 16 March 2017. Mr. Tsang Leung Lung is also brother-in-law of Mr. Chan.

(b) Ms. Chan Sze Nga is the daughter of Mr. Chan and the niece of Mr. Tsang Leung Lung.

(c) Ms. Chan Mei Po is the niece of Mr. Chan and Mr. Tsang Leung Lung.

(d) Mr. Tsang Ue Sum is the nephew of Mr. Chan and the son of Mr. Tsang Leung Lung.

## 27. CONTINGENT LIABILITIES

As at 31 March 2018, the Group has been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances. The directors are of the opinion that the claims and litigations are not expected to have a material impact on the combined financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made as at 31 March 2018 and during the year ended 31 March 2018.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 28. NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

### (a) Reconciliations of liabilities arising from financing activities

Reconciliations of liabilities arising from financing activities for the year ended 31 March 2018 are as follows:

| | As at 1 April 2017 HK$'000 | Cash flows HK$'000 | Non-cash changes New leases HK$'000 | As at 31 March 2018 HK$'000 |
|---|---|---|---|---|
| Bank borrowings | **13,308** | **9,915** | **–** | **23,223** |
| Obligations under finance leases | **8,553** | **(5,620)** | **880** | **3,813** |
| | **21,861** | **4,295** | **880** | **27,036** |

| | As at 1 April 2016 HK$'000 | Cash flows HK$'000 | Non-cash changes New leases HK$'000 | As at 31 March 2017 HK$'000 |
|---|---|---|---|---|
| Bank borrowings | 7,739 | 5,569 | – | 13,308 |
| Obligations under finance leases | 11,220 | (6,367) | 3,700 | 8,553 |
| | 18,959 | (798) | 3,700 | 21,861 |

### (b) Non-cash transaction

For the year ended 31 March 2018, the Group entered into finance lease arrangements in respect of plant and machinery and motor vehicles with a total capital value at the inception of the leases of HK$880,000 (2017: HK$3,700,000) which were directly settled by financial institutions to the sellers of plant and machinery and motor vehicles.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the board of directors.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 29.1 Categories of financial assets and liabilities

The carrying amounts presented in the combined statement of financial position relate to the following categories of financial assets and liabilities:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables: | | |
| – Trade and other receivables | 70,034 | 85,797 |
| Cash and bank balances | 10,995 | 25,268 |
| | 81,029 | 111,065 |

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Financial liabilities** | | |
| At amortised costs: | | |
| – Trade and other payables | 63,771 | 61,761 |
| – Bank borrowings | 23,223 | 13,308 |
| – Obligations under finance leases | 3,813 | 8,553 |
| – Amount due to a director | 1,687 | 8,553 |
| | 92,494 | 92,175 |

### 29.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings and obligations under finance leases bearing variables rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively and the exposure to the Group is considered immaterial.

The change in interest rate will affect the net profit of the Group. As at 31 March 2018, it is estimated that if there was a decrease/increase of 1% (2017: 1%) in interest rate, with all other variable remaining constant, the Group's combined equity and profit after tax would have increased/decreased by approximately HK$228,000 (2017: HK$40,000). The 1% increase or decrease represents the reasonable possible change in interest rates over the period until the next annual reporting date. The sensitivity analysis was performed on the same basis for the year ended 31 March 2017.

The exposure to interest rate risk for the Group bank balances is considered immaterial.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 29.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at end of each reporting period as summarised in Note 29.1.

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.

At 31 March 2018, the Group has concentration of credit risk as 28% and 88% (2017: 19% and 54%) of the total trade receivables were due from the Group's largest customer and five largest customers respectively. At 31 March 2018, the aggregate amounts of trade receivables from the Group's largest customer and five largest customers amounted to HK$12,552,000 and HK$19,575,000 respectively (2017: HK$10,637,000 and HK$30,170,000 respectively) of the Group's total trade receivables.

### 29.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables, its finance leases obligations and bank borrowings, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities at end of each reporting period. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 29.4 Liquidity risk (Continued)

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

| | On demand or within one year HK$'000 | Over 1 year but within 5 years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|
| **At 31 March 2018** | | | | |
| Trade and other payables | **63,771** | **–** | **63,771** | **63,771** |
| Bank borrowings, secured (Note (a)) | **23,223** | **–** | **23,223** | **23,223** |
| Obligations under finance leases | **3,094** | **841** | **3,935** | **3,813** |
| Amount due to a director | **1,687** | **–** | **1,687** | **1,687** |
| | **91,775** | **841** | **92,616** | **92,494** |
| **At 31 March 2017** | | | | |
| Trade and other payables | 61,761 | – | 61,761 | 61,761 |
| Bank borrowings, secured (Note (a)) | 13,308 | – | 13,308 | 13,308 |
| Obligations under finance leases | 4,949 | 4,042 | 8,991 | 8,553 |
| Amount due to a director | 8,553 | – | 8,553 | 8,553 |
| | 88,571 | 4,042 | 92,613 | 92,175 |

Note:

(a) Bank borrowings with a repayment on demand clause are included in the "On demand or within one year" time band in the above maturity analysis. As at 31 March 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK$23,223,000 (2017: HK$13,308,000). The maturity analysis of the term loans based on agreed scheduled repayments set out in the loan agreements is summarised as follows. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

***Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments***

| | On demand or within one year HK$'000 | Over 1 year but within 5 years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|
| **At 31 March 2018** | **21,405** | **2,208** | **23,613** | **23,223** |
| At 31 March 2017 | 9,527 | 4,050 | 13,577 | 13,308 |

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended 31 March 2018

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 29.5 Fair value measurement

The carrying amounts of the Group's financial assets and liabilities are not materially different from their fair values at 31 March 2018 due to their short maturities.

## 30. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the gearing ratio. For this purpose gearing ratio is calculated based on total borrowings divided by the total equity as at the end of each reporting period and multiplied by 100%. Total borrowings include bank borrowings, amount due to a director and obligations under finance leases. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The gearing ratio at 31 March 2018 and 2017 was as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Total borrowings** | | |
| Bank borrowings | **23,223** | 13,308 |
| Obligations under finance leases | **3,813** | 8,553 |
| Amount due to a director | **1,687** | 8,553 |
| | **28,723** | 30,414 |
| Total equity | **81,584** | 65,535 |
| Gearing ratio | **35.2%** | 46.4% |

## 31. EVENTS AFTER THE REPORTING PERIOD

The Company's shares are listed on the Main Board of the Stock Exchange on 7 June 2018. Details of the movements in share capital subsequent to the reporting date of 31 March 2018 are disclosed in Note 22. The offer price of the Share Offer is HK$0.34 per share and the gross proceeds from Share Offer are HK$102,000,000.

# FINANCIAL SUMMARY

| | For the year ended 31 March | | | |
|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 |
| **Revenue and Profit** | | | | |
| Revenue | **367,220** | 396,880 | 520,053 | 259,403 |
| Direct costs | **(326,487)** | (356,375) | (472,922) | (232,619) |
| Gross profit | **40,733** | 40,505 | 29,131 | 26,784 |
| Other income | **7,132** | 4,224 | 5,692 | 1,083 |
| Administrative expenses | **(25,496)** | (12,070) | (7,254) | (5,709) |
| Finance costs | **(746)** | (1,209) | (1,003) | (794) |
| Profit before income tax | **21,623** | 31,450 | 26,566 | 21,364 |
| Income tax expense | **(5,574)** | (5,625) | (4,366) | (3,527) |
| Profit and total comprehensive income for the year attributable to equity holders of the Company | **16,049** | 25,825 | 22,200 | 17,837 |
| Earnings per share attributable to equity holders of the Company<br>Basic and diluted (HK cents) | **1.78** | 2.87 | 2.47 | 1.98 |

| | As at 31 March | | | |
|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 |
| **Assets and Liabilities** | | | | |
| Current assets | **166,012** | 150,307 | 100,590 | 83,541 |
| Non-current assets | **19,128** | 25,142 | 29,074 | 26,389 |
| Current liabilities | **100,017** | 102,817 | 81,180 | 88,078 |
| Non-current liabilities | **3,539** | 7,097 | 8,774 | 4,342 |
| Total equity | **81,584** | 65,535 | 39,710 | 17,510 |

Note: No financial statements of the Group for the year ended 31 March 2014 have been published. The summary above does not form part of the audited financial statements.