Anchorstone Holdings Limited
基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1592

2018
ANNUAL REPORT

ABOUT US

Anchorstone Holdings Limited (the "**Company**"), together with its subsidiaries (the "**Group**"), is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. Our principal subsidiaries include Pacific Marble & Granite (H.K.) Limited ("**PMG(HK)**") and Pacific Marble & Granite Limited ("**PMG**").

The Group's history can be traced back to December 1991 when Mr. Lui Yue Yun Gary ("**Mr. Lui**"), an Executive Director, the Chairman and the Chief Executive Officer of the Company founded PMG(HK) with an independent third party through their respective financial resources. Since 1995, the Group has been engaged in the businesses of trading of marble and granite and the supply and installation of marble and granite under the brand of "PMG".

Having accumulated over 23 years' experience in the industry, the Group has undertaken a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plazas and office towers; and (iii) residential properties.

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 2 February 2016. On 4 July 2018 (the "**Listing Date**"), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of share offer of 300,000,000 new shares (the "**Share Offer**") (the "**Listing**").

CONTENT

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2302, 23/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

COMPANY WEBSITE

www.anchorstone.com.hk

BOARD OF DIRECTORS

Executive Directors

Mr. Lui Yue Yun Gary *(Chairman)*
Mr. Siu Chi Fung Stephen (retired on 11 January 2019)
Ms. Lui Po Kwan Joyce
Mr. Fung Wai Hang (appointed on 11 January 2019)
Mr. Lui Edwin Wing Yiu (appointed on 11 January 2019)

Non-executive Director

Mr. Leung Lai Sang Ellis (retired on 11 January 2019)

Independent Non-executive Directors

Mr. Ko Tsz Kin
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

BOARD COMMITTEE

Audit Committee

Mr. Ko Tsz Kin *(Chairman)*
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

Remuneration Committee

Mr. Ng Yau Wah Daniel *(Chairman)*
Mr. Ko Tsz Kin
Mr. Lui Yue Yun Gary

Nomination Committee

Mr. Lui Yue Yun Gary *(Chairman)*
Mr. Ko Tsz Kin
Mr. Ng Yau Wah Daniel

COMPANY SECRETARY

Mr. Fung Wai Hang *(FCPA, ACS, ACIS)*

AUTHORISED REPRESENTATIVES

Mr. Lui Yue Yun Gary
Mr. Siu Chi Fung Stephen (retired on 11 January 2019)
Mr. Fung Wai Hang (appointed on 11 January 2019)

COMPLIANCE ADVISOR

WAG Worldsec Corporate Finance Limited
Suite 1101, 11/F, Champion Tower,
3 Garden Road, Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building, Central, Hong Kong

PRINCIPAL BANKS

Hang Seng Bank
83 Des Voeux Road Central Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central Hong Kong

Chong Hing Bank Limited
Chong Hing Bank Center
24 Des Voeux Road Central Hong Kong

SHAREHOLDER INFORMATION

The shares of the Company are listed on
The Stock Exchange of Hong Kong Limited

STOCK CODE

1592

SHARE REGISTRAR

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

INVESTOR RELATIONSHIP

For enquiries, please contact:
Mr. Fung Wai Hang
Company Secretary
Email: ricofung@anchorstone.com.hk
Telephone: 2511 6668

FINANCIAL CALENDAR

For ascertaining shareholders' entitlement to attend and vote at Annual general meeting: Monday, 13 May 2019 to Thursday, 16 May 2019 (both days inclusive)

For ascertaining shareholders' entitlement to the final dividend: Thursday, 23 May 2019 to Friday, 24 May 2019 (both days inclusive)

Annual general meeting: Thursday, 16 May 2019 3:00 p.m., at 7/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong

Final dividend payable: Monday, 10 June 2019

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from Monday, 13 May 2019 to Thursday, 16 May 2019 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:00 p.m. on Friday, 10 May 2019.

The register of members of the Company will be closed from Thursday, 23 May 2019 to Friday, 24 May 2019 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement in the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:00 p.m. on Wednesday, 22 May 2019.

FINANCIAL HIGHLIGHTS

For the year	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
— Supply and installation service	**265,791**	219,861
— Stone sales	**33,254**	4,932
	299,045	224,793
Operating profit	**31,524**	37,224
Profit before income tax	**27,217**	32,703
Profit attributable to equity holders of the Company	**20,540**	25,274
Profit attributable to equity holders of the Company, excluding the non-recurring listing related expenses	**34,085**	34,248
Proposed final dividends	**12,000**	–

For the year	2018 HK cents	2017 HK cents
Basic and diluted earnings per share	**1.96**	2.81

At year end	2018 HK$'000	2017 HK$'000
Contract assets/amounts due from customers for contract works	**202,125**	55,712
Pledged bank deposits	**34,196**	19,080
Cash and cash equivalents	**9,778**	503
Total assets	**309,330**	186,399
Bank borrowings	**124,136**	102,886
Total liabilities	**150,135**	149,008
Total equity	**159,195**	37,391

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present the annual results of the Group for the year ended 31 December 2018.

The shares of the Company were listed on the Stock Exchange on 4 July 2018. This was an important milestone in the development of the Group, which has had the combined impact of enabling the Group to strengthen its corporate values, becoming better known publicly, and gaining access to the capital markets. With strong support from various stakeholders, especially our long-standing customers, subcontractors, suppliers and other business partners, the process of our initial public offer ("**IPO**") went very smoothly. In addition to my gratitude to our management team for their dedicated effort and to various professional parties for their guidance and input during the IPO process, I would like to take this opportunity to express my sincere appreciation to our shareholders who have given a strong vote of confidence in the Company and its future.

RESULTS

The Board of the Company has resolved to announce the annual consolidated results for the year ended 31 December 2018 on 28 March 2019. Total revenue for the year ended 31 December 2018 amounted to approximately HK$299.1 million (2017: HK$224.8 million), representing an increase of approximately 33%. The net profit for the year attributable to equity holders of the Company stood at approximately HK$20.5 million (2017: HK$25.3 million). Basic and diluted earnings per share was approximately 1.96 HK cents (2017: 2.81 HK cents).

The Group's result for the year ended 31 December 2018 was satisfactory. Excluding the non-recurring listing related expenses of approximately HK$13.6 million and HK$9.0 million, being charged to the consolidated statement of comprehensive income during 2018 and 2017, respectively, profit attributable to equity holders of the Company would have been approximately HK$34.1 million and HK$34.3 million for the years ended 31 December 2018 and 2017, respectively. For the six months ended 30 June 2018, our profit attributable to equity holders was only approximately HK$2.3 million. The annual results demonstrate the Group has caught up its performance in the second half of the year.

DIVIDENDS

I am also pleased to announce that the Board recommends the payment of HK1 cent per share (2017: Nil), amounting to HK$12,000,000 (2017: Nil) for the year ended 31 December 2018 to the shareholders.

OVERALL BUSINESS ENVIRONMENT

We undertook a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong, including well-known international hotel's renovation and development projects, commercial plazas and office towers, and a number of well-known residential properties in the past. These experience allows us to stay at the leading position in the industry.

However, the rising competition from our competitors, the general inflation in the building materials and local labour costs, and the tightened control on the use of foreign workers have caused the profit margin to fall. The Board is aware of the competitive environment and has established a risk management system to monitor, assess and manage the risks in the Group's business activities.

OVERALL BUSINESS ENVIRONMENT *(Continued)*

Majority of the revenue of the Group was derived from the Hong Kong. Any decrease in residential real estate development and construction activities in general (including a continued decrease in residential construction or a weakening of commercial construction), or any decrease in redevelopment/retrofitting activities could lead to a decrease in demand of marble and granite, which in return decreases the demand for our services. In Hong Kong, the performance of the construction sector is largely undermined by the stagnancy of the local property market and the real estate sector. When the real estate sector thrives in Hong Kong again, the Board is confident about the opportunities for the growth in the construction market in Hong Kong.

In Macau, the Board believes that there are strong demands on the marble and granite, and the building materials due to various hotel development projects.

In the USA, the construction of high-class housing estates allows the Group to develop this new stone sales market. However, there are still uncertainties and risks, such as trade war among China and United States of America which may affect the prices or the supply of the raw materials. The Board bears in mind the risk and manage the risks through formulating business strategies.

OUTLOOK

The Group is one of the leading subcontractors in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. We will continue to enhance our brand recognition and awareness, strengthen our project management team and promote our corporate reputation.

Going forward, we will enlarge our scope of work over those supply and installation projects. We will also continue to expand the stone supply business in Hong Kong and overseas markets.

APPRECIATION

I would like to take this opportunity to thank the finance team and the external professional parties for their efforts made during the IPO process. Also, I would like to extend my gratitude to all my fellow directors for their strong leadership and all our staff for their contribution and cordial support during the year.

Above all, I remain focused on continuing to create value for you and our stakeholders. I would like to express my deepest appreciation to the full trust and dedicated support from our stakeholders.

Lui Yue Yun Gary
Chairman
Hong Kong, 28 March 2019

BUSINESS REVIEW, MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in the stone sales and supply and installation of marble products in Hong Kong and Macau. The Group's history can be traced back to December 1991 when Mr. Lui founded PMG(HK) with an independent third party. We have almost 30 years' experience in the industry, and now the Group is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects.

The Group recorded a revenue of approximately HK$299.1 million for the year ended 31 December 2018, representing an increase of 33% compared with that of the year ended 31 December 2017. The Group's overall gross profit margin has declined from around 28.0% in 2017 to around 23.3% in 2018, mainly due to the change in project mix as a result of an inclusion of a new project with lower gross profit margin. Nevertheless, there was an increase of gross profit from approximately HK$63.0 million in 2017 to HK$69.8 million in 2018.

Profit for the year ended 31 December 2018 decreased by approximately HK$4.7 million or 18.7% from approximately HK$25.3 million to approximately HK$20.5 million. The decline was mainly due to (i) the increase in non-recurring listing related expenses incurred as compared with 2017 by approximately HK$4.6 million; (ii) the increase in employee benefit expenses (including directors' emoluments) for strengthening our project management team and finance team by approximately HK$3.8 million; and (iii) the net increase in other administrative expenses by approximately HK$4.1 million. The decline was partially offset by the increase in gross profit for approximately HK$6.8 million and decrease in income tax expense for approximately HK$0.8 million.

Since the Listing of the Company, there has been no significant change in the business operations of the Group. The proceeds from the Share Offer have strengthened the Group's cash flow position and enabled the Group to implement its future plans and business strategies as set out in the section headed "Future Plans and Proposed Use of Proceeds" in the prospectus of the Company dated 20 June 2018 in relation to the Share Offer (the "**Prospectus**").

BUSINESS REVIEW

Our foundation projects involve the supply and installation service and stone sales in Hong Kong and Macau. We also started to engage in the stone sale business in the USA since 2018.

In 2018, the Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. The performance of the construction sector was largely undermined by the stagnancy of the local property market and the real estate sector in Hong Kong. When the real estate sector picks up again in Hong Kong, the Board is confident about the opportunities for the growth in the construction market in Hong Kong.

On the other hand, the trend in building grand and luxurious housing estates in Hong Kong has a growing demand for high quality building materials, for example, marble. As one of the leading marble subcontractors in Hong Kong, the Board is confident about the future prospects of the Group.

BUSINESS REVIEW *(Continued)*

However, the rising competition from our competitors, the general inflation which affects the costs of the building materials and local labour costs, and the tightened control on the use of foreign workers has caused the profit margin to fall, resulting in a decline of the gross profit margin for the Group. For the year ended 31 December 2018, a new project awarded has reported a lower gross profit margin compared with other existing projects.

To diversify the business risk, we have been active in seeking new markets and clients since 2018.

Supply and Installation Service

The Group provided supply and installation service to customers in Hong Kong and Macau in 2018. During the year ended 31 December 2018, revenue from the supply and installation service increased from approximately HK$219.9 million (in 2017) to HK$265.8 million. The increase was mainly due to the award of certain new projects in Hong Kong and Macau.

The Group recognises its revenue from supply and installation service when the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, supply and installation service is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Stone Sales

The Group provided stone sales to customers in Hong Kong and the USA in 2018. During the year ended 31 December 2018, revenue from the stone sales increased from approximately HK$4.9 million (in 2017) to HK$33.2 million. The percentage to total sales of stone sales has been increased from 2.2% in 2017 to 11.1% in 2018. The increase was mainly due to the commencement of a new stone sales project in the USA.

Revenue from stone sales is recognised when goods are delivered to the locations designated by the customer, which is taken to be the point in time when the Group transfers control over the goods to the customers.

ENHANCE OUR KEY BUSINESS VALUE

We supply marble and granite and provide relevant installation services for construction projects in Hong Kong. Marble and granite supplied by the Group are used in a variety of decorative settings for areas such as entrance lobbies, kitchens and bathrooms as well as external cladding of buildings and landscape. We believe that it has become popular in both residential and commercial properties to have marble and granite mouldings or columns with different polished profiles or edges for use in both the interior and exterior of the buildings to improve their looks and that marble and granite counter-tops, which are designed for bathrooms and kitchens, marble and granite claddings for window sills and different marble and granite pattern dados or floor patterns are widely used in residential and commercial properties.

ENHANCE OUR KEY BUSINESS VALUE *(Continued)*

As a specialist contractor in marble and granite supply and installation in Hong Kong, we undertake marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels, and public infrastructures. We generally offer our services on project basis to our customers, and our works form part of the main construction and development contracts of our customers.

In addition, we specialise in using marble and granite as principal raw materials in our services. We consider that, due to the characteristics of different kinds of natural marble and granite, fabrication and installation of marble and granite demand special techniques and experience in handling marble and granite. We have established relationships and connections with a network of stone suppliers, installation subcontractors and other suppliers. We continuously monitor, evaluate and update our databases of our suppliers and installation subcontractors in respect of their quality standards, pricing, capacities, capabilities, performance and service levels so that we have up-to-date market knowledge.

RELATIONSHIPS WITH KEY CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

The Group maintains a good relationship with our customers, subcontractors and suppliers. The Group aims to continue providing quality services to our customers and establishing cooperation strategy with our subcontractors and suppliers.

Most of our customers are main contractors in Hong Kong. As a subcontractor, depending on the specific requirements of individual contracts, we provide one-stop comprehensive services principally covering the following scope:

— recommending and sourcing of marble and granite prescribed by our customers or otherwise in conformity with the requirements of our customers;

— arranging fabrications of marble and granite into customised sizes;

— arranging delivery and installation of marble and granite on external cladding of buildings, landscape and/or the interiors of the buildings such as entrance lobbies, kitchens and bathrooms; and

— arranging post-installation services such as polishing and cleaning.

PRINCIPAL RISKS AND UNCERTAINTIES

Our revenue relies on successful tenders of marble and granite work projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers. Marble and granite may fail to gain market acceptance due to changes in our customers' consumption pattern.

Whether we are able to submit tender proposal at a competitive price with adequate profit margin and maintain our profitability depends on various factors. We generally prepare our tender and quotation based on our estimated project costs (which mainly include subcontracting costs and material costs) plus a mark-up margin at the time when we submit our tender for projects or our initial proposals to our potential customers. When we determine the tender price, we also take into account factors including (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group's resources and expertise; (vi) market conditions; (vii) our working capital and financial condition; (viii) our relationship with the customers; and (ix) capacity of our project management team. However, our profit may be substantially reduced if our subcontracting and material costs significantly increase after tender or if we encounter delays in completing our projects.

In addition, our cash flows may deteriorate due to potential mismatches in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers. We generally incur significant costs including materials costs and service fees of our fabricators and installation subcontractors before we receive the progress payments from our customers for our projects. The mismatch in time between receipt of payments from our customers, and payments to our subcontractors and suppliers may materially and adversely affect our liquidity and financial condition.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Environment, Social and Governance Report of the Company for the year ended 31 December 2018 contained the information required under Appendix 27 to the Listing Rules is set out in pages 19 to 40 of this report.

EMPLOYEES AND REMUNERATION POLICY

We outsourced the stone processing to our fabricators who were responsible for fabricating the stones to meet the specifications as requested by our customers and delivering the processed stones to the construction sites. We also rely on installation subcontractors in Hong Kong to install the cut-to-size panels. As at 31 December 2018, the Group had 32 full-time employees who were directly employed by the Group.

Our success and growth depend on our ability to identify, hire, train and retain suitable, experienced and qualified employees, including management personnel and technical expertise with the requisite industry expertise.

Total staff costs including directors' emoluments for the year ended 31 December 2018, amounted to approximately HK$14.4 million (2017: approximately HK$10.6 million). The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee. During the year ended 31 December 2018, there has not been any incident of strike or labour shortage which adversely affected the Group's operations. In addition, the Group has not experienced any significant problem with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

TREASURY POLICY

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year under review, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operation of the Group.

OUTLOOK AND PROSPECTS

Although the Group's performance in the first half of 2018 did not demonstrate a sanguine outlook, the Group's performance has been significantly improved in the second half of 2018. This was mainly due to the Group completed most of the on-hand projects during 2018 and has been awarded certain new projects in the second half of the year. The overall financial performance for the year ended 31 December 2018 was satisfactory. Based on our past records and the awarded projects on hand, the directors believe the future business prospects will be satisfactory.

AWARDS

On 29 June 2018, the Group won the "Capital Outstanding China Enterprise Awards — Capital Outstanding China Luxury Stone Products Supplier" (資本傑出中國企業成就獎 — 資本傑出中國高級石材供應商).

OPERATING RESULTS

The Group is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. Having accumulated over 23 years of experience in the industry, the Group has undertaken a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plazas and office towers; and (iii) residential properties.

Our foundation projects involve the supply and installation services and stone sales. We believe that we have the following competitive strengths that differentiate ourselves from our competitors: (a) we have established reputation and proven track records; (b) we have substantial expertise and knowhow in the marble and granite business; and (c) we have an experienced project management team.

After the Listing, we made use of the IPO proceeds to expand our business and strengthen our project management team.

Although the Group's performance in the first half of 2018 did not demonstrate a sanguine outlook, the Group's performance has been significantly improved in the second half of 2018. This was mainly due to: (i) the Group completed most of the on-hand projects during 2018; (ii) the Group was awarded certain new stone sales and installation projects in Hong Kong and Macau in the second half of 2018; and (iii) the Group made a successful entry to the stone sales market in the USA.

REVENUE

The Group generated revenue from the foundation projects we undertook. The Group recorded a revenue of approximately HK$299.1 million for the year ended 31 December 2018, representing an increase of 33% compared with 2017. Both revenue from supply and installation service and stone sales have been increased during 2018. However, the percentage to total sales of stone sales has been increased from 2.2% in 2017 to 11.1% in 2018. The increase was mainly due to the commencement of a new stone sales project in the USA.

Hong Kong — Supply and Installation of Marble Product Projects and Stone Supply Projects

The Group provided both supply and installation services and stone sales to customers in Hong Kong. Revenue in Hong Kong decreased by approximately HK$28.7 million in 2018, due to the decrease of on-going projects as compared to 2017. It is driven by nine supply and installation projects which were completed or had achieved significant progress in 2017 and the deferred commencement of several new projects in 2018.

REVENUE *(Continued)*

Macau — Supply and Installation of Marble Product Projects

In Macau, the Group focused primarily on hotel development projects. During the year ended 31 December 2018, we were awarded two contracts concerning the supply and installation of marble product in Macau and achieved significant work progress. These two Macau projects contributed approximately 24.9% of the total revenue for the year ended 31 December 2018.

The USA — A Stone Sales Project

During the year ended 31 December 2018, we were awarded a stone sales project for a total contract sum of approximately US$9.0 million. This project contributed approximately 9.5% of the total revenue for the year ended 31 December 2018.

GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales mainly includes the cost of raw materials, fabrication expenses, transportation and subcontracting costs. The Group's overall gross profit margin has declined from around 28.0% in 2017 to around 23.3% in 2018, mainly due to the change in project mix.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Group in 2018 amounted to approximately HK$38.3 million, representing an increase of approximately HK$12.5 million, or 48.2% as compared to approximately HK$25.8 million in 2017. Such increase was mainly due to the increase in non-recurring listing related expenses by approximately HK$4.6 million; increase in staff cost by approximately HK$3.8 million; and the net increase in other administrative expenses for approximately HK$4.1 million. Other administrative expenses mainly represent the auditor's remuneration and the legal and professional fees, which assisted the Group to enhance its corporate governance and compliance aspects after the Listing.

FINANCE COSTS

There was no significant change in the Group's net finance costs.

INCOME TAX EXPENSE

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

The Group's income tax expense decreased by approximately HK$0.8 million, from approximately HK$7.4 million for the year ended 31 December 2017 to approximately HK$6.7 million for the year ended 31 December 2018 due to the decrease in profit before income tax. The effective tax rate for the year ended 31 December 2018 was approximately 24.5% and if excluding the non-deductible and non-recurring listing related expenses of approximately HK$13.6 million, the effective tax rate would have been approximately 16.4%. For the year ended 31 December 2017, excluding the abovementioned listing related expenses of approximately HK$9.0 million from the profit before tax, the effective tax rate would have been approximately 17.8%.

No provision for deferred taxation has been made in 2018 since no significant deferred taxation liability was expected to crystallise.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit attributable to equity holders of the Company was approximately HK$20.5 million for the year ended 31 December 2018, as compared to approximately HK$25.3 million for the year ended 31 December 2017.

Excluding the non-recurring listing related expenses of approximately HK$13.6 million and HK$9.0 million, being charged to the consolidated statement of comprehensive income during 2018 and 2017, respectively, profit attributable to equity holders of the Company would have been approximately HK$34.1 million and HK$34.3 million for the year ended 31 December 2018 and 2017, respectively.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the years ended 31 December 2017 and 2018.

Earnings per share was approximately 1.96 HK cents (2017: 2.81 HK cents). The decrease is due to the decrease in profit and total comprehensive income attributable to equity holders of the Company.

DIVIDEND

The Group adopts a stable dividend policy.

The Board will recommend at the forthcoming annual general meeting to be held on Thursday, 16 May 2019 the payment of a final dividend of HK1 cent (2017: Nil) per share payable in cash to shareholders whose names appear on the register of members of the Company as set out in the paragraph headed "Closure of Registers of Members" in the Report of the Directors.

LIQUIDLY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash receipts from operating activities and committed banking facilities are the Group's main sources of liquidity. The Group has funded the liquidity and capital requirements primarily through its retained profits, borrowings and cash inflows from operating activities. As at 31 December 2018, the capital structure of the Group consisted of equity of approximately HK$159.2 million (31 December 2017: HK$37.4 million) and debt of approximately HK$124.1 million (mainly the bank borrowings and obligations under finance lease) (31 December 2017: HK$103.8 million). For details, please refer to the paragraph headed "Bank borrowings" below.

The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

CASH POSITION AND FUND AVAILABLE

During the year ended 31 December 2018, the Group maintained a healthy liquidity position, with working capital financed by our operating cash flows and borrowings. As at 31 December 2018, our cash and cash equivalents were approximately HK$9.8 million (31 December 2017: HK$0.5 million). The Group pledged bank deposits of approximately HK$34.2 million (31 December 2017: HK$19.1 million) to secure the Group's banking facilities. As at 31 December 2018, the current ratio of the Group was approximately 2.1 times (31 December 2017: 1.3 times). These figures imply the Group's cash position and liquidity have improved as compared to 2017.

BANK BORROWINGS

As at 31 December 2018, the Group had total bank borrowings of approximately HK$124.1 million (31 December 2017: HK$102.9 million). As at 31 December 2018, the Group had aggregate banking facilities of approximately HK$164.6 million, of which approximately HK$40.5 million was unutilised.

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was approximately 78.0% (31 December 2017: 278.5%), calculated as the net debts divided by the total equity as at the end of the respective years and multiplied by 100%.

NET CURRENT ASSETS

As at 31 December 2018, the Group had net current assets of approximately HK$157.7 million (31 December 2017: HK$37.1 million). The increase in net current assets position was mainly attributable to the increase in pledged bank deposits and cash and cash equivalents after the Listing, the increase in contract assets due to the commencement of certain projects, and the net profit generated from the Group's operations for the year ended 31 December 2018.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements. The board of directors of the Company is not aware of any liquidity issue that may cast significant doubt on the Group's ability to continue as a going concern.

PLEDGE OF ASSETS

As at 31 December 2018, except for the pledged bank deposits stated in the paragraph headed "Cash position and fund available" above, certain trade and retention receivables and contract assets set out in Note 23 to the consolidated financial statements, the Group has no other pledged assets.

BANK BORROWINGS COVENANTS

As at 31 December 2018, the Group had complied with all the financial covenants. Details of the bank borrowings are set out in Note 23 to the consolidated financial statements.

CASH FLOWS

The Group's cash flows has been presented in the consolidated statement of cash flows and Note 28 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2018.

FOREIGN EXCHANGE RISK

The Group mainly operates in Hong Kong. Most of the operating transactions (including the Macau projects) including revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars ("HK$"). No significant exchange risk is expected from converting the US dollar ("US$") into HK$. As such, the directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

CONTINGENCIES

As at 31 December 2017, corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company amounted to approximately HK$45.0 million. All corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company had been released during the year ended 31 December 2018.

As at 31 December 2017 and 2018, the Group has issued performance bonds in respect of construction contracts through the bank amounted to approximately HK$2.8 million and HK$3.0 million respectively.

USE OF PROCEEDS FROM SHARE OFFER

On 4 July 2018, the Company issued a total of 300,000,000 shares by way of Hong Kong public offering and placing at a price of HK$0.4 each, and successfully listed its shares on the Stock Exchange.

The net proceeds of the Share Offer received by the Company in relation to the Listing were approximately HK$73.2 million, after deduction of underwriting fees and commissions and all related expenses. As at the report date, the directors consider that these proceeds have been applied in accordance with the proposed application set out in the section headed "Future Plans and Proposed Use of Proceeds" in the Prospectus. The table below sets out the proposed applications of the net proceeds:

	Percentage of net proceeds %	Net proceeds HK$' million	Amount utilised HK$' million	Amount remaining HK$' million
Financing the start-up costs for awarded or potential projects submitted	79.5	58.2	(43.3)	14.9
Strengthening project management team	3.6	2.6	(0.5)	2.1
Enhancing services and increasing sales and marketing efforts	4.1	4.4	–	4.4
Implementing a computerised ERP system and recruiting additional technology staff to support the ERP system	3.0	2.2	–	2.2
Repaying outstanding trust receipt loan	8.0	5.8	(5.8)	–

As at 31 December 2018, the Group has utilised approximately HK$49.6 million for the above usage. The unutilised amount of the net proceeds have been deposited with licensed banks in Hong Kong.

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group is one of the leading and well-established subcontractors in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. We believe sustainability is a key to achieve continuous success and we have integrated it into our business strategies.

This Environmental, Social and Governance Report (the "**ESG Report**") summarises the environmental, social and governance ("**ESG**") initiatives, plans and performances of the Group and demonstrates its commitment to sustainability development.

The ESG Governance Structure

The Group has set up an ESG working taskforce (the "**Taskforce**"), composed of staff from relevant departments during the year, in which, full-time staff has been assigned to collect the data relevant to ESG and compile an ESG report. The Taskforce would periodically report to the directors, assisting in the assessment and identification of the risk management of the Group on ESG aspects and whether its internal control system is appropriate and effective. The Taskforce reviews the ESG performance of the Group, including environmental, labour practices, and other ESG aspects. The directors set the tone at the top for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

SCOPE OF REPORTING

Unless specified otherwise, the ESG Report covers the Group's business activities in Hong Kong office, which represents the Group's major sources of revenue. The ESG Report covers the Group's policies, compliance issues as well as key performance indicators ("**KPI**") in Environmental and Social areas. The ESG KPI data is gathered and included subsidiaries under the Group's direct control. The Group will extend the scope of disclosures when it becomes applicable to do so.

REPORTING FRAMEWORK

The ESG Report was prepared in compliance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") contained in Appendix 27 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited.

For the Group's corporate governance practices, please refer to p.41 to p.57 for the section "Corporate Governance Report" contained in the Group's 2018 Annual Report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2018.

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have maintained close communication with our key stakeholders, including but not limited to shareholders and investors, customers and business partners, employees, suppliers and subcontractors, as well as media, non-governmental organisations ("**NGOs**") and the public. We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, as shown below.

Stakeholders	Communication channel
Shareholders and investors	• General Meeting and Other Shareholder Meetings • Annual Reports and Interim Reports • Announcements and Circulars • Website
Customers and business partners	• Customer Support Hotline and Email and Liaison with the Responsible Staff
Employees	• Trainings, Seminars and Briefing Sessions • Regular Performance Reviews
Suppliers and subcontractors	• Supplier Management Meetings and Events • Procurement Manager
Media, NGOs and the public	• ESG Report

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The management and staff of the Group's respective major operations have participated in the preparation of the ESG Report to assist the Group in reviewing our operations and identifying relevant ESG issues and assess the importance of related matters to our businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

The following table is a summary of the Group's material ESG issues included in this ESG Report:

The ESG Reporting Guide	Material ESG aspects of the Group	
A. Environment		
A1. Emissions	Exhaust Gas and Greenhouse Gas ("**GHG**") Emissions	P.23
	Waste Management	P.25
A2. Use of Resources	Electricity and Energy Consumption	P.26
A3. The Environment and Natural Resources	Environmentally Friendly Installation Methods	P.28

MATERIALITY ASSESSMENT *(Continued)*

The ESG Reporting Guide	Material ESG aspects of the Group	
B. Social		
B1. Employment	Recruitment, Remuneration, Promotion and Dismissal	P.29
	Communication Channels	P.29
	Diversity, Equal Opportunities and Anti-discrimination	P.30
B2. Health and Safety	Safety Plans and Trainings	P.31
B3. Development and Training	Training and Development Management	P.31
B4. Labour	Prevention of Child and Forced Labour	P.32
B5. Supply Chain Management	Supply Chain Management Structure	P.32
	Environmental and Social Responsibilities of Suppliers	P.33
	Fair and Open Procurement	P.33
B6. Product Responsibility	Quality Control of Projects	P.34
	Customer Privacy Protection	P.35
	Customer Services	P.35
	Protection of Intellectual Property ("**IP**") Rights	P.36
B7. Anti-corruption	Anti-corruption	P.36
B8. Community Investment	Community Participation	P.37

As at the year ended 31 December 2018, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You can provide valuable advices in respect of the ESG Report or our performances in sustainable development by info@anchorstone.com.hk .

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and KPIs

The Group principally engages in the subcontracting of the supply and installation of marble and granite for construction projects. We recognise our responsibilities towards the potential direct and indirect negative environmental impacts associated with our business operations.

By integrating environmental consideration into our decision making processes, we embrace our responsibilities to create an environmentally sustainable business. We are also committed to raising our employee's environmental awareness and complying with relevant environmental laws and regulations. The Group complies with applicable laws and regulations, including but not limited to the "Waste Disposal Ordinance", "Air Pollution Control Ordinance" and "Noise Control Ordinance" during the year.

To enhance our environmental governance practice and mitigate the environmental impacts produced by our operations, we have implemented relevant environmental protection policies and communicated such policies to our employees. These policies encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method and planning their works to efficiently eliminate waste to the maximum extent with the view to achieving long-term costs savings. The concept of "reduction at source" is adopted in our Waste Management Practices, encouraging staff to consider the environment before printing the tender documents and recycling waste papers. In the long run, we will continue to enhance our environmental management strategies in monitoring and minimising the environmental impacts brought by our businesses regularly in the coming years.

During the year, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

As a corporation providing subcontracting services on the supply and installation of marble and granite, the Group's daily operations have minimal impacts on the environment while its emissions are limited to GHG, domestic waste water, and non-hazardous wastes. Nevertheless, we still focus on nurturing and strengthening our employees' awareness of environmental protection in their daily work processes, and actively implement the Group's environmental protection measures, with the aim to lower the GHG emissions and reduce non-hazardous wastes generation.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions

Exhaust Gas Emission

Due to our business nature, the Group considers the relevant air emission generated is not significant. However, we still strive to mitigate the exhaust gas generated from our operation process as much as possible. For example, we have stringent quality control measures on stone fabrication, which help to avoid the need to carry out on-site remedial fabrication works so as to cut down dust emission.

GHG Emissions

The principal GHG emissions of the Group are generated from the gasoline consumption of vehicles (Scope 1) and purchased electricity (Scope 2).

We have adopted the following measures to mitigate the direct GHG emission from gasoline consumption in our operations:

- Select the shortest route to and from the site of the Group and the targeted venue;
- Switch off engine whenever the vehicle is left in an idle position; and
- Provide maintenance service to the vehicles on a regular basis to ensure engine performance and efficient use of fuel.

Consumption of electricity is accounted for the most significant source of indirect GHG emission. The Group has implemented measures stated in "Electricity and Energy Consumption" of Aspect A2 below in order to reduce energy consumption, and thereby minimising carbon footprint.

Through these GHG emissions mitigating measures, the employees' awareness on GHG emissions mitigation has been enhanced.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions *(Continued)*

GHG Emissions (Continued)

The summary of GHG emissions performances:

Indicator[1]	Total emissions (calculated in tCO_2e)	Intensity[2] (tCO_2e/employee)
Direct GHG emissions (Scope 1) — Gasoline	28.02	0.88
Indirect GHG emissions (Scope 2) — Electricity	26.67	0.83
Total GHG emissions (Scope 1 and Scope 2)	54.69	1.71

Note:

1. GHG emission data is presented in terms of carbon dioxide equivalent and is based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, emission factor released by Hong Kong Electric Investments in 2017, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5).

2. As at 31 December 2018, the Group had 32 full-time employees in total. The data is also used for calculating other intensity data.

Sewage Discharge

We do not consume significant volume of water through our business activities, and therefore our business activities do not generate material portion of discharge into water. The majority of the water supply and discharge facilities are provided and managed by property management company.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management

Hazardous waste handling method

Despite the Group did not generate hazardous wastes during the year due to our business nature, we have established guidelines in governing the management and disposal of hazardous wastes. In case there is any hazardous waste produced, we must engage a qualified chemical waste collector to handle such waste, which is complied with the relevant environmental regulations and rules.

Non-hazardous waste handling method

The Group's wastes mainly come from office operation, including non-hazardous wastes such as paper. With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, the Group has implemented measures to handle such wastes and launched different reduction initiatives.

We have implemented the following procedures to encourage employees to share responsibilities in waste management and minimise waste generations:

- Uses double sided printing or photocopying wherever possible;
- Utilises electronic media for communication;
- Recycles one-sided printed paper;
- Avoids single-use disposable items; and
- Places "Green Message" reminders on office equipment.

While for wastes generated in the installation processes, subcontractors are responsible for the disposal processes. We require our subcontractors to comply with the "Waste Disposal Ordinance", ensuring all waste materials are properly handled, stored and disposed. Our project coordinators or site managers, who station in the construction sites, will request the subcontractor or person-in-charge to clean up and discard the wastes generated during installation to keep the workplace clean. Therefore, we do not generate installation wastes directly in our operational processes.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management *(Continued)*

Non-hazardous waste handling method (Continued)

The summary of major non-hazardous wastes discharge performance:

Category of waste	Total discharge (pieces)	Intensity (pieces/employee)
Paper[3]	354,551	11,080

Note:

3. Equivalent to approximately 1.55 tonnes.

A2. Use of Resources

General Disclosure and KPIs

The Group strives to optimise resource usage in our business operations and take initiatives to introduce measures on promoting resource efficiency and adopting eco-friendly approaches in our operations. In our operations, gasoline, electricity and water are frequently consumed, and the Group has established relevant policies and procedures in governing the efficient use of resources, in reference to the objective of achieving higher energy efficiency and reducing the unnecessary use of materials. Internal memos are circulated to staff, encouraging the environmentally friendly practices. We have also encouraged our subcontractors to adopt similar principles.

Electricity and Energy Consumption

The major energy consumption of the Group in daily operation is electricity consumption in the operation and gasoline consumption via transportation.

The Group has formulated rules and regulations to achieve the goal of electricity saving and efficient consumption. The relevant specific measures are as follows:

- Selects energy-efficient equipment and electrical appliances for production, office and domestic electricity use;
- Forbids the use of large-power electrical appliances such as heaters, kettles, refrigerators, etc., to avoid electricity overload. Employees should turn off all electrical appliances used by them when they leave office;

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Electricity and Energy Consumption *(Continued)*

- Turns off all unnecessary lights, air conditioners, computers and other office equipment in office areas, conference rooms and corridors when they are not in use to avoid waste of electricity;
- Uses LED lamps instead of traditional lamps;
- Regulates the use of air conditioners strictly to prevent waste of electricity;
- Turns off computers (host or monitor) when employees go out for a long time, and switches computers to standby or sleep mode when employees go out for lunch; and
- Enhances the maintenance and overhaul of equipment, maintain the best condition of all electronic equipment for effective use of electricity.

As a result, the employees' awareness of energy conservation has been increased through these energy-saving measures.

During the year, the energy consumption of the Group and its intensity were as follows:

Type of energy	Energy consumption (unit)	Intensity (unit/employee)
Gasoline[4]	10,533 litres	329.16 litres/employee
Electricity	33,754 kWh	1,054.81 kWh/employee

Note:

4. In reference to the conversion provided on U.S. Energy Information Administration Energy Conversion Calculators, gasoline consumption equivalent to approximately 98,229.23 kWh.

Water Consumption

Water consumption of the Group is mainly for basic business operation, cleaning and sanitation. We encourage all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to use water reasonably.

Due to our business nature, we do not consume significant amount of water through our business activities. The majority of the water supply facilities are provided and managed by property management company, so the procurement of suitable water sources is not relevant to the Group.

Use of Packaging Material

Due to our business nature, the Group do not consume significant amounts of package materials for product packaging as it has no industrial production or any factory facilities.

A. ENVIRONMENTAL *(Continued)*

A3. The Environment and Natural Resources

General Disclosure and KPIs

Although the core businesses of the Group have limited impact on the environment and natural resources, as an ongoing commitment to corporate social responsibility, we recognise the importance of minimising the negative environmental impacts of our business operations. We are also devoted to achieve sustainable development for generating long-term values to the community and our stakeholders.

We spend efforts in mitigating our potential environmental impacts through adopting industry best practices targeted at reducing natural resources consumption and effective environmental management. We regularly assess the environmental risks of our businesses, adopt preventive measures to reduce potential risks and ensure compliance with relevant laws and regulations.

The Group believes that it is essential for us to act as an environmentally responsible contractor to meet the customers' demands in environmental protection and the expectation of the community for a healthy living environment.

Environmentally Friendly Installation Methods

Our environmental protection related policies encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method. We emphasise on the planning of work in order to utilise materials used and eliminate waste of resources to the maximum extent. Our project managers, site managers or site coordinators will monitor the projects to ensure they are operated in line with the related environmental protection policies.

B. SOCIAL

B1. Employment

General Disclosure

Human resources are the foundation for the Group's continuous development. Hence, we established relevant employment policies adopting people-oriented management and realising the full potential of employees. Relevant employment policies are formally documented, covering recruitment, compensation, promotion, working hours and rest periods, diversity and equal opportunities, etc. We review these policies and our employment practices periodically to ensure continuous improvements of our employment standards.

During the year, the Group was not aware of any material non-compliance with employment-related laws and regulations including but not limited to the "Employment Ordinance", that would have a significant impact on the Group.

Recruitment, Remuneration, Promotion and Dismissal

We adopt robust and transparent recruitment processes based on merit selection against the job criteria. Recruitment of individuals are based on their suitability for the position and potential to fulfil the Group's current and future needs. We ensure our employees and applicants are treated and evaluated in a fair way. The basis for compensation and promotion are job-related skills, qualifications and performances. Employee promotion of the Group is subject to annual appraisal. The Group has established objective performance indicators for annual performance evaluation. We compensate employees relative to the industry and local labour markets that we operate, which consists of competitive level of fixed and variable compensation including cash and other benefits. Remuneration packages include holidays, annual leave, discretionary bonuses and allowance, etc. We review the performance of our employees from time to time in order to determine salary adjustments and promotion appraisals.

Communication Channels

We recognise the importance to maintain close and open communication with our employees. Employees are encouraged to exchange information, ideas and views about matters of mutual interest and concern through both formal and informal channels. We have established various communication channels with our employees, including mailbox for recommendation, performance review meeting and employee satisfaction survey. Management reviews the result of the survey and implement corresponding improvement actions.

B. SOCIAL *(Continued)*

B1. Employment *(Continued)*

General Disclosure *(Continued)*

Diversity, Equal Opportunities and Anti-discrimination

A diverse and skilled workforce is crucial for the success of our business. The Group is committed to creating and maintaining an inclusive and collaborative workplace culture. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace that is free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation. We also strive to ensure that complaints, grievances and concerns, including whistle blowing, are dealt with promptly and confidentially. We have zero tolerance on sexual harassment or abuse in the workplace in any form.

B2. Health and Safety

General Disclosure

The Group is committed to providing a safe and healthy working environment for the benefit of our employees and subcontractors. We have established a safety plan which sets out a health and safety management programme for safety assurance and accident prevention. We review the related policies and practices on an annual basis to ensure continuous improvements of our health and safety standards.

During the year, the Group was not aware of any material non-compliance with health and safety-related laws and regulations including but not limited to "Occupational Safety and Health Ordinance", that would have a significant impact on the Group.

We will continue to invest sufficient resources and devote efforts to maintain and enhance safety management so as to reduce the risks involved in health and safety.

B. SOCIAL *(Continued)*

B2. Health and Safety *(Continued)*

General Disclosure *(Continued)*

Safety Plans and Trainings

We conduct regular safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to persons and properties. Emergency and evacuation procedures were established to respond timely and orderly in any major safety accidents. Employees are free to provide feedbacks on improving the workplace safety and report any potential hazards that may lead to injury or danger.

Our direct employees are not engaged in the provision of any installation works and the principal exposure of our direct employees to any work safety occurs when they are required to be on-site for site visits and perform inspection of the progress of our projects. We emphasise the importance of strict compliance with safety requirements to our employees, to ensure that there is no accident to themselves or others that work on our projects. We also require our subcontractors to abide by all applicable laws, regulations and safety requirements imposed by the relevant government authorities.

We believe that our employees are important assets to the Group. All employees at the sites should attend the training organised by the Group on occupational safety and environmental control. We also provide on-the-job trainings to our employees and they are required to attend occupational safety courses provided by Construction Industry Council.

B3. Development and Training

General Disclosure

Training and Development Management

The Group recognises the valuable contribution of our talents for the continued success. Nurturing talents and polishing the skills of our human capital is crucial in leading us to excellence. This is achieved through development of training strategy that focuses on creating values and serving the needs of our customers, talents and society.

We recognise the importance of training and development for our staff to keep abreast of the latest trend in the industry and the dynamic pace in current domestic market. To ensure effective training programs are implemented, the Group has established policies in controlling the training related procedures. Training contents are regularly updated to ensure contents are relevant to stakeholders' changing needs such as laws and regulations, technological changes, market trends, product trends and customer behavioural changes. We review these policies and our training and staff development activities annually to improve relevant provision continuously.

We also encourage our employees to attend trainings and obtain professional qualifications. Various training programs such as induction trainings and vocational trainings are organised, allowing employees to have a better understanding of the Group's business model and enhance their basic skills and expertise.

B. SOCIAL *(Continued)*

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. The Group strictly complies with local laws and conducts recruitment based on the "Employment Ordinance".

Personal data is collected during the recruitment process to assist the selection of suitable candidates and to verify candidates' personal data. The Human Resources Department also ensures identity documents are carefully checked. If violation is involved, it will be dealt with in the light of the circumstances.

Furthermore, employees of the Group work overtime on a voluntary basis to prevent any breach of labour standards. At the same time, the Group will not use suppliers and services of those vendors and contractors with records of using child or forced labour.

During the year, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, including but not limited to the "Employment Ordinance" that would have a significant impact on the Group.

B5. Supply Chain Management

General Disclosure

Supply Chain Management Structure

The Group highly values our relationship with suppliers (including sub-contractors) and regards them as important business partners. All suppliers are evaluated carefully and subjected to regular monitoring and assessment. The Group has formulated related policies and procedures to manage its suppliers and to ensure the policies and procedures are reviewed annually.

Our purchase contracts are entered with our suppliers on a case-by-case basis, where we generally specify the type, quantity, price and delivery of the materials that we purchase. Suppliers are responsible for the following processes:

- Procuring the blocks or slabs from the stone suppliers designated by us;
- Providing the cut-to-size panels based on the specifications provided by us;
- Delivering the cut-to-size panels to the location designated by us;

B. SOCIAL *(Continued)*

B5. Supply Chain Management *(Continued)*

General Disclosure *(Continued)*

Supply Chain Management Structure *(Continued)*

- Submitting the samples of cut-to-size panels for our prior approval; and
- Replacing any defective or substandard cut-to-size panels at its own costs based on our inspection findings.

While the Group is responsible for:

- Inspecting the cut-to-size panels upon their arrival at the construction site; and
- Paying the contract price based on the actual quantity of cut-to-size panels provided and the unit price specified in the contract.

Since the installation subcontractors are not our employees or agents, our subcontracting contracts with them, to certain extent, vary in accordance with the terms of the main contracts with our customers for meeting the contractual requirements of our customers.

In order to manage the progress and quality of work conducted by our subcontractors, we typically engage subcontractors we have worked with for a number of years. Our site managers and/or project coordinators regularly review the work progress with the appointed subcontractors.

Environmental and Social Responsibilities of Suppliers

Apart from managing quality and progress of work, we also take suppliers' environmental and social responsibilities into considerations during our procurement processes. The Group will continue to monitor its supply chain regarding the environmental and social standards. Looking forward, the Group will continue to require business partners to attach more importance to the sustainable development performances, so as to promote the sustainable development of the industry as a whole.

During the year, the Group was not aware of any key supplier that had any action or practice which have a significant negative impact on business ethics, environmental protection, human rights and labour practices.

Fair and Open Procurement

Rules are formulated to ensure that suppliers can participate in competitions in an open and fair way. The Group does not have differentiated or discriminated treatment on suppliers. We will strictly monitor our staff and personnel to prevent any business bribery. Employees or personnel having any interest relationship with the supplier should not be involved in the related business activity.

B. SOCIAL *(Continued)*

B6. Product Responsibility

General Disclosure

The Group highly values customers' satisfaction and end-users' requirements in our services provided. In pursuit of excellence in the quality of products we produce, we have assigned our quality assurance and quality control staff to oversee the procurement and fabrication process.

The quality management system of the Group is applicable to all operation related departments. Regular internal audit on the effectiveness and level of compliance of quality management system are carried out on an annual basis. Moreover, management review meeting is conducted at least once a year to ensure the stability adequacy and effectiveness of the quality management system.

During the year, we were not aware of any incident of non-compliance with laws and regulations, including but not limited to the "Personal Data (Privacy) Ordinance", "Supply of Services (Implied Terms) Ordinance" and "Trade Descriptions Ordinance", that have a significant impact on the Group, concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Quality Control of Projects

Quality assurance serves as a preventive measure to ensure the fulfilment of stones quality requirements and specifications of our customers. The quality control processes can be categorised into four different processes.

- Stone selection: Our quality assurance and control manager, together with the facade or design consultant representative, architect representative (if any) and representative of our customers will conduct physical visit to target quarry to carry out work including (i) choosing the desired stone colour range; (ii) establishing the bench, layer and locations where the particular colour range will be quarried; and (iii) determining if there is sufficient stones of the desired colour for the project.

- Blocks selection: Our quality control staff will examine the blocks. Blocks with defects including cracks, badly chipped edges, stress fractures, excessive microcracking, holes, pits, inclusions, surface weathering, staining or any feature which the architect considers unacceptable or detrimental to the performance of the stone will be rejected. Testing of stone will be carried out to ensure compliance with the stone specification and the requirements of any relevant regulatory authorities.

- Fabrication: Once the block has been sawn and the slabs exposed, each cut-to-size panel will be individually inspected, ensuring that the cut-to-size panel produced will correspond to the control samples previously selected. After the slabs have been cut into finished pieces, we will carry out a prelaying check to inspect the size and colour range of the panels. With respect to marbles and granites for exterior use, further testing will also be carried out on a sampling basis to ensure that any deviation is within the manufacturing tolerances in accordance with the stone specifications and the panels fulfil the strength requirements.

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Quality Control of Projects *(Continued)*

- Installation: Our site manager or project co-ordinator will monitor the installation work carried out by our subcontractors to ensure that the stone panels are handled and transported in the construction site in a safe manner to prevent any damage, and that the stone panels are installed in the correct alignment and in accordance with approved drawing. We will also coordinate with other contractors on site to ensure the proper installation of our marbles and granites.

On 29 June 2018, the Group won the prize of "Capital Outstanding China Enterprise Awards — Capital Outstanding China Luxury Stone Products Supplier" (資本傑出中國企業成就獎 — 資本傑出中國高級石材供應商). This award serves as a proof of our efforts in quality control and determination in providing high quality products and services to our customers.

Customer Privacy Protection

The Group respects the values and rights of customers' information assets, and strictly complies with the customers' information security management systems and standards. We adhere to the "Personal Data (Privacy) Ordinance" of Hong Kong and expressly reiterates confidentiality obligations in the Code of Conduct. To prevent leakage of confidential information data or information, we have installed firewall, anti-virus and anti-spam solutions in our IT systems and are being upgraded constantly.

Customer Services

To provide a pleasant user experience for our customers, the Group has long established a set of procedures to handle customers' feedbacks or complaints in a professional manner. Customers' information will be recorded and enquiries or complaints cases received will be transferred to the Business Development Department for further handling. Reviews on feedback or complaints is conducted, and action plans are in place promptly to address the identified issues. Customers' satisfaction is evaluated after the cases are settled, and feedbacks or complaints may be circulated to management if necessary.

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Protection of IP Rights

The Group registered a trademark of our company logo in Hong Kong by using "Anchorstone" as its brand name while our principal subsidiaries, PMG(HK) and PMG branded their businesses by using "PMG" as their brand names.

We are also the registered owner of the domain name www.anchorstone.com.hk. For any infringement of our IP, we will urge infringers to cease such action. The directors will take further action if infringement continues.

As the Group's operational process does not involve advertising and labelling practices, the information relating to advertising and labelling is considered as immaterial to the Group.

B7. Anti-corruption

General Disclosure

The Group has zero tolerance on corruption, fraud and all other behaviours violating work ethics. We value and uphold integrity, honesty and fairness in the way we conduct businesses.

The Group's major operations formulated such policies on the control and prevention of bribery, extortion, fraud and money laundering between shareholders and related parties in each business operation and trade activity.

During the year, the Group did not notice any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the "Prevention of Bribery Ordinance".

Anti-corruption

Basic standards of expected conducts for all employees are clearly set out in related anti-corruption policy and code of conduct. Any incidence that may have conflict of interest with the Company must be reported. Employees will be subjected to disciplinary actions if violation of related anti-corruption policy and code of conduct are found after investigation. Disciplinary actions include verbal or written warnings, demotion and dismissal, and the case may be reported to law-enforcement authorities for possible prosecution, depending on the situation.

In addition, an Audit Committee is established for continuous evaluation of the Group's internal control effectiveness, detecting potential deficiency, and identifying areas of improvement. Internal control report is distributed to the responsible department for timely remediation. The Board of Directors and Audit Committee will supervise and review the implementation and effectiveness of the related anti-corruption policies on a regular basis.

B. SOCIAL *(Continued)*

B7. Anti-corruption *(Continued)*

General Disclosure *(Continued)*

Whistle-blowing System

The Group has established a whistle-blowing system and implemented the whistle-blowing policy. This allows stakeholders to report negligence, corruption, bribery and other misconduct to the Group. The Group will process the reports promptly, fairly and confidentially.

B8. Community Investment

General Disclosure

The Group believes that returning to the society through social participation and contribution is a form of showing corporate responsibility. We also see the potential to nurture corporate culture and inspire our employees towards social concerns in the daily work life. We would embrace the human capital into the social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

Community Participation

We participate in various community activities to help the needy in society. To have a better understanding of the needs in society and strengthen the connection with local communities, we regularly communicate with local charities. We also encourage our employees to participate in community activities, suggest areas of contribution based on their personal experiences in the community, and actively participate in social voluntary work.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions — Exhaust Gas and GHG Emissions, Sewage Discharge, Waste Management
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management Not applicable — Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of measures to mitigate emissions and results achieved.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Electricity and Energy Consumption
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Consumption
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Electricity and Energy Consumption
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Material Not applicable — Explained

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Environmentally Friendly Installation Methods
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance. The directors of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. We attach importance to our staff, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect and are committed to comply with the laws, rules and regulations of each country and area in which we operate, and we strive to ensure a healthy and safe working environment for our staff, which is our paramount concern.

Throughout the year 2018, the Group has applied the principles and complied with all code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the HKEX, except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive of the Company have not been segregated as required by the code provision A.2.1 of the CG Code. Mr. Lui Yue Yun, Gary is the chairman of the Company and the founder of the Group The Board considers that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is adequately ensured by the Board which comprise experienced and high caliber individuals with a sufficient number of them being independent non-executive directors of the Company ("**Independent Non-Executive Directors**" or "**INEDs**"). Therefore the Board has a strong independent element in its composition.

The Board believes that the balance of power and authority is adequately ensured by the Board comprising experienced and high caliber individuals with a sufficient number thereof being Non-executive Directors. All directors (including INEDs) are subject to retirement by rotation in accordance with the Company's Articles of Association.

Code Provision A.2.7 stipulates that the Chairman should at least annually hold meetings with the INEDs without the presence of other directors. Since Listing Date up to 31 December 2018, the Chairman did not hold any meeting with the INEDs without the presence of the executive directors of the Company as the Company has been listed for less than 6 months and the Chairman and INEDs consider that there were two effective Audit Committee Meetings held since the Company's Listing. We will comply with such requirement in the next financial year.

Looking ahead, we will keep our governance practices under continuous review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

BOARD OF DIRECTORS

Overall Accountability

The Board is responsible for the leadership and control of the Company. The members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Group. The Board provides direction and approval in relation to matters concerning the Group's business strategies, policies and plans whilst the day-to-day business operations are delegated to the executive management.

BOARD OF DIRECTORS *(Continued)*

Overall Accountability *(Continued)*

As the Board is accountable to the shareholders and in discharging its corporate accountability, directors of the Company are required to pursue excellence in the interests of the shareholders and fulfill their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements and laws.

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his or her responsibilities. The Board is of the view that all directors have given sufficient time and attention to the affairs of the Group and the Board operates effectively as a whole.

Board Composition and Changes

Subsequent to the year ended 31 December 2018, the Company announced the following changes to its board composition:

1. Mr. Siu Chi Fung Stephen retired as Executive Director and chief financial officer of the Company with effect from 11 January 2019 and retired as director of our subsidiaries, PMG and PMG(HK);

2. Mr. Leung Lai Sang Ellis retired as Non-executive Director with effect from 11 January 2019;

3. Mr. Fung Wai Hang, company secretary and former financial controller of the Company, has been appointed as Executive Director and chief financial officer of the Company with effect from 11 January 2019;

4. Mr. Lui Edwin Wing Yiu has been appointed as Executive Director of the Company with effect from 11 January 2019; and

5. Mr. Siu Chi Fung Stephen ceased to be an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 11 January 2019 and Mr. Fung Wai Hang has been appointed as the authorized representative with effect from 11 January 2019.

As at the date of this report, the Board comprises 4 executive directors ("**Executive Directors**" or "**EDs**") and 3 INEDs. They are:

Mr. Lui Yue Yun Gary *(Chairman)*
Ms. Lui Po Kwan Joyce
Mr. Fung Wai Hang (appointed on 11 January 2019)
Mr. Lui Edwin Wing Yiu (appointed on 11 January 2019)
Mr. Ko Tsz Kin
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of the Group's business.

BOARD OF DIRECTORS *(Continued)*

Board Composition and Changes *(Continued)*

INEDs comprise 42.9% (3 out of 7) of the Board, which satisfy the requirement of representing at least one-third of the Board. As required under Rule 3.10 of the Listing Rules, at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each INED a confirmation of his or her independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all INEDs are independent.

The three INEDs are persons of high caliber, with academic and/or professional qualifications in the field of business, management, accounting and finance. With their experience gained from various sectors, they provided strong support towards the effective discharge of the duties and responsibilities of the Board. Each INED has confirmed his independence to the Company, and the Company considered each and every of them independent under Rule 3.13 of the Listing Rules.

Brief biographical particulars of the directors are set out in the section headed "Directors and Senior Management" of this annual report.

All directors, including the INEDs, have a specific term of appointment which is not more than three years since his/her re-election by shareholders at the general meeting. Each director has entered into an appointment letter with the Company and pursuant to Article 104(A) of the Company's Articles of Association, every director, including the INEDs, shall be subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Separate resolutions are proposed for the election of each director. One-third of the directors, or if their number is not three or a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

Board Diversity Policy

The Board adopted a board diversity policy to recognise and embrace the benefits of diversity in the Board and is committed to enhancing quality of opportunity in all aspect of its business. The Company seeks to achieve Board diversity through the consideration against a range of objective criteria, including but not limited to gender, age, culture and educational background, ethnicity, professional qualification, experience, skill and knowledge. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

During the year ended 31 December 2018 and as at the date of this report, the Board compromises seven directors, one of whom is female. The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy *(Continued)*

The following tables further illustrate the diversity of the Board Members as of the date of this annual report:

	Age group		
Name of directors	Age (30-39)	Age (40-59)	Age (60 and above)
Mr. Lui Yue Yun Gary			X
Ms. Lui Po Kwan Joyce	X		
Mr. Fung Wai Hang	X		
Mr. Lui Edwin Wing Yiu	X		
Mr. Ko Tsz Kin		X	
Mr. Choi Hok Ya			X
Mr. Ng Yau Wah Daniel			X

	Professional experience		
Name of directors	Business and management	Construction and subcontracting	Accounting and finance
Mr. Lui Yue Yun Gary		X	
Ms. Lui Po Kwan Joyce	X		
Mr. Fung Wai Hang			X
Mr. Lui Edwin Wing Yiu		X	
Mr. Ko Tsz Kin			X
Mr. Choi Hok Ya	X		
Mr. Ng Yau Wah Daniel	X		

The Nomination Committee will monitor the implementation of the board diversity policy and report to the board annually. It will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should particular in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has regular updates with all existing directors with an aim to improve their general understanding of the Group's business, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. In addition, directors may also choose to attend external courses, conferences, seminars and luncheons organised by various local organisations.

BOARD OF DIRECTORS *(Continued)*

Directors' Training *(Continued)*

Every newly appointed director is provided with a package comprising the induction materials such as the duties and responsibilities of directors under the Listing Rules and the Companies Ordinance, guidelines for directors issued by the Companies Registry of Hong Kong, legal and other regulatory requirements and the governance policies of the Company. On 11 January 2019, Mr. Fung Wai Hang and Mr. Lui Edwin Wing Yiu were appointed as EDs. The Company has arranged training given by external legal counsel to the new directors.

All directors from the Listing Date and up to the date of this report have participated in continuous professional development and provided to the Company a record of training they received for the year.

Board Responsibilities and Delegations

The Board collectively determines the overall strategies of the Group, monitors performance and the related risks and controls in pursuit of the strategic objectives of the Group. Day-to-day management of Group is delegated to the ED or officer in charge of each business function who reports back to the Board. Every director ensures that he/she gives sufficient time and attention to the affairs of Group.

All Board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of Group, including reports and recommendations on significant matters. All Board members are provided with monthly management updates of the business operations of the Group. Should separate independent professional advice be considered necessary by the directors, it will be made available to the directors upon request.

BOARD MEETING AND ATTENDANCE

The Board meets regularly at least four times a year to review financial and operating performance of the Group and to discuss future strategy and development. Since the Company's Listing and up to 31 December 2018, two Board meetings were held in 2018. At the Board meetings, the Board reviewed significant matters including the financial information, annual budget, proposals for dividends, interim report and the terms of reference of the audit committee.

All minutes of the Board meetings are kept at the Company Secretary's office. The minutes are available to all directors for inspection.

Pursuant to the Company's Articles of Association, a director will abstain from voting on resolution(s) approving any contract, transaction or arrangement in which he/she or any of his/her close associates is materially interested in and such director is not counted for quorum determination purposes.

BOARD MEETING AND ATTENDANCE *(Continued)*

A schedule of Board meetings dates is fixed for each year in advance. At least 14 days' formal notice of all regular Board meetings is given to all directors and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all directors at least 3 days in advance of every regular Board meeting.

During 2018, the Chairman did not hold any private meeting with the NEDs (including the INEDs) without the presence of the EDs.

Name of directors	Number of attendance
Executive Directors	
Mr. Lui Yue Yun Gary	2/2
Ms. Lui Po Kwan Joyce	2/2
Mr. Siu Chi Fung Stephen (retired on 11 January 2019)	2/2
Mr. Fung Wai Hang (appointed on 11 January 2019)	–
Mr. Lui Edwin Wing Yiu (appointed on 11 January 2019)	–
Non-executive Director	
Mr. Leung Lai Sang Ellis (retired on 11 January 2019)	2/2
Independent Non-executive Directors	
Mr. Ko Tsz Kin	2/2
Mr. Choi Hok Ya	2/2
Mr. Ng Yau Wah Daniel	2/2

GENERAL MEETING

No general meeting was held from the Listing Date to 31 December 2018.

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meeting or other general meetings to communicate with them and encourage their participation.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference on 3 July 2018 and revised on 31 December 2018.

The Audit Committee, with its terms of reference established in compliance with the Listing Rules, is composed of all three Independent Non-executive Directors (Mr. Ko Tsz Kin, Mr Choi Hok Ya and Mr. Ng Yan Wah Daniel). The Audit Committee has reviewed the management and accounting policies adopted by the Group and discussed auditing, risk management and internal control system, and financial reporting matters.

The Audit Committee meets the external auditors regularly to discuss any area of concern during the audit. The Audit Committee shall review the interim and annual reports before submission to the Board. The Audit Committee focuses not only the impact of the changes in accounting policies and practices but also the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

During the period from the Listing Date to 31 December 2018, the Audit Committee held two meetings:

Name of directors	Number of attendance
Mr. Ko Tsz Kin	2/2
Mr. Choi Hok Ya	2/2
Mr. Ng Yau Wah Daniel	2/2

The Audit Committee noted the existing risk management and internal control systems of the Group and also noted that review of the same will be carried out annually.

The Group's consolidated financial statements for the year ended 31 December 2018 were audited by PricewaterhouseCoopers whose term of office will expire upon the conclusion of the forthcoming annual general meeting of the Company. The Audit Committee has recommended to the Board that PricewaterhouseCoopers be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference on 3 July 2018 in compliance with the Listing Rules, which was set up with the responsibility of making recommendations to the Board the remuneration policy of all the directors and the senior management. The Remuneration Committee is composed of the Chairman of the Board (Mr. Lui) and two Independent Non-executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin).

During the period from the Listing Date to 31 December 2018, the Remuneration Committee held one meeting:

Name of directors	Number of attendance
Mr. Ng Yau Wah Daniel	1/1
Mr. Ko Tsz Kin	1/1
Mr. Lui Yue Yun Gary	0/1

The emoluments payable to directors and senior management depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of Remuneration Committee, the performance of the Group, the prevailing market condition and other necessary factors. Details of the remuneration of the directors and senior management are set out in Note 9 to the consolidated financial statements.

Senior Management's Remuneration

The remuneration of every senior management for the year ended 31 December 2018 is set out below:

Name of senior management	HK$'000
Mr. Lui Yue Yun Gary	2,301
Mr. Siu Chi Fung Stephen	1,300
Ms. Lui Po Kwan Joyce	668
Mr. Fung Wai Hang	1,119
Mr. Kan Shu Kai Rale	1,120

NOMINATION COMMITTEE

The Company established the Nomination Committee with written terms of reference on 3 July 2018 in compliance with the Listing Rules, which is composed of the Chairman of the Board (Mr. Lui) and two Independent Non-executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin). The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed change.

During the period from the Listing Date to 31 December 2018, the Nomination Committee held one meeting:

Name of directors	Number of attendance
Mr. Lui Yue Yun Gary	1/1
Mr. Ko Tsz Kin	1/1
Mr. Ng Yau Wah Daniel	1/1

Nomination Policy and Directors Selection Criteria

A nomination policy has been adopted by the Board to enable the Nomination Committee to consider and make recommendations to the shareholders for election as directors at general meetings or to the directors for appointment to fill casual vacancies.

In considering the nomination of new directors, the Nomination Committee will take into account the factors listed below as reference in assessing the suitability of a proposed candidate:

(1) reputation for integrity;

(2) accomplishment and experience in the business in which the Group is engaged in;

(3) commitment in respect of available time and relevant interest;

(4) diversity in all its aspects, including but not limited to race, gender, age (18 years or above), education background, professional experience, skills and length of service;

(5) qualification which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(6) the number of existing directorships and other commitments that may demand the attention of the candidate;

(7) requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules and whether the candidates would be consider independent with reference to the independence guidelines set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules;

NOMINATION COMMITTEE *(Continued)*

Nomination Policy and Directors Selection Criteria *(Continued)*

(8) Board Diversity Policy of the Company and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(9) such other perspectives appropriate to the Company's business.

Director Nomination Procedures

Subject to the provisions in the Articles of Association of the Company and the Listing Rules, if the Board recognises the needs for an additional director or a member of senior management, the following procedures will be followed:

(1) the Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors when necessary;

(2) the Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details and details of the relationship between the candidate and the Company and/or directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;

(3) the Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointments;

(4) the Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) in the case of the appointment of an Independent Non-Executive Director, the Nomination Committee and/or the Board should obtain all information in relation to the proposed director to allow the Board to adequately assess the independence of the director in accordance with the factors set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) the Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions are performed by the Board. They are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements, to oversee the Company's orientation program for new director, to review and monitor the training and continuous professional development of directors and senior management, to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors, and to review the Company's disclosure in the Corporate Governance Report.

AUDITORS' REMUNERATION

During the year, the remuneration paid/payable to the Company's auditors are set out below:

	HK$'000
Audit services	1,500

COMPANY SECRETARY

The Company has appointed Mr. Fung Wai Hang, who is an employee of the Company, as its Company Secretary. Mr. Fung Wai Hang is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Institute of Chartered Secretaries and a member of the Institute of Chartered Secretaries and Administrators. He confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2018. The biography of Mr. Fung Wai Hang is set out in the section headed "Biographies of Directors and Senior Management" of this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by directors of Listed Issues ("**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code throughout the year since the Listing Date. The interests held by individual directors in the Company's securities as at 31 December 2018 are set out in the section headed "Disclosure of interests — directors' and chief executive's interests" in the Report of the Directors.

In addition to the requirements set out in the Company's code of conduct, the Company Secretary regularly writes to executive management and other relevant employees who are privy to unpublished inside information/price sensitive information, as reminders of their responsibilities to comply with the provisions of the Model Code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to Convene an EGM

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 carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted at the EGM. The Requisition must be signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity, and the shareholding of the Eligible Shareholder will be verified with the Company's share registrar. If the Requisition is found to be proper and in order, the Company Secretary will request the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong by post or by email to Mr. Fung Wai Hang at ricofung@anchorstone.com.hk.

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for Shareholders to Propose a Person for Election as a Director

If a shareholder of the Company wishes to propose a person other than a director of the Company for election as a director, the shareholder must deposit a written notice (the "**Notice**") to the principal place of business of the Company in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong, or the share registrar of the Company at Tricor Investor Services Limited, Level 22, Hopewell Centre 183 Queen's Road East Hong Kong, for the attention of the Company Secretary.

The Notice must state clearly the name, the contact information of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a director, including the person's biographical details as required by Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and be signed by the shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "**Letter**") signed by the person proposed to be elected on his/her willingness to be elected as a director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the dispatch of the notice by the Company of the general meeting appointed for election of directors and end no later than seven days prior to the date of such general meeting.

The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Nomination Committee and the Board to consider including the resolution in the agenda for the general meeting proposing such person to be elected as a director.

Procedures for Shareholders to Put Forward Proposals at General Meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "**Proposal**") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's share registrar in Hong Kong at their respective address and contact details set out on page 3 of this annual report.

The request will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than twenty-one clear days and not less than twenty clear business days in writing if the Proposal requires approval in an annual general meeting of the Company; and

(2) Notice of not less than fourteen clear days and not less than ten clear business days in writing if the Proposal requires approval in an extraordinary general meeting of the Company.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of 2019 annual general meeting will be voted by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

— Delivery of annual and interim reports to all shareholders;

— Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

— The general meeting of the Company is also an effective communication channel between the Board and shareholders.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to provide guidelines for the Board to determine whether dividends are to be declared and paid to the shareholders and the level of dividends to be paid. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, the following factors:

(1) the Group's actual and expected financial performance;

(2) the Group's expected working capital requirements, capital expenditure requirements and further expansion plans;

(3) retained earnings and reserves of the Company and each of the members of the Group;

(4) the Group's liquidity position;

(5) interest of the shareholders;

(6) taxation consideration, if applicable;

(7) potential effect on creditworthiness;

(8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(9) any other factors that the Board deems appropriate.

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong, the Company's Memorandum and Articles of Associations and other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Company will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the dividend policy at any time, and the dividend policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. The internal control systems of the Group are structured to assist in the achievement of the Group's goals, to safeguard the Group's assets and to ensure the maintenance of proper accounting records and compliance with applicable laws, rules and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year. A review of the effectiveness of the risk management and internal control systems have been conducted by the Board at least annually.

Risk Management

The Company has already reviewed its risk management framework and processes and has implemented relevant measures resulting from this exercise that aim to enhance its framework and processes. In particular, the Company has developed, approved and implemented a risk management system, which is defined and supported by its endorsed risk management policy. The system comprises the following phases:

— *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

— *Analysis:* Analyze the existing control, likelihood and consequence of risks and evaluate the risk portfolio accordingly.

— *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control Measures

The internal control system of the Group covers its major business aspects such as revenue management, expenditure management, human resources and payroll, cash and treasury management, financial reporting, compliance and information technology. The internal control measures are supervised by management team including Executive Directors of the Company. The management team is responsible to identify risks and internal control deficiencies, evaluate the internal control system of the Group from time to time and implementing additional control measures, if necessary, to improve the internal control system. Results of the internal assessments, internal surveys and routine inspections will be reported to the Audit Committee of the Board, which is responsible to review the financial information and supervise the financial reporting system and internal controls system of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Internal Audit Function

The Board conducted an annual review on the effectiveness of risk management and internal control systems, covering all material controls such as financial, operational and compliance controls. In addition, the Board has appointed an external internal control review consultant to review the internal control systems of the Group on an on-going basis.

For the year ended 31 December 2018, the review covered key processes of payment processing and the payroll compliance of the Group. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of the Company for the year ended 31 December 2018 were effective and adequate.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has established and maintained procedures and internal controls for the handling and dissemination of insider information. The Company has adopted a code of conduct for dealing in the securities of the Company by the directors in accordance with Appendix 10 of the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Lui Yue Yun Gary

Mr. Lui, aged 63, an Executive Director, the Chairman and the Chief Executive Officer since February 2016. Mr. Lui is one of the co-founder of the Group and is the substantial shareholder and controlling shareholder of the Company.

Mr. Lui is responsible for our Group's overall corporate strategies, management and business development. Mr. Lui is also a director of all the subsidiaries of the Group.

Mr. Lui obtained a Bachelor's degree in Civil Engineering from University of Toronto, Canada. He has over 36 years of experience in marble and granite outfitting works and has been involved in numerous projects throughout the years. Mr. Lui had experience in leading certain stone supply and installation projects in Hong Kong and China, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plaza and office towers; and (iii) residential properties. With extensive experience in the stone supply and installation business, Mr. Lui has established a strong rapport with different main contractors and architects for various types of projects and brings in extensive knowledge of marble and granite selection and project management to the Group.

Mr. Lui is the brother-in-law of Mr. Leung Lai Sang Ellis, the ex-non-executive director of the Company.

Mr. Lui is the sole shareholder and a director of PMG Investments Limited, the substantial shareholder of the Company. He does not have any current or past directorship in any listed company in the last three years.

Ms. Lui Po Kwan Joyce

Ms. Lui Po Kwan Joyce ("**Ms. Lui**"), aged 33, an Executive Director and the head of marketing department since October 2017. Ms. Lui is responsible for the marketing and business strategies of the Group, and the relationship management with key clients and partners. Ms. Lui is also a director of certain subsidiaries of the Group.

Ms. Lui obtained a Master degree in Arts from the University of Manchester, United Kingdom.

Ms. Lui is the daughter of Mr. Lui and cousin of Mr. Lui Edwin Wing Yiu. She is also nephew of Mr. Leung Lai Sang Ellis, the ex-non-executive director of the Company.

Ms. Lui does not have any current or past directorship in any listed company in the last three years.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Fung Wai Hang

Mr. Fung Wai Hang ("**Mr. Fung**"), aged 33, an Executive Director since January 2019. Mr. Fung has also been the Company Secretary and the Chief Financial Officer since October 2017 and January 2019 respectively. He is mainly responsible for overseeing the finance, accounting, administration and compliance functions and the company secretarial duties. Mr. Fung is also a director of certain subsidiaries of the Group.

Mr. Fung obtained a Bachelor's degree in business administration from The Chinese University of Hong Kong. Mr. Fung obtained certain professional qualifications. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 2012 and a practising member of the Hong Kong Institute of Certified Public Accountants since March 2018. He has been advanced to a fellow member of the Hong Kong Institute of Certified Public Accountants since March 2019. Mr. Fung is also a member of the Hong Kong Institute of Chartered Secretaries, a member of the Institute of Chartered Secretaries and Administrators, a member of the Hong Kong Securities and Investment Institute, and an associate member of the Hong Kong Mediation Centre.

Mr. Fung joined the Group as the Financial Controller in August 2017 and was appointed as Company Secretary in October 2017. Prior to joining the Group, Mr. Fung worked for PricewaterhouseCoopers mainly responsible for auditing and assurance work. Mr Fung has over 10 years of experience in accounting, auditing and financial management.

Mr. Fung does not have any current or past directorship in any listed company in the last three years.

Mr. Lui Edwin Wing Yiu

Mr. Lui Edwin Wing Yiu ("**Mr. Edwin Lui**"), aged 32, an Executive Director since January 2019. Mr. Edwin Lui has also been the business director since December 2018. He is mainly responsible for the business development and marketing related work of the Group. Mr. Edwin Lui is also a director of certain subsidiaries of the Group.

Mr. Edwin Lui obtained a Bachelor's degree in computer science from Worcester Polytechnic Institute. Prior to joining the Group, Mr. Edwin Lui worked for Cheong Wah Metal Company Limited and Multi-trade Industries Limited. He has approximately 8 years of experience in business development and management.

Mr. Edwin Lui is the nephew of Mr. Lui. Mr. Edwin Lui is also the cousin of Ms. Lui and nephew of Mr. Leung Lai Sang Ellis, the ex-non-executive director of the Company.

Mr. Edwin Lui does not have any current or past directorship in any listed company in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ko Tsz Kin

Mr. Ko Tsz Kin ("**Mr. Ko**"), aged 49, was appointed as Independent Non-executive Director since June 2018. Mr. Ko is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ko obtained a Bachelor's degree in administrative studies from York University in Canada. He is a practicing member of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Mr. Ko has over 26 years of experience in auditing and accounting. From 1992 to 2015, he joined Robert Chui & Co., Certified Public Accountants, and his last position was the principal of the audit department responsible for the audit and assurance engagements carried out by the firm. Since 2015, Mr. Ko has been practising as a Certified Public Accountant under his own name.

Mr. Ko does not have any current or past directorship in any listed company in the last three years.

Mr. Choi Hok Ya

Mr. Choi Hok Ya ("**Mr. Choi**"), aged 64, was appointed as Independent Non-executive Director since June 2018. Mr. Choi is also a member of Audit Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Choi obtained a Bachelor's degree in Arts from University of Toronto, Canada and has over 30 years of experience in manufacturing and management. Upon his graduation, Mr. Choi joined International Carpet Company Limited, responsible for the manufacturing and marketing of the company. Since 1986, Mr. Choi has taken over the company as the managing director.

Mr. Choi does not have any current or past directorship in any listed company in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Ng Yau Wah Daniel

Mr. Ng Yau Wah Daniel ("**Mr. Ng**"), aged 64, was appointed an Independent Non-executive Director since June 2018. Mr. Ng is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ng obtained a Bachelor's degree in Economics from York University, Canada and has over 19 years of experience in business management. In 1989, Mr. Ng was appointed as the executive director of Charter York Real Estate Management Limited, responsible for the daily management of the company. Also in 1989, Mr. Ng was appointed as the executive director of International Carpet Company Limited, responsible for the sales and business development. Since 2008, Mr. Ng has been appointed as the executive director of Gayloy Limited, responsible for managing the company's business. Since 2010, Mr. Ng has been appointed the director of Smart Result Limited, responsible for managing the company's business.

Since 2015, Mr. Ng has been appointed as the independent non-executive director of Guangzhou R&F Properties Co., Ltd. (stock code: 2777), a property developer in China and a company listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Lui Yue Yun Gary *Chief Executive Officer*

Mr. Lui has been the Chief Executive Officer of the Group since February 2016. For further details of Mr. Lui, please refer to the paragraph headed "Executive Directors" of this section.

Mr. Fung Wai Hang *Chief Financial Officer and Company Secretary*

Mr. Fung has been the Company Secretary and the Chief Financial Officer of the Group since October 2017 and January 2019, respectively. For further details of Mr. Fung, please refer to the paragraph headed "Executive Directors" of this section.

SENIOR MANAGEMENT *(Continued)*

Mr. Kan Shu Kai Raie *Project Director*

Mr. Kan Shu Kai Raie ("**Mr. Kan**"), aged 55, has been the Project Director since December 2015. He is responsible for the overall project management of the Group.

Mr. Kan holds a higher certificate in building studies awarded by the Vocational Training Council in July 2005. He joined the Group in July 2008 as a Project Director responsible for overall supervision and management of projects until January 2014. In February 2014, Mr. Kan founded Point's Creative Limited where he served as a director and was responsible for business strategies and engaged in management of sub-contracting work of various construction projects. Mr. Kan re-joined our Group in December 2015 and served as a project director. Mr. Kan has over 30 years of experience in the construction industry.

Mr. Kan does not have any current or past directorship in any listed company in the last three years.

The directors of the Company submit their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

REORGANISATION AND SHARE OFFER

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to the completion of the reorganisation as detailed in the section headed "Reorganisation" in the Prospectus to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. The Shares of the Company were listed on the Main Board of the Stock Exchange on 4 July 2018 through Share Offer as described in the section headed "Structure and Conditions of the Share Offer" in the Prospectus.

USE OF PROCEEDS FROM THE COMPANY'S SHARE OFFER

The aggregate net proceeds from the Share Offer (after deducting listing related expenses borne by the Company) amounted to approximately HK$73.2 million. The proposed application of net proceeds as stated in the Prospectus has been adjusted according to the principles and proposed percentage of utilisation as specified in the section headed "Future plans and use of proceeds" of the Prospectus. The use of proceeds from the Listing Date to 31 December 2018 is included in the section "Management Discussion and Analysis" on page 8.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 14 to the consolidated financial statements.

BUSINESS REVIEW

A detailed review of the business of the Group is set out in the Business Review, Management Discussion and Analysis Report of this 2018 Annual Report. The discussions thereof form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement in page 76.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of HK1 cent per share (2017: Nil), amounting to HK$12,000,000 (2017: Nil) for the year ended 31 December 2018 to the shareholders subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Thursday, 16 May 2019.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from Monday, 13 May 2019 to Thursday, 16 May 2019 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:00 p.m. on Friday, 10 May 2019.

The register of members of the Company will be closed from Thursday, 23 May 2019 to Friday, 24 May 2019 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement in the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:00 p.m. on Wednesday, 22 May 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Notes 25 and 31 to the consolidated financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Lui Yue Yun Gary
Ms. Lui Po Kwan Joyce
Mr. Siu Chi Fung Stephen (retired on 11 January 2019)
Mr. Fung Wai Hang (appointed on 11 January 2019)
Mr. Lui Edwin Wing Yiu (appointed on 11 January 2019)

Non-executive Director

Mr. Leung Lai Sang Ellis (retired on 11 January 2019)

Independent Non-executive Directors

Mr. Ko Tsz Kin
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

Biographical details of the directors are set out in pages 58 to 61 of this Annual Report.

Mr. Fung Wai Hang and Mr. Lui Edwin Wing Yiu were appointed by the Board on 11 January 2019 as Executive Directors and would hold office until the first general meeting and shall be subject to re-election. In addition, pursuant to the Articles of Association, at each Annual General Meeting, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to the retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

Accordingly, Mr. Lui Yue Yun Gary, Ms. Lui Po Kwan Joyce, Mr. Fung Wai Hang and Mr. Lui Edwin Wing Yiu shall retire from office by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a term of three years and shall continue thereafter until it is terminated by either party by giving not less than three months' written notice to the other party.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years and shall continue thereafter until it is terminated by either party by giving not less than three months' written notice to the other party.

None of the directors who are proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DISCLOSURE OF INTERESTS — DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

Directors' and Chief Executive Interests in Shares and Share Options

Since the Company's shares were listed on the Stock Exchange on 4 July 2018, the Company was not required to keep any register under Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "**SFO**") as at 31 December 2018. As at the date of this report, the interests or short positions of the Company's directors and the chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange under the Model Code are as follows:

Long position in shares and underlying shares of the Company:

Name of substantial shareholder	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation	840,000,000 shares	70%

Save as disclosed above, as at the date of this report, none of the directors or chief executives has any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company or Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which he was taken or deemed to have under provision of the SFO) or 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.

Share Option Scheme

Our Company has conditionally adopted a share option scheme (the "**Share Option Scheme**"). Our directors consider the purpose of the Share Option Scheme is to reward the participants defined under the Share Option Scheme for their past contribution to the success of the Group and to provide incentive to them to further contribute to our Group. The principal terms of the Share Option Scheme are summarized under the section headed "Share Option Scheme" in Appendix IV to the Prospectus.

No share option was granted during the year ended 31 December 2018 and up to the date of this report.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS — DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS *(Continued)*

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2018 or at any time during the year.

DISCLOSURE OF INTERESTS — SUBSTANTIAL SHAREHOLDER'S INTERESTS

Substantial Shareholder's Interests in Shares and Share Options

As at the date of this report, so far as known by the directors, the following persons (not being a director or chief executive of the Company) had interest or short position in shares or underlying shares and debentures of Company and its associated corporation which would be required to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares and underlying shares of the Company:

Name of substantial shareholder	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation	840,000,000 shares	70%
PMG Investments Limited	Beneficial owner	840,000,000 shares	70%

Save as disclosed above, as at the date of this report, no other person had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS -SUBSTANTIAL SHAREHOLDER'S INTERESTS *(Continued)*

Purchase, Sales and Redemption of Shares

Save for Reorganisation as disclosed in Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or their respective close associates is or was interested in any business apart from the Group's business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the period from the Listing Date and up to the date of this report.

EQUITY-LINKED AGREEMENTS

No other equity-linked agreement was entered into by the Group, or existed during the year ended 31 December 2018.

SUBSIDIARIES

Details of subsidiaries of the Company as at 31 December 2018 are set out in Note 14 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in Note 27 to the consolidated financial statements. The Directors consider that those related party transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2018.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of revenue for the year attributable to the Group's major customers are as follows:

Sales	Percentage
The largest customer	33.4
Five largest customers combined	87.5

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases	Percentage
The largest supplier	36.6
Five largest suppliers combined	67.8

None of the directors, their associates or any other shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group throughout the year.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Lui Yue Yun Gary
Chairman
Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the Shareholders of Anchorstone Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Anchorstone Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 76 to 137, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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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 Consolidated Financial Statements section of our report.

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

Independence

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.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter identified in our audit is the accounting for construction contracts — recognition of revenue and contract assets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for construction contracts — recognition of revenue and contract assets	
Refer to Note 4 in the summary of significant accounting policies and Note 5 to the consolidated financial statements. For the year ended 31 December 2018, the Group's revenue derived from construction contracts was HK$265,791,000. Revenue from construction contracts is recognised over the period of the contract by measuring the progress towards complete satisfaction of the performance obligation on the basis of the actual costs incurred by the Group up to the end of the reporting period as a percentage of total estimated costs for each contract. Contract assets represent Group's rights to consideration for work completed less progress billings as at the reporting date. As at 31 December 2018, the carrying amount of contract assets amounted to HK$202,125,000, accounted for approximately 65.3% of the Group's total assets. Revenue and contract assets recognised from construction contracts require significant judgment in (a) measuring the progress with reference to the actual costs incurred as a percentage of total estimated costs for each contract; (b) estimating total budgeted costs and profit margin for each contract; and (c) estimating the expected recovery of costs arising from additional work performed throughout the contracts periods. We focus on this area as the recognition of revenue and contract assets require significant estimation and management's judgment, and given the magnitude of the amounts, the audit of this area requires significant audit effort and resources.	Our procedures to assess management's recognition of revenue and contract assets included: — We inspected material construction contracts of the Group entered into during the year for agreed contract sums. — We tested, on a sample basis, actual costs incurred to supporting documents including, but not limited to, suppliers' invoices and labour cost allocation schedules. — On management's estimated costs of the projects: • We assessed and tested the key controls over their budgetary process on construction costs. • We examined the total budgeted cost of material construction contracts prepared by the project managers by comparing the budgeted component costs to supporting documents including, but not limited, to price quotations and rates of labour costs. — We checked the calculations for the progress towards complete satisfaction of the performance obligation; and recomputed the revenue recognised based on the project completion progress. — For projects with change in scope of work and variation order, we tested these changes by checking to relevant supporting documents, such as architect instructions. — We tested progress billings to all projects by checking to invoices issued to customers; and re-computed the contract assets balances for each project by comparing the progress billings against revenue recognised which represented the Group's rights to consideration for work completed. — For projects with material contract assets balance as at 31 December 2018, we performed site visits and interviewed with customers to corroborate the physical stage of completion with that accounted for by management. We found the judgment and estimates adopted by management in recognising revenue and contract assets are supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 consolidated financial statements.

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

(Continued)

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

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

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

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

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

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

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

We communicate with 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Hin Gay Gabriel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers	5	**299,045**	224,793
Cost of sales	7	**(229,280)**	(161,826)
Gross profit		**69,765**	62,967
Other income and other gains, net	6	**35**	87
Administrative expenses	7	**(38,276)**	(25,830)
Operating profit		**31,524**	37,224
Finance income	10	**521**	215
Finance costs	10	**(4,828)**	(4,736)
Finance costs, net		**(4,307)**	(4,521)
Profit before income tax		**27,217**	32,703
Income tax expense	11	**(6,677)**	(7,429)
Profit and total comprehensive income for the year		**20,540**	25,274
Profit and total comprehensive income attributable to equity holders of the Company		**20,540**	25,274

		2018 HK cents	2017 HK cents
Basic and diluted earnings per share	12	**1.96**	2.81

The notes on pages 81 to 137 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current asset			
Property and equipment	13	**1,499**	873
Total non-current asset		**1,499**	873
Current assets			
Trade and retention receivables	16	**54,815**	89,470
Deposits, prepayments and other receivables	17	**1,483**	20,761
Inventories	18	**984**	–
Contract assets	5	**202,125**	–
Amounts due from customers for contract works	5	**–**	55,712
Income tax recoverable		**4,450**	–
Pledged bank deposits	19	**34,196**	19,080
Cash and cash equivalents	19	**9,778**	503
Total current assets		**307,831**	185,526
Total assets		**309,330**	186,399
Equity			
Share capital	24	**(12,000)**	–
Reserves		**(147,195)**	(37,391)
Total equity		**(159,195)**	(37,391)

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Liabilities			
Non-current liability			
Obligations under finance leases			
— Due after one year	22	**–**	(613)
Total non-current liability		**–**	(613)
Current liabilities			
Trade and retention payables	20	**(16,230)**	(32,947)
Accruals and other payables	21	**(4,971)**	(9,784)
Contract liabilities	5	**(4,798)**	–
Amounts due to customers for contract works	5	**–**	(939)
Amount due to a related party	27	**–**	(391)
Obligations under finance leases			
— Due within one year	22	**–**	(260)
Bank borrowings	23	**(124,136)**	(102,886)
Income tax payables		**–**	(1,188)
Total current liabilities		**(150,135)**	(148,395)
Total liabilities		**(150,135)**	(149,008)
Total equity and liabilities		**(309,330)**	(186,399)

The financial statements on pages 76 to 137 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Mr. Lui Yue Yun Gary
Director

Mr. Fung Wai Hang
Director

The notes on pages 81 to 137 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company			
	Share capital HK$'000 (Note 24)	**Reserves** HK$'000 (Note 25)	**Retained earnings** HK$'000	**Total** HK$'000
At 1 January 2017	–	14,000	41,117	55,117
Profit and total comprehensive income for the year	–	–	25,274	25,274
Transactions with equity holders in their capacity as equity holders:				
Dividends (Note 26)	–	–	(43,000)	(43,000)
At 31 December 2017	–	14,000	23,391	37,391
At 1 January 2018	**–**	**14,000**	**23,391**	**37,391**
Profit and total comprehensive income for the year	**–**	**–**	**20,540**	**20,540**
Transactions with equity holders in their capacity as equity holders:				
Shares issued pursuant to the capitalisation	**9,000**	**(9,000)**	**–**	**–**
Shares issued pursuant to the listing	**3,000**	**117,000**	**–**	**120,000**
Listing related expenses charged to share premium	**–**	**(18,736)**	**–**	**(18,736)**
At 31 December 2018	**12,000**	**103,264**	**43,931**	**159,195**

The notes on pages 81 to 137 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	28(a)	**(84,525)**	37,578
Interest received		**521**	215
Income tax paid		**(12,315)**	(10,415)
Net cash (used in)/generated from operating activities		**(96,319)**	27,378
Cash flows from investing activities			
Proceed from disposal of property and equipment	28(b)	**10**	–
Purchase of property and equipment		**(1,007)**	(90)
Placement of pledged bank deposits		**(15,116)**	(8,052)
Cash advanced to a related party		**(16,054)**	(79,562)
Repayment from a related party		**15,663**	61,402
Net cash used in investing activities		**(16,504)**	(26,302)
Cash flows from financing activities			
Interest paid		**(4,828)**	(4,736)
Proceeds from shares issued pursuant to the listing	24(d)	**120,000**	–
Proceeds from bank borrowings	28(d)	**181,496**	159,976
Repayments of bank borrowings	28(d)	**(152,327)**	(142,429)
Payment of listing related expenses to be capitalised into equity		**(13,451)**	(2,658)
Repayments of obligations under finance leases	28(d)	**(873)**	(299)
Net cash generated from financing activities		**130,017**	9,854
Net increase in cash and cash equivalents		**17,194**	10,930
Cash and cash equivalents at beginning of year		**(7,416)**	(18,346)
Cash and cash equivalents at end of year		**9,778**	(7,416)
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	19	**9,778**	503
Bank overdrafts	23	**–**	(7,919)
		9,778	(7,416)

The notes on pages 81 to 137 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Anchorstone Holdings Limited (the "**Company**") was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, "the **Group**") are principally engaged in the stone sales and supply and installation of marble products in Hong Kong and Macau.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**") unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

The following new standards and amendments to standards are mandatory for the Group's financial year beginning on 1 January 2018 and have been adopted by the Group:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards not yet adopted by the Group

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning on or after 1 January 2018 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HKAS 1 and 8 (Amendments)	Definition of Material	1 January 2020
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 3 (Amendments)	Definition of Business	1 January 2020
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture	To be determined

None of these HKFRSs is expected to have a significant effect on the consolidated financial statements of the Group, except for the following:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New and amended standards not yet adopted by the Group *(Continued)*

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK$7,595,000, see Note 30.

For the lease commitments, the Group expects to recognise right-of-use assets of approximately HK$6,917,000 on 1 January 2019 and lease liabilities of HK$6,917,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net current assets will be approximately HK$2,265,000 lower due to the presentation of a portion of the liabilities as a current liability.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements on 1 January 2018.

(a) Impact on the consolidated financial statements

As explained in Notes 2.2(b) and 2.2(c) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. The reclassifications arising from the new impairment rules are therefore not reflected in the restated consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented	HKFRS 15	1 January 2018 Restated
	HK$'000	HK$'000	HK$'000
Assets			
Current assets			
Contract assets	–	55,712	55,712
Amounts due from customers for contract works	55,712	(55,712)	–
Total current assets	185,526	–	185,526
Total assets	186,399	–	186,399
Liabilities			
Current liabilities			
Accruals and other payables	(9,784)	34	(9,750)
Contract liabilities	–	(973)	(973)
Amounts due to customers for contract works	(939)	939	–
Total current liabilities	(148,395)	–	(148,395)
Total liabilities	(149,008)	–	(149,008)
Total equity and liabilities	(186,399)	–	(186,399)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(b) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 2.8 below.

In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and concluded that it has no material impact to the classification and measurement of the Group's financial instruments.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade and retention receivables for stone sales and supply and installation service; and

- contract assets relating to supply and installation service.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash in bank, pledged bank deposits and deposits and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was not material (Note 3.1(c)).

Trade and retention receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention receivables and contract assets. The loss allowance provision on 1 January 2018 and 31 December 2018 was not material (Note 3.1(c)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(c) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the modified retrospective approach in HKFRS 15, comparative figures have not been restated.

In summary, the following adjustments were made to the amounts recognised in the consolidated balance sheet at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017	Reclassification	HKFRS 15 carrying amount 1 January 2018
	HK$'000	HK$'000	HK$'000
Contract assets	–	55,712	55,712
Amounts due from customers for contract works	55,712	(55,712)	–
Contract liabilities	–	973	973
Amounts due to customers for contract works	939	(939)	–
Accruals and other payables	9,784	(34)	9,750

(i) Accounting for revenue from supply and installation services

In prior reporting periods, when the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, the Group accounted for revenue from supply and installation services by reference to the stage of completion of the contract activities at the end of the reporting periods.

Under HKFRS 15, revenue is recognised when services are rendered to the customer. Since the service creates and enhances an asset that the customer controls as the Group performs, the Group satisfies the performance obligation over time and therefore, recognises revenue over time based on the Group's efforts or inputs to the satisfaction of the performance obligation.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(c) HKFRS 15 Revenue from Contracts with Customers *(Continued)*

(ii) Presentation of assets and liabilities related to contracts with customers

Reclassifications were made as at 1 January 2018 to be consistent with the terminology under HKFRS 15:

- Contract assets recognised in supply and installation service were previously presented as amounts due from customers for contract works (HK$55,712,000 as at 31 December 2017).

- Contract liabilities in relation to supply and installation service were previously presented as amounts due to customers for contract works (HK$939,000 as at 31 December 2017).

- Contract liabilities in relation to deposit received from customers for stone sales were previously included in accruals and other payables (HK$34,000 as at 31 December 2017).

(d) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(d) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 *(Continued)*

Line items in the consolidated balance sheet as at 31 December 2018 impacted by the adoption of HKFRS 15:	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKASs 18 and 11 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) HK$'000
Assets			
Current assets			
Contract assets	202,125	–	202,125
Amounts due from customers for contract works	–	202,125	(202,125)
Total current assets	202,125	202,125	–
Total assets	202,125	202,125	–
Liabilities			
Current liabilities			
Accruals and other payables	–	(295)	295
Contract liabilities	(4,798)	–	(4,798)
Amounts due to customers for contract works	–	(4,503)	4,503
Total current liabilities	(4,798)	(4,798)	–
Total liabilities	(4,798)	(4,798)	–

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(d) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 *(Continued)*

The significant differences arise as a result of the changes in accounting policies described above.

2.3 Principles of consolidation

2.3.1 Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.3.2).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3.2 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former equity holders of the acquired business, the equity interests issued by the Group, the fair value of any asset or liability resulting from a contingent consideration arrangement, and the fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation *(Continued)*

2.3.2 Business combinations *(Continued)*

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.3.3 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.6 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property and equipment *(Continued)*

Depreciation of property and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The annual rates used for this purpose are:

Leasehold improvements	Shorter of remaining lease term or 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.7 Impairment of non-financial assets

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

2.8 Financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing the assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other income and other gains, net". Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(d) Impairment

The Group's financial assets measured at amortised cost are subject to HKFRS 9's new expected credit loss model. The Group assesses on a forward looking basis where the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(c) set out the details on how the Group determines whether there has been a significant increase in credit risk.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(d) Impairment *(Continued)*

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables is assessed on a 12-month expected credit losses. If a significant increase in credit risk of a receivables has occurred since initial recognition, then the impairment is measured as lifetime expected credit losses.

(e) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets as loans and receivables.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. See Note 15 for details about each type of financial asset.

(i) Subsequent measurement

The measurement at initial recognition did not change the adoption of HKFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables were subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017 *(Continued)*

(ii) Impairment

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

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

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

Impairment testing of trade receivables is described in Note 3.1(c).

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Trade and retention receivables, deposits and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current.

Trade and retention receivables and deposits and other receivables are recognised initially at the amount of the unconditional consideration unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 16 for further information about the Group's accounting policies on trade receivables and Note 2.8(d) for a description of the Group's impairment policies.

2.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities. Pledged bank deposits are not included in cash and cash equivalents.

2.12 Inventories

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

2.13 Share capital

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

2.14 Trade and retention payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Bank borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily to take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the financial year in which they are incurred.

2.17 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax *(Continued)*

(b) Deferred income tax

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

(a) Employee leave entitlements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(b) Retirement benefit obligations

The Group pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on performance of the Group and employees. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

2.19 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenue is recognised when goods are transferred or services are rendered to the customer.

Depending on the terms of the contract and the laws that apply to the contract, service may provide over time or at a point in time. Service is provided over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

A contract asset is the Group's right to consideration in exchange for the services that the Group has transferred to a customer. In addition, incremental costs incurred to obtain a new contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost.

A contract liability is the Group's obligation to render the services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration in advance before the Group renders the service to the customer. Contract liabilities mainly included the advance payments received from stone sales and provision of supply and installation service.

The description of the accounting policy for the principal revenue streams of the Group is as follows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(a) Stone sales

Revenue from stone sales is recognised when goods are delivered to the locations designated by the customer, which is taken to be the point in time when the Group transfers control over the goods to the customers.

(b) Supply and installation service

The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, supply and installation service is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in supply and installation service to the extent of contract costs incurred that are likely to be recoverable.

On the consolidated balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract asset represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract liability represents a liability where the opposite is the case.

2.21 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Leases

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

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

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

2.23 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from cash and bank balance and bank borrowings. Interest-bearing financial assets/liabilities issued at variable rates expose the Group to cash flow interest rate risk. Interest-bearing financial assets/liabilities issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2017 and 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately HK$424,000 and HK$452,000 respectively. The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

(b) Foreign currency risk

The Group mainly operates in Hong Kong with most of the sales transactions and purchase transactions settled in Hong Kong dollars and thus foreign exchange exposure is considered to be minimal.

(c) Credit risk

The credit risk of the Group mainly arises from trade and retention receivables, deposits and other receivables, contract assets, cash in bank and pledged bank deposits.

To manage the risk arising from cash in bank and pledged bank deposits, the Group only transacts with reputable banks which are all high-credit-quality financial institutions. There has no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

For deposits and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience. The management believes that the expected credit loss is close to zero.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk *(Continued)*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, all trade and retention receivables and contract assets are monitored on an ongoing basis.

The Group categorises trade or other receivables for write off when a debtor fails to make contractual payments. Where trade or other receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in consolidated statement of comprehensive income.

The Group applies the simplified approach to measure expected credit losses prescribed by HKFRS 9, which permits the use of a lifetime expected loss allowance for all trade and retention receivables and contract assets.

To measure the expected credit losses, trade and retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets related to unbilled work in progress and have substantially the same risk characteristics as the trade and retention receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets and retention receivables.

The expected loss rates are based on the payment profiles of sales over the period before the consolidated balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the customers to settle the receivables. The Group has identified the Gross Domestic Product (GDP) of the cities in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group overall considers the shared credit risk characteristic and the days past due of the trade receivables as the measurement for the expected credit loss. During the year, expected loss rate of trade receivables are assessed to be less than 0.3%. The loss allowance provision for these balances was not material during the years ended 31 December 2017 and 2018.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate, as well as considering short-term and long-term financing in its capital structuring. The Group aims to maintain flexibility in funding by committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

As at 31 December 2018, the Group's total available banking facilities amounted to approximately HK$164,630,000 (2017: HK$144,791,000), of which approximately HK$124,136,000 (2017: HK$102,886,000) has been utilised.

As at 31 December 2017, corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company amounted to approximately HK$44,991,000. All corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company had been released upon listing (Note 27).

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balance within 12 months equals to their carrying balances as impact from discounting is not significant.

Specifically, for bank borrowings containing a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lender were to invoke their unconditional rights to call the loans with immediate effect.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2017					
Trade and retention payables	–	32,947	–	–	32,947
Accruals and other payables	–	6,423	–	–	6,423
Bank borrowings	107,077	–	–	–	107,077
Amount due to a related party	–	391	–	–	391
Obligations under finance leases	–	286	585	46	917
	107,077	40,047	585	46	147,755

	On demand HK$'000	**Within 1 year HK$'000**	**Between 1 and 2 years HK$'000**	**Between 2 and 5 years HK$'000**	**Total HK$'000**
As at 31 December 2018					
Trade and retention payables	**–**	**16,230**	**–**	**–**	**16,230**
Accruals and other payables	**–**	**1,780**	**–**	**–**	**1,780**
Bank borrowings	**128,626**	**–**	**–**	**–**	**128,626**
	128,626	**18,010**	**–**	**–**	**146,636**

The table below analyses the bank borrowings of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

	Within 1 year HK$'000
As at 31 December 2017	107,077
As at 31 December 2018	**128,626**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances and pledged deposits. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios were as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Obligation under finance leases	**–**	873
Bank borrowings (Note 23)	**124,136**	102,886
Amount due to a related party (Note 27)	**–**	391
Less: cash and cash equivalents (Note 19)	**(9,778)**	(503)
Less: pledged bank deposits (Note 19)	**(34,196)**	(19,080)
Net debt	**80,162**	84,567
Total equity	**159,195**	37,391
Total capital	**239,357**	121,958
Gearing ratio	**33%**	69%

3.3 Fair value estimation

The carrying values of the Group's financial assets and financial liabilities, including trade and retention receivables, deposits and other receivables, pledged bank deposits, cash and cash equivalents, trade and retention payables, other payables, and bank borrowings, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to 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) Revenue recognition for construction contract

The Group reviews and revises the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period. The Group recognised its supply and installation service based on the inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revised the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the supply and installation service.

(b) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(c) Income tax

The Group is subject to income taxes in Hong Kong. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Contingent liabilities

The Group, in the ordinary course of its business, is involved in various claims, law suits, investigations and legal proceedings that arise from time to time. Contingent liabilities arising from these legal proceedings have been assessed by management with legal advice.

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

(a) Revenue from contracts with customers

Revenue from contracts with customers represents the total value of contract works completed and the stone sales during the year as follows:

	2018 HK$'000	2017 HK$'000
Supply and installation service	**265,791**	219,861
Stone sales	**33,254**	4,932
	299,045	224,793
Timing of revenue recognition:		
Over time	**265,791**	219,861
At a point of time	**33,254**	4,932
	299,045	224,793

(b) Segment information

The Executive Directors are the Group's chief operating decision-makers. The Executive Directors consider the segment from a business perspective and regard the Group's business as a single operating segment and review financial information accordingly. The Executive Directors assess the performance of the operating segment based on revenue generated. The Group does not report a measure of profit or total assets for the operating segment as the Executive Directors do not use this information to allocate resources to or evaluate the performance of the operating segment.

The Group's revenue from external customers attributed to the geographical areas based on the location of customers is presented as follows:

	2018 HK$'000	2017 HK$'000
Hong Kong	**196,078**	224,793
Macau	**74,413**	–
The USA	**28,554**	–
	299,045	224,793

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION *(Continued)*

(c) Information about major customers

Revenue attributed from customers that accounted 10% or more of the Group's total revenue is presented as follows:

	2018 HK$'000	2017 HK$'000
Customer A (Note (i))	**N/A**	62,366
Customer B (Note (i))	**N/A**	53,591
Customer C (Note (i))	**N/A**	45,808
Customer D (Note (i))	**99,993**	N/A
Customer E (Note (ii))	**74,413**	N/A
Customer F (Note (i))	**43,632**	N/A

Notes:

(i) The revenue was generated from the supply and installation of marble product contract in Hong Kong.

(ii) The revenue was generated from the supply and installation of marble product contract in Macau.

N/A: The revenue of the particular customer for the particular year was less than 10% of the Group's revenue for the particular year.

(d) Assets and liabilities related to contracts with customers

	2018 HK$'000	2017 HK$'000
Contract costs incurred plus recognised profits less recognised losses	**320,017**	622,344
Less: progress billings	**(122,690)**	(567,571)
Balance at end of year	**197,327**	54,773
Analysed for reporting purposes as:		
Amounts due from customers for contract works	**–**	55,712
Amounts due to customers for contract works	**–**	(939)
Contract assets (Note (i))	**202,125**	–
Contract liabilities (Note (ii))	**(4,798)**	–
	197,327	54,773

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION *(Continued)*

(d) Assets and liabilities related to contracts with customers *(Continued)*

Notes:

(i) The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

(ii) The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the supply and installation services.

As at 31 December 2018, Contract assets amounted to HK$27,812,000 (2017: amounts due from customers for contract works amounted to HK$26,986,000) have been pledged to secure the bank facilities as set out in Note 23.

Amounts due from/(to) customers for contract works and deposits received included in accruals and other payables have been reclassified to contract assets and contract liabilities since 1 January 2018 to reflect the terminology of HKFRS 15 (Note 2.2(c)).

6 OTHER INCOME AND OTHER GAINS, NET

	2018 **HK$'000**	2017 HK$'000
Exchange gains, net	**35**	58
Sundry income	**–**	29
	35	87

7 EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000
Cost of inventories	**22,189**	3,161
Construction cost recognised in cost of sales	**207,091**	158,665
Auditor's remuneration — audit services	**1,500**	150
Depreciation (Note 13)	**368**	413
Operating lease payments	**2,863**	2,646
Overseas travelling expenses	**463**	–
Employee benefit expenses (including directors' emoluments) (Note 8)	**14,417**	10,588
Motor vehicle expenses	**723**	843
Listing related expenses	**13,545**	8,974
Legal and professional fees	**555**	172
Consultancy fee	**2,000**	–
Impairment of trade and retention receivables (Note 16)	**–**	680
Others	**1,842**	1,364
Total cost of sales and administrative expenses	**267,556**	187,656

8 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses

	2018 HK$'000	2017 HK$'000
Wages, salaries and bonuses	**20,956**	16,610
Retirement benefit costs — defined contribution plans	**463**	463
Less: amount included in construction contracts	**(7,002)**	(6,485)
	14,417	10,588

8 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

For the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group include two (2017: two) directors whose emoluments are reflected in the analysis in Note 9 to the consolidated financial statements. During the year ended 31 December 2018, the emoluments paid/payable to the remaining three individuals (2017: three individuals) are as follows:

	2018 **HK$'000**	2017 HK$'000
Wages, salaries and benefits in kind	**2,364**	1,985
Bonuses	**958**	215
Retirement benefit costs — defined contribution plans	**54**	54
	3,376	2,254

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2018	2017
Emolument band		
Nil to HK1,000,000	**–**	3
HK$1,000,000 to HK$2,000,000	**3**	–

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2017:

	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Mr. Siu Chi Fung Stephen (Note (i))	–	1,200	100	–	–	1,300
Ms. Lui Po Kwan Joyce	–	600	50	–	18	668
Mr. Lui Yue Yun Gary	–	2,160	–	123	18	2,301
	–	3,960	150	123	36	4,269

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2018:

	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Mr. Siu Chi Fung Stephen (Note (i))	120	680	600	–	–	1,400
Ms. Lui Po Kwan Joyce	120	480	–	–	18	618
Mr. Lui Yue Yun Gary	120	2,280	1,400	24	18	3,842
	360	3,440	2,000	24	36	5,860
Non-executive Director						
Mr. Leung Lai Sang Ellis (Note (i))	118	–	–	–	–	118
Independent Non-executive Directors						
Mr. Choi Hok Ya	118	–	–	–	–	118
Mr. Ko Tsz Kin	118	–	–	–	–	118
Mr. Ng Yau Wah Daniel	118	–	–	–	–	118
	354	–	–	–	–	354
Total	832	3,440	2,000	24	36	6,332

Note:

(i) Mr. Siu Chi Fung Stephen and Mr. Leung Lai Sang Ellis were resigned as Executive Director and Non-executive Director of the Group respectively on 11 January 2019.

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year ended 31 December 2018 (2017: Nil).

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year ended 31 December 2018 (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

There are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors during the year ended 31 December 2018 (2017: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018 (2017: Nil).

10 FINANCE INCOME AND COSTS

	2018 HK$'000	2017 HK$'000
Finance income		
Interests from:		
— Bank deposits	**521**	44
— Recharged from the Controlling Shareholder on bank borrowing arrangement (Note 27)	**–**	171
	521	215
Finance costs		
Interests from:		
— Bank overdrafts	**(503)**	(930)
— Trust receipt loans interest	**(3,671)**	(2,562)
— Bank loans	**(628)**	(1,206)
— Finance lease interest	**(26)**	(38)
	(4,828)	(4,736)
Finance costs, net	**(4,307)**	(4,521)

11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended 31 December 2017 and 2018 on the estimated assessable profits for the years.

The amount of income tax expense charged to the consolidated statement of comprehensive income represents:

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong profits tax	**6,677**	7,026
Under-provision in prior years	**–**	403
Income tax expense	**6,677**	7,429

11 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group's subsidiaries as follows:

	2018 HK$'000	2017 HK$'000
Profit before income tax	**27,217**	32,703
Tax calculated at 16.5%	**4,491**	5,396
Income not subject to tax	**–**	(7)
Expenses not deductible for tax purposes	**2,245**	1,635
Under-provision in prior years	**–**	403
Tax losses not recognised	**–**	2
Utilisation of tax losses previously not recognised	**(59)**	–
	6,677	7,429

For the year ended 31 December 2018, the Group has unrecognised tax losses of approximately HK$809,000 (2017: HK$1,167,000) respectively which are available for offsetting against future profit. No deferred tax asset has been recognised in respect of these tax losses in the consolidated financial statements as it is uncertain whether future taxable profit will be available for utilising the tax losses. All unutilised tax losses can be carried forward indefinitely under the current tax legislation.

The under-provision in prior years represented surcharge for late tax payment for the year ended 31 December 2017.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation and the capitalisation of shares (Note 24).

	2018	2017
Earnings		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation (HK$'000)	**20,540**	25,274
Number of shares		
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation (in thousands)	**1,048,767**	900,000
Basic and diluted earnings per share (HK cents)	**1.96**	2.81

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the years ended 31 December 2017 and 2018.

13 PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2017					
Cost	571	31	189	1,757	2,548
Accumulated depreciation	(571)	(17)	(38)	(726)	(1,352)
Net book amount	–	14	151	1,031	1,196
Year ended 31 December 2017					
Opening net book amount	–	14	151	1,031	1,196
Addition	–	–	90	–	90
Depreciation	–	(6)	(56)	(351)	(413)
Closing net book amount	–	8	185	680	873
At 31 December 2017					
Cost	571	31	279	1,757	2,638
Accumulated depreciation	(571)	(23)	(94)	(1,077)	(1,765)
Net book amount	–	8	185	680	873
Year ended 31 December 2018					
Opening net book amount	**–**	**8**	**185**	**680**	**873**
Addition	**–**	**–**	**73**	**934**	**1,007**
Disposal	**–**	**–**	**–**	**(13)**	**(13)**
Depreciation	**–**	**(6)**	**(60)**	**(302)**	**(368)**
Closing net book amount	**–**	**2**	**198**	**1,299**	**1,499**
At 31 December 2018					
Cost	**571**	**31**	**352**	**2,666**	**3,620**
Accumulated depreciation	**(571)**	**(29)**	**(154)**	**(1,367)**	**(2,121)**
Net book amount	**–**	**2**	**198**	**1,299**	**1,499**

13 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2017, motor vehicle of the Group amounted to approximately HK$680,000 was held under finance leases. The finance leases had been fully repaid during the year ended 31 December 2018.

For the year ended 31 December 2018, depreciation of the Group's property and equipment amounted to approximately HK$368,000(2017: HK$413,000) has been charged to "administrative expenses" in the consolidated statement of comprehensive income.

14 SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are as follows:

Name of entities	Place and date of incorporation	Principal activities	Particulars of issued share capital	Equity interest held by the Group
Directly held by the company				
Pegasus Stone Limited	BVI, 15 December 2015	Investment holding	1 ordinary share of USD1 each	100%
Indirectly held by the company				
Pacific Marble & Granite (H.K.) Limited	Hong Kong, 19 December 1991	Supply and installation of marble and granite for construction projects	14,000,000 ordinary shares of HK$1 each	100%
Pacific Marble & Granite Limited	Hong Kong, 30 June 2011	Trading of marble and granite and supply and installation of marble and granite for construction projects	100 ordinary shares of HK$1 each	100%

15 FINANCIAL INSTRUMENTS BY CATEGORY

	2018 HK$'000	2017 HK$'000
Financial assets at amortised cost:		
Trade and retention receivables	**54,815**	89,470
Deposits and other receivables	**1,251**	1,187
Pledged bank deposits	**34,196**	19,080
Cash and cash equivalents	**9,778**	503
	100,040	110,240
Financial liabilities at amortised cost:		
Trade and retention payables	**16,230**	32,947
Other payables	**1,780**	6,423
Amount due to a related party	**–**	391
Obligation under finance leases	**–**	873
Bank borrowings	**124,136**	102,886
	142,146	143,520

16 TRADE AND RETENTION RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables — third parties	**26,456**	59,122
Retention receivables — third parties	**29,039**	31,028
	55,495	90,150
Less: provision for impairment	**(680)**	(680)
	54,815	89,470

The Group's credit terms granted to third-party trade customers other than retention receivables generally ranged from 30 to 90 days. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion or the expiry of the defect liability period ranging from 12 to 24 months.

As at 31 December 2018, trade and retention receivables amounted to approximately and HK$16,154,000 (2017: HK$31,870,000) respectively, have been pledged to secure the bank facilities as set out in Note 23 and are classified as current assets.

16 TRADE AND RETENTION RECEIVABLES *(Continued)*

The ageing analysis of the third-party trade receivables, based on invoice date, is as follows:

	2018 **HK$'000**	2017 HK$'000
Up to 30 days	**1,425**	34,088
31–60 days	**–**	9,954
61–90 days	**45**	6,529
Over 90 days	**24,986**	8,551
	26,456	59,122

Trade receivables by invoice date aged over 90 days are related to a number of third-party 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 a significant change in credit quality and the balances are still considered to be fully recoverable.

Movements in the provision for impairment of trade and retention receivables that are assessed for impairment are as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 January	**680**	–
Provision for impairment	**–**	680
At 31 December	**680**	680

As at 31 December 2017, trade and retention receivables of approximately HK$680,000 were impaired and fully provided. The individually impaired trade and retention receivables mainly relate to customers that were in default or delinquency in payments, in which the directors are of the opinion that whole outstanding amount are expected not to be recovered.

As at 31 December 2017 and 2018, the carrying amounts of trade and retention receivables are denominated in following currencies and approximate their fair values.

	2018 **HK$'000**	2017 HK$'000
HK$	**32,891**	89,470
United States dollars	**21,924**	–
	54,815	89,470

16 TRADE AND RETENTION RECEIVABLES *(Continued)*

Retention receivables in respect of the supply and installation business are settled in accordance with the terms of the respective contracts. In the consolidated balance sheet, retention receivables were classified as current assets based on operating cycle. The ageing analysis of the retention receivables based on terms of contracts was as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**10,596**	7,960
Between 1 to 2 years	**18,443**	23,068
	29,039	31,028

Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention receivables and contract assets.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade deposits	**–**	4,988
Prepayments	**232**	14,586
Insurance compensation receivables	**481**	471
Other receivables	**770**	716
	1,483	20,761

As at 31 December 2017 and 2018, the carrying amounts of deposits and other receivables are denominated in HK$ and approximate their fair values.

18 INVENTORIES

	2018 HK$'000	2017 HK$'000
Goods in transit — marble and granite	**984**	–

For the year ended 31 December 2018, the cost of inventories recognised as expense and included in "cost of sales" amounted to approximately HK$22,189,000 (2017: HK$3,161,000) (Note 7).

19 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Pledged bank deposits	**34,196**	19,080
Cash in bank	**9,773**	498
Cash on hand	**5**	5
Cash and cash equivalents	**9,778**	503

The carrying amounts of pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**43,967**	19,576
Renminbi ("RMB")	**7**	7
	43,974	19,583

Cash and cash equivalents and bank overdrafts include the following for the purposes of the consolidated statement of cash flows:

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents in the consolidated balance sheet	**9,778**	503
Less: bank overdrafts (Note 23)	**–**	(7,919)
Cash and cash equivalents in the consolidated statement of cash flows	**9,778**	(7,416)

For the year ended 31 December 2018, the pledged bank deposits and bank balances generate interest at prevailing market interest rates ranged from 0.01% to 0.25% per annum (2017: ranged from 0.01% to 0.71% per annum).

The pledged bank deposits are held in designated bank accounts for the Group's banking facilities (Note 23).

Pledged bank deposits represent deposits that will mature within one year and are therefore classified as current assets.

20 TRADE AND RETENTION PAYABLES

Trade and retention payables at the end of the reporting period comprise amounts outstanding for trade purposes. The average credit period taken for trade purchase is 30 to 90 days.

	2018 **HK$'000**	2017 HK$'000
Trade payables — third parties	**5,889**	23,217
Retention payables — third parties	**10,341**	9,730
	16,230	32,947

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

	2018 **HK$'000**	2017 HK$'000
1–30 days	**603**	5,188
31–60 days	**1,051**	2,291
61–90 days	**119**	4,051
Over 90 days	**4,116**	11,687
	5,889	23,217

As at 31 December 2017 and 2018, the carrying amounts of trade and retention payables are denominated in HK$ and approximate their fair values.

21 ACCRUALS AND OTHER PAYABLES

	2018 **HK$'000**	2017 HK$'000
Accruals for employee benefit expenses	**2,375**	2,459
Accruals for long service payment	**816**	868
Other accruals and other payables	**1,780**	1,714
Accruals for listing related expenses	**–**	4,709
Deposits received	**–**	34
	4,971	9,784

As at 31 December 2017 and 2018, the carrying amounts of accruals and other payables are denominated in HK$ and approximate their fair values.

Deposits received has been reclassified to contract liabilities since 1 January 2018 to reflect the terminology of HKFRS 15 (Note 2.2(c)).

22 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments As at 31 December		Present value of minimum lease payments As at 31 December	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Within one year	**–**	286	**–**	260
In the second to fifth year inclusive	**–**	631	**–**	613
Less: future finance charges	**–**	(44)	**–**	–
Present value of lease obligations	**–**	873	**–**	873
Less: amount due for settlement within one year (classified as current liabilities)			**–**	(260)
Amount due for settlement over one year (classified as non-current liability)			**–**	613

Interest rates underlying all obligations under finance leases for the year ended 31 December 2017 are fixed at respective contract dates ranging from 3.40% to 4.64% per annum. The Group's obligations under finance leases had been fully repaid during the year ended 31 December 2018.

23 BANK BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Bank overdrafts (Note 19)	**–**	7,919
Term loans — secured	**–**	3,591
Trust receipt loans — secured	**121,036**	74,876
Revolving loans — secured	**3,100**	16,500
	124,136	102,886

Bank overdrafts are repayable within the next 12 months as at 31 December 2017. Bank borrowings due for repayment, based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand are as follows:

23 BANK BORROWINGS *(Continued)*

	2018 HK$'000	2017 HK$'000
Bank borrowings:		
Within 1 year	**124,136**	94,967

As at 31 December 2018, bank facilities granted to the Group are secured by the following:

a) Trade and retention receivables of HK$16,154,000 (Note 16);

b) Pledged deposits of HK$34,196,000 (Note 19);

c) Contract assets of HK$27,812,000 (Note 5); and

d) Cross guarantees by the Group's subsidiaries.

As at 31 December 2017, bank facilities granted to the Group are secured by the following:

a) Corporate guarantees from related companies. Such guarantee had been released upon listing;

b) Trade and retention receivables of HK$31,870,000 (Note 16);

c) Unlimited guarantee from the Controlling Shareholder. Such guarantee provided by a Director had been released upon listing (Note 27);

d) Amounts due from customers for contract works of HK$26,986,000 (Note 5); and

e) Pledged deposits of HK$19,080,000 (Note 19).

As at 31 December 2017 and 2018, the carrying amounts of bank borrowings are denominated in HK$ and approximate their fair values.

The effective interest rates of bank borrowings as at 31 December 2018 are 4.9% (2017: 3.8%).

24 SHARE CAPITAL

	Issued and fully paid Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each:		
Authorised:		
At 1 January 2017 and 31 December 2017	38,000,000	380
Increase on 14 June 2018 (Note (a))	2,962,000,000	29,620
At 31 December 2018	**3,000,000,000**	**30,000**
Issued and fully paid:		
At 1 January 2017 and 31 December 2017	1	–
Share issued pursuant to the reorganisation (Note (b))	2	–
Share issued pursuant to the capitalisation (Note (c))	899,999,997	9,000
Shares issued pursuant to the listing (Note (d))	300,000,000	3,000
At 31 December 2018	**1,200,000,000**	**12,000**

Note:

(a) Pursuant to the written resolutions of the sole shareholder of the Company passed on 11 June 2018 and 14 June 2018 respectively, the authorised share capital of the Company was increased from HK$380,000 to HK$30,000,000 by the creation of an additional of 2,962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all respects.

(b) Pursuant to the Reorganisation, the Company issued 2 new ordinary shares as consideration for acquisition of the subsidiaries now comprising the Group from the companies wholly owned by the Controlling Shareholder.

(c) By the sole shareholder's written resolutions dated 11 June 2018 and 14 June 2018 respectively and conditional on the share premium account of the Company being credited as a result of issue of new shares pursuant to the proposed offering of the Company's shares, the Company issued 899,999,997 additional shares (the "Capitalisation Shares"), credited as fully paid, to the Controlling Shareholders of the Company, by way of capitalisation of HK$9,000,000 standing to the credit of the Company's share premium account on 4 July 2018.

(d) On 4 July 2018, the Company issued 300,000,000 ordinary shares of HK$0.01 each at a price of HK$0.4 per share pursuant to the initial public offering and listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

25 RESERVES

	Share premium HK$'000	Capital reserve HK$'000 (Note (a))	Total HK$'000
Balances at 1 January 2017, 31 December 2017 and 1 January 2018	–	14,000	14,000
Transactions with equity holders in their capacity as equity holders:			
Shares issued pursuant to the Capitalisation (Note 24(c))	(9,000)	–	(9,000)
Shares issued pursuant to the Listing (Note 24(d))	117,000	–	117,000
Transaction costs attributable to the Listing (Note 24(d))	(18,736)	–	(18,736)
Balance at 31 December 2018	89,264	14,000	103,264

Note:

(a) Capital reserves of the Group represented the difference between the share capital of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange thereof.

26 DIVIDENDS

The Board recommends the payment of HK1 cent per share (2017: Nil), amounting to HK$12,000,000 (2017: Nil) for the year ended 31 December 2018 to the shareholders subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 16 May 2019.

27 RELATED PARTIES BALANCES AND TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operational decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

27 RELATED PARTIES BALANCES AND TRANSACTIONS *(Continued)*

The directors are of the view that the following individual/companies were related parties that had transactions or balances with the Group during the years ended 31 December 2017 and 2018:

Name of the related party	Relationship with the Group
Mr. Lui Yue Yun Gary ("Mr. Lui")	The Controlling Shareholder and Executive Director of the Group
Pacific Marble & Granite Holdings Limited	Controlled by the Controlling Shareholder
Win Goal Enterprises Limited	Controlled by the Controlling Shareholder

(a) The Group had the following material non-trade balance due to a related party:

	2018 HK$'000	2017 HK$'000
Non-trade payable		
Mr. Lui	–	391

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the years ended 31 December 2017 and 2018:

(i) Continuing transactions

	2018 HK$'000	2017 HK$'000
Motor vehicle rental expense to Win Goal Enterprises Limited	**49**	146

(ii) Non-continuing transactions

	2018 HK$'000	2017 HK$'000
Interest income recharge on bank borrowing arrangement from Mr. Lui (Note)	–	171

Note:

Finance income mainly comprises interest income from Mr. Lui which represents the recharge of interest expenses in respect of a property mortgage loan entered by our Group on behalf of Mr. Lui. The interest rate of the secured bank loan was stated at 1% per annum over HIBOR, and it was arranged such that the interest expense in connection with the secured bank loan was recharged in full from Mr. Lui. Such arrangement was terminated during the year ended 31 December 2017.

	2018 HK$'000	2017 HK$'000
Rent and rates and building management fee expense to Pacific Marble & Granite Holdings Limited	–	1,939

27 RELATED PARTIES BALANCES AND TRANSACTIONS *(Continued)*

(c) Key management compensation

Key management includes executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**8,068**	5,883
Pension costs	**90**	91
	8,158	5,974

(d) Guarantee by a director

The bank borrowings and obligation under finance leases facilities, supported by personal guarantee provided by the director of the Group, are as follows:

	2018 HK$'000	2017 HK$'000
Mr. Lui	**–**	103,759

Such guarantee provided by a director had been released upon Listing.

(e) Corporate guarantee to a related company

As at 31 December 2017, corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company amounted to HK$44,991,000. All corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company had been released upon Listing.

28 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash (used in)/generated from operations

	2018 HK$'000	2017 HK$'000
Cash flows from operating activities		
Profit before income tax	**27,217**	32,703
Adjustments for:		
Finance income (Note 10)	**(521)**	(215)
Finance costs (Note 10)	**4,828**	4,736
Loss on disposal of property and equipment	**3**	–
Impairment of trade and retention receivables (Note 7)	**–**	680
Depreciation of property and equipment (Note 7)	**368**	413
	31,895	38,317
Changes in working capital		
Increase in inventories	**(984)**	–
Decrease/(increase) in trade and retention receivables	**34,655**	(14,742)
Decrease/(increase) in deposits, prepayments and other receivables	**13,993**	(12,641)
Increase in contract assets	**(146,413)**	–
Increase in contract liabilities	**3,859**	–
Decrease in amounts due from customers for contract works, net	**–**	42,411
Decrease in trade and retention payables	**(16,717)**	(14,559)
Decrease in accruals and other payables	**(4,813)**	(1,208)
Net cash (used in)/generated from operations	**(84,525)**	37,578

(b) In the consolidated statement of cash flows, proceeds from disposal of property and equipment comprise:

	2018 HK$'000	2017 HK$'000
Net book amount	**13**	–
Loss on disposal of property and equipment	**(3)**	–
Proceed from disposal of property and equipment	**10**	–

28 NOTES TO THE STATEMENT OF CASH FLOWS *(Continued)*

(c) Non-cash transactions disclosure

Significant non-cash transactions

During the year ended 31 December 2017, bank borrowings of HK$16,087,000 were settled by the Controlling Shareholder by way of offsetting against the amount due from a related party (Note 28 (d)).

On 22 December 2017, the Group declared dividend of HK$43,000,000 as distribution to equity holders of the companies now comprising the Group which was settled by way of offsetting against the amount due from a related party.

(d) Cash flow information — financing activities

This section sets out the movement of liabilities from financing activities for each of the years ended 31 December 2017 and 2018.

	Finance lease liabilities HK$'000	Bank borrowings (excludes bank overdrafts) HK$'000	Total HK$'000
At 1 January 2017	1,172	93,507	94,679
Cash inflow	–	159,976	159,976
Cash outflow	(299)	(142,429)	(142,728)
Non-cash item:			
Settlement by the controlling shareholder on behalf of the Group (Note 28(c))	–	(16,087)	(16,087)
At 31 December 2017	873	94,967	95,840
At 1 January 2018	**873**	**94,967**	**95,840**
Cash inflow	**–**	**181,496**	**181,496**
Cash outflow	**(873)**	**(152,327)**	**(153,200)**
At 31 December 2018	**–**	**124,136**	**124,136**

29 CONTINGENCIES

Corporate guarantee to a related company

As at 31 December 2017, corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company amounted to HK$44,991,000. All corporate guarantee provided by certain subsidiaries to secure banking facilities of a related company had been released upon listing.

Performance bonds

As at 31 December 2018, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$2,980,000 (2017: HK$2,753,000).

As at 31 December 2018, the performance bonds were secured by certain bank facilities (2017: same) as disclosed in Note 23.

Legal case

During the year ended 31 December 2018, workers of the Group's subcontractors initiated claims for failure of paying wages against a subsidiary of the Group. The amount being claimed was approximately HK$1,030,000. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claim through mediation and the amount of the possible obligation cannot be measured with reliability.

30 COMMITMENTS

Operating leases commitments

The Group had future aggregate minimum lease payments in relation of office premises under non-cancellable operating lease as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than 1 year	**2,604**	2,211
Later than 1 year and no later than 5 years	**4,991**	–
	7,595	2,211

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current asset			
Investment in a subsidiary		–	–
Total non-current asset		–	–
Current assets			
Prepayments		172	–
Amounts due from subsidiaries		100,330	–
Cash and cash equivalents		191	–
Total current assets		100,693	–
Total assets		100,693	–
Equity			
Share capital		(12,000)	–
Reserves	(a)	(88,443)	–
Total equity		(100,443)	–
Liabilities			
Current liabilities			
Accruals and other payables		(250)	–
Total current liabilities		(250)	–
Total liabilities		(250)	–
Total equity and liabilities		(100,693)	–

The balance sheet of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf:

Mr. Lui Yue Yun Gary
Director

Mr. Fung Wai Hang
Director

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–
Loss and total comprehensive loss for the year	–	(821)	(821)
Transactions with equity holders in their capacity as equity holders:			
Shares issued pursuant to the Capitalisation	(9,000)	–	(9,000)
Shares issued pursuant to the Listing	117,000	–	117,000
Transaction costs attributable to the Listing	(18,736)	–	(18,736)
At 31 December 2018	**89,264**	**(821)**	**88,443**

FIVE YEAR SUMMARY

For the year	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**299,045**	224,793	222,141	213,303	168,622
Gross profit	**69,765**	62,967	63,898	73,393	48,650
Operating profit	**31,524**	37,224	39,592	58,629	39,401
Profit before income tax	**27,217**	32,703	35,501	53,914	33,989
Profit attributable to equity holders of the Company	**20,540**	25,274	27,371	44,186	27,970

For the year	2018 HK cents	2017 HK cents	2016 HK cents	2015 HK cents	2014 HK cents
Basic and diluted earnings per share (Note)	**1.96**	2.81	N/A	N/A	N/A

At year end	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Pledged bank deposits	**34,196**	19,080	11,028	11,012	19,001
Cash and cash equivalents	**9,778**	503	350	723	1,901
Total assets	**309,330**	186,399	232,877	174,427	328,722
Bank borrowings	**124,136**	102,886	112,203	123,994	131,069
Total liabilities	**150,135**	149,008	177,760	172,421	295,498
Total equity	**159,195**	37,391	55,117	2,006	33,224

Key financial ratios	2018	2017	2016	2015	2014
Gross profit margin (%)	**23.3**	28.0	28.8	34.4	28.9
Net profit margin (%)	**6.9**	11.2	12.3	20.7	16.6
Return on equity (%)	**20.9**	54.6	95.8	250.8	140.8
Return on total assets (%)	**8.3**	12.1	13.4	17.6	9.7
Interest coverage (time)	**6.5**	7.9	9.2	12.0	7.0
Current ratio	**2.1**	1.3	1.3	1.0	1.1
Quick ratio	**2.0**	1.3	1.3	1.0	1.1
Net gearing ratio (%)	**78.0**	278.5	205.7	278.5	396.3

Note: No basic and diluted earnings per share information is presented for the financial years ended 31 December 2014, 2015 and 2016 as the Company was not listed before 4 July 2018. The Group's Reorganisation, as stated in the Prospectus, was not completed until June 2018. Therefore, it is not considered meaningful to present the earnings per share for the comparison purpose.

For the financial years ended 31 December 2017 and 2018, basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation and the capitalisation of shares.