Geotech Holdings Ltd.
致浩達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1707

2018 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Zhi *(Chairman) (Appointed as executive Director and chairman of the Board on 27 December 2018 and 15 January 2019 respectively)*
Mr. Qiu Dong *(Appointed on 15 January 2019)*
Mr. Yau Kin Wing Sino *(Ceased to act as Chairman and appointed as Chief Executive Officer on 15 January 2019)*
Mr. Cheung Ting Kam *(Passed away on 21 January 2018)*
Mr. Kung Ho Man *(Resigned on 15 January 2019)*
Ms. Tang Ka Wa Danise *(Resigned on 15 January 2019)*

Independent Non-Executive Directors

Mr. Chan Tsang Mo *(Appointed on 15 January 2019)*
Mr. Fung Chi Kin
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. So Wai Man *(Appointed on 27 December 2018)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Chow Chun To *(Resigned on 15 January 2019)*
Mr. Wei Qianjiang *(Appointed on 24 August 2018 and resigned on 15 January 2019)*

AUDIT COMMITTEE

Mr. Chan Tsang Mo *(Chairman) (Appointed on 15 January 2019)*
Mr. Fung Chi Kin
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. So Wai Man *(Appointed on 15 January 2019)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Chow Chun To *(Resigned on 15 January 2019)*

REMUNERATION COMMITTEE

Mr. So Wai Man *(Chairman) (Appointed on 15 January 2019)*
Mr. Chan Tsang Mo *(Appointed on 15 January 2019)*
Mr. Chen Zhi *(Appointed on 15 January 2019)*
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. Cheung Ting Kam *(Passed away on 21 January 2018)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Chow Chun To *(Resigned on 15 January 2019)*
Mr. Kung Ho Man *(appointed on 23 January 2018 and resigned on 15 January 2019)*

NOMINATION COMMITTEE

Mr. Chen Zhi *(Chairman) (Appointed on 15 January 2019)*
Mr. Chan Tsang Mo *(Appointed on 15 January 2019)*
Mr. Fung Chi Kin
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. So Wai Man *(Appointed on 15 January 2019)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Yau Kin Wing Sino *(Resigned on 15 January 2019)*

COMPANY SECRETARY

Mr. Ip Ying Hang

AUTHORISED REPRESENTATIVES

Mr. Chen Zhi *(Appointed on 15 January 2019)*
Mr. Ip Ying Hang
Mr. Yau Kin Wing Sino *(Ceased on 15 January 2019)*

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 05-08, 11/F
Delta House
3 On Yiu Street
Shek Mun
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F
148 Electric Road, North Point
Hong Kong

COMPLIANCE ADVISER

Grande Capital Limited *(with effect from 25 January 2018)*
1204B, 12/F
Tower 2, Lippo Centre
89 Queensway
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

Guantao & Chow Solicitors and Notaries
Suites 1604-6, 16th Floor
ICBC Tower
3 Garden Road
Central
Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Shanghai Commercial Bank Ltd.

STOCK CODE

1707

WEBSITE

www.geotech.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Geotech Holdings Ltd. (the "**Company**", together with its subsidiaries, the "**Group**", "**we**", "**our**" or "**us**"), I present the audited annual results of the Group for the year ended 31 December 2018.

The Group's results for the 2018 financial year were not satisfactory. Revenue decreased by approximately 6.7%, from approximately HK$275.8 million in 2017 to approximately HK$257.4 million in 2018. This was mainly caused by (i) most of the Group's construction project contracts were acquired and commenced in the second half of the year, making the overall number of projects in 2018 decrease slightly as compared to 2017; and (ii) the Group has applied a more proactive pricing strategy in 2018 in order to maintain competitiveness under the intense market condition. The Group achieved a net profit of approximately HK$5.3 million in 2018, representing a drop of approximately 43.9% as compared to 2017. The decrease was mainly due to an overall increase in construction costs, intense market condition, and the Group's adoption of a more proactive pricing strategy. The Group's business performance in 2018 is further explained in the section "Management Discussion and Analysis".

During the year under review, various uncertainties continue to affect the general economy. This, coupled with intense market competition in the industry and increased construction costs, affected the Group's gross profit and gross profit margin continuously. However, with our good reputation in the industry and an experienced management team, the Directors are confident that the Group continues to be in a competitive position.

2018 is a year of great opportunity for the Company. The Group will continue to engage in its existing principal business and review existing operations and business activities to establish a long-term business strategy. We will also seek and identify areas of potential expansion and business development apart from Hong Kong based on the results of our review on the business strategy, with a view to strengthen and consolidate our income base.

The Group noted there is a continuous growth in Cambodia's real estate business, which leads to business opportunities for site formation, construction and decoration work. The Group proposes to extend its provision of construction and decoration services in Cambodia whilst utilising its Hong Kong construction industry experience to capture the potential business opportunities. At the same time, in view of the increase in demand of property management service as a result of the continued increase in the supply of residences and commercial buildings in Hong Kong, the Group intends to extend its property management service business. Thus, as well as maintaining our existing business, the Group will seize new opportunities and explore and extend the above businesses in 2019.

Looking forward, we will strive to promote growth within the industry, continue to explore business expansion with steady policy, and seek to extend the Group's business and business development opportunities in Hong Kong and overseas markets.

I strongly believe that in future, the Group will share the benefits of its continuous growth with our shareholders, and deliver a greater shareholder value.

Last but not least, I would like to express my deep gratitude to the Board and the employees of the Group for their hard work, their professionalism and valuable contributions. I would also like to express my sincere gratitude to our customers, suppliers and other business partners for their trust and continued support.

Chen Zhi
Chairman

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group principally engaged in provision of construction and engineering services. With over 20 years of experience in the civil engineering industry, the Group is a leading slope works contractor in Hong Kong.

Geotech Engineering Limited ("Geotech Engineering"), our principal operating subsidiary, is an approved specialist contractor included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the categories of "Landslip preventive/remedial works to slopes/retaining walls" (confirmed status) and "Ground investigation field work" (Group I status). It is also an approved contractor included in the List of Approved Contractors for Public Works under the category of "Site formation" (Group B probationary status). Geotech Engineering is also registered as a specialist contractor in the categories of site formation works and ground investigation field works with the Building Authority.

The majority of our revenue for the year ended 31 December 2018 was derived from undertaking slope works commissioned by Civil Engineering and Development Department ("CEDD") of the government of Hong Kong Special Administrative Region (the "Government") . According to the Government's statement upon the launch of the Landslip Prevention and Mitigation Programme in 2010, the Government estimated that the annual expenditure on the Landslip Prevention and Mitigation Programme would be at least HK$600 million, and the Landslip Prevention and Mitigation Programme would be implemented on a rolling basis annually to upgrade 150 Government man-made slopes, to conduct safety-screening studies on 100 private man-made slopes, and to implement studies and necessary risk mitigation works for 30 natural hillside catchments per year. According to the 2017 Annual Report on Government Slope Safety Works published by the Geotechnical Engineering Office of CEDD, there are currently about 60,000 sizable man-made slopes in Hong Kong and about two-thirds of these man-made slopes are government slopes. Also, according to the government budget for the year ending 31 March 2020 published on 27 February 2019, the estimated capital works reserve fund for landslip prevention and mitigation for 2020 is approximately HK$1,013.5 million which is similar to 2019. As a result, our slope work business also benefited from the overall positive atmosphere in the industry.

The Directors believe the Group will be able to capture the expected market opportunities as mentioned above due to our market leading position. The Group is expected to remain competitive in the market as it has continuously been rated positively by the customers in the public sector since we have achieved the maximum rating under the category of "Landslip preventive/remedial works to slopes/retaining walls" as appraised by the Development Bureau among all contractors being rated consecutively from the third quarter of 2015 to the second quarter of 2018. To recognise our performance in LPM (Landslip Prevention and Mitigation) works, Geotech Engineering was awarded "Winner of the Best LPM Contractor Competition" in 2015, 2016 and 2017 by CEDD's Geotechnical Engineering Office on 22 February 2016, 20 February 2017 and 22 February 2018 respectively, and we were also awarded "First Runner-up of the Best LPM Contractor Competition" in 2018 on 18 February 2019.

The Directors are aware that the keen industry competition and increase in overall construction cost may continually affect the Group's gross profit and profit margin. In order to maintain our market share in the slope works sector, the Group has applied a more proactive pricing strategy during the year ended 31 December 2018. The Group will closely monitor the market and respond to change in market conditions. The Directors are confident that with the Group's reputation in the slope works sector and our experienced management team, the Group is in a good position to compete with its competitors. The Group will continue to improve our competitiveness in the market by continuing to provide quality works to our customers. As the Directors expected the business environment to remain challenging due to the keen competition in the slope works sector, the Group has been seeking suitable development opportunities for diversification of business.

During the year and subsequent to the year ended 31 December 2018, the Group has tried to diversify to various civil engineering works by tendering projects jointly with other joint venture partners for contracts which involve various works category (including roads and drainage). In February 2019, the Group formed an unincorporated joint venture with an independent third party, for the purpose of executing a public works contract for roads and drainage category. The Directors consider that the successful tendering and executing this contract are significant to the Group's development in construction and engineering services in Hong Kong.

As at 31 December 2018, we had 22 slope works and ground investigation field works contracts on hand (including contracts in progress and contracts which are yet to commence) with a total outstanding contract sum of approximately HK$711.7 million. Subsequent to the year ended 31 December 2018 and up to the date of this annual report, the Group has secured certain slope works and ground investigation field works contracts with an aggregate total contract sum of approximately HK$262.9 million and those projects are expected to be completed during or before 2022. As at 31 December 2017, we had 43 slope works and ground investigation field works contracts on hand with a total outstanding contract sum of approximately HK$492.5 million. Significant increase in the value of contracts on hand was mainly due to increase in works contracts awarded close to the end of 2018. However, as mentioned above, the keen industry competition and increase in overall construction cost may continually affect the Group's gross profit and profit margin in 2019.

OUTLOOK

Following the close of mandatory unconditional cash offer in early January 2019, the Board has reviewed the operation and business activities of the Group. The Group considers to explore other business and/or to seek to expand the geographical coverage of the principal business of the Group in addition to the market of Hong Kong for enhancing the future development and strengthening the revenue bases of the Group. The Directors believe that diversification of business could provide a better return to the shareholders of the Company (the "Shareholders").

The Directors are aware that the property industry in Cambodia has been growing substantially in the recent years. It provides business opportunities for site formation, construction and decoration projects in Cambodia. To leverage the Group's experience in Hong Kong and in order to seize these opportunities, the Group may further expand its business in the provision of construction and decoration engineering services in Cambodia. In addition, in view of the increasing residential and commercial housing supply in Hong Kong, the Group currently anticipates to expand its business in the property management business.

FINANCIAL REVIEW

Revenue

The Group's overall revenue decreased by approximately HK$18.4 million or approximately 6.7% from approximately HK$275.8 million for the year ended 31 December 2017 to approximately HK$257.4 million for the year ended 31 December 2018. The decrease in revenue was mainly due to (i) when compared to the year ended 31 December 2017, more works contracts for the year ended 31 December 2018 were awarded and commenced during the second half of the year leading to the overall works done slightly decreased throughout the year; and (ii) the Group has applied a more proactive pricing strategy in order to maintain competitiveness under the keen competition in the market.

Gross Profit and Gross Profit Margin

The Group's gross profit margin for the year ended 31 December 2018 was approximately 9.5%, as compared with approximately 15.6% for the year ended 31 December 2017. The decrease in the gross profit margin for the year ended 31 December 2018 was mainly due to the increase in overall construction costs and the keen competition in the market for new projects. In order to maintain competitiveness in the slope works sector in Hong Kong, the Group has applied a more proactive pricing strategy, which in turn affects the gross profit margin for the year ended 31 December 2018. The gross profit of the Group for the year ended 31 December 2018 amounted to approximately HK$24.4 million, representing a decrease of approximately 43.6% as compared with approximately HK$43.1 million for the year ended 31 December 2017, which was driven by a decrease in revenue and a decrease in gross profit margin for the year ended 31 December 2018.

Other Income

Other income mainly included rental income from leasing of machinery, bank interest income and safety consultancy income. For the year ended 31 December 2018, other income amounted to approximately HK$4.2 million (2017: approximately HK$2.1 million). The increase in other income was mainly due to the increase in rental income from leasing of machinery and bank interest income during 2018.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2018 amounted to approximately HK$22.6 million, representing a decrease of approximately 26.2% compared with approximately HK$30.6 million for the year ended 31 December 2017. The decrease was mainly attributable to approximately HK$10.7 million of listing expenses incurred for the year ended 31 December 2017, while no such expenses were incurred for the year ended 31 December 2018. Such decrease was offset partially by the occurrence of post-listing compliance costs since the listing of the ordinary shares of the Company (the "Shares") in October 2017 (the "Listing").

Finance Costs

Finance costs for the year ended 31 December 2018 were approximately HK$252,000, representing a decrease of approximately 28.8% compared with approximately HK$354,000 for the year ended 31 December 2017. The decrease was mainly attributable to the decrease in interest charges on bank borrowings as a result of repayment of bank borrowings.

Income Tax Expense

Income tax expense decreased by approximately 91.0% from approximately HK$4.8 million for the year ended 31 December 2017 to approximately HK$0.4 million for the year ended 31 December 2018. Such decrease was mainly driven by the decrease in gross profit, absence of non deductible listing expenses and recognition of tax losses for the year ended 31 December 2018.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2018 decreased by approximately HK$4.2 million or approximately 43.9% from approximately HK$9.5 million for the year ended 31 December 2017 to approximately HK$5.3 million for the year ended 31 December 2018. The decrease in the Group's net profit for the year ended 31 December 2018 was mainly due to (i) the decrease in gross profit and (ii) net off with the decreases in administrative expenses and income tax expense as discussed above. The Group's net profit margin for the year ended 31 December 2018 was approximately 2.1%, as compared with approximately 3.5% for the year ended 31 December 2017. The decrease in the net profit margin for the year ended 31 December 2018 was mainly due to the decrease in gross profit margin as discussed above.

Final Dividend

The Board did not recommend a payment of a final dividend for the year ended 31 December 2018 (2017: nil).

Liquidity, Financial Resources and Capital Structure

During the year ended 31 December 2018, there has been no change in capital structure of the Group.

As at 31 December 2018, the Company's issued capital was HK$14 million and the number of its issued ordinary Shares was 1,400 million with par value of HK$0.01 each.

As at 31 December 2018, the Group had total cash and bank balances of approximately HK$82.3 million (31 December 2017: approximately HK$109.4 million). The total borrowings of the Group, as at 31 December 2018 was approximately HK$2.4 million (as at 31 December 2017: approximately HK$10.9 million). All borrowings were denominated in Hong Kong dollars. Interests are charged at fixed rates. The Group did not carry out any interest rate hedging policy.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

Gearing ratio

Gearing ratio is calculated by dividing all debts by total equity at the period-end date and expressed as a percentage. Debts are defined to include payables incurred not in the ordinary course of business. The gearing ratio of the Group as at 31 December 2018 was approximately 1.3% (31 December 2017: approximately 5.9%). As a result of repayment of bank borrowings during the year ended 31 December 2018, the Group's gearing ratio decreased.

Pledge of Assets

As at 31 December 2018, the Group had approximately HK$1.1 million of net book value of our plant, machinery and equipment pledged under finance leases (31 December 2017: approximately HK$1.1 million).

Foreign Exchange Risk

The Group mainly operates in Hong Kong. Most of the operating transactions and revenue were settled in Hong Kong dollars and the Group's assets and liabilities are primarily denominated in Hong Kong dollars. With the insignificant portion of monetary transactions and assets denominated in foreign currencies, the Group did not engage in any derivatives agreement and did not commit to any financial instrument to hedge its foreign exchange exposure during the year ended 31 December 2018 (2017: nil).

Significant Investment, Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the year ended 31 December 2018, the Group did not hold any significant investments nor have any material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the prospectus of the Company dated 28 September 2017 (the "Prospectus"), the Group did not have other future plans for material investments or capital assets as at 31 December 2018.

Employees and Remuneration Policy

As at 31 December 2018, 145 staff was in the Group's payroll (31 December 2017: 114 staff). Total staff costs included directors' emoluments, salaries, wages and other staff benefits, contributions and retirement schemes, provisions for staff long service payment and untaken paid leave. Total staff costs for the year ended 31 December 2018 amounted to approximately HK$30.6 million (2017: approximately HK$40.6 million). In order to attract and retain high quality staff and to enable smooth operation within the Group, the remuneration policy and package of the Group's employees are periodically reviewed. The salary and benefit levels of employees of the Group are competitive (with reference to market conditions and individual qualifications and experience). The Group provides adequate job training to the employees to equip them with practical knowledge and skills. Apart from mandatory provident fund and job training programmes, salaries increment and discretionary bonuses may be awarded to employees according to the assessment of individual performance and market situation. The emoluments of the Directors have been reviewed by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement, and approved by the Board.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, the Group had no material capital commitments or contingent liabilities (31 December 2017: nil).

Use of Net Proceeds from the Listing

The receipts of the proceeds, net of listing expenses (including underwriting fee), including both recognised in the consolidated statement of profit or loss and other comprehensive income and deducted from the share premium ("Net Proceeds") from the Listing were approximately HK$72.8 million. The Group intends to apply the Net Proceeds in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" to the Prospectus. As stated in the Prospectus, the Company intends to apply the Net Proceeds to (i) satisfy the minimum level of working capital requirement for tendering government contracts as main contractor, as required by the Development Bureau of the Government in relation to our retention on the List of Approved Specialist Contractors for Public Works in the category of Landslip preventive/remedial works to slopes/retaining walls (the "Specific Working Capital Requirement"), (ii) finance site facilities and equipment and (iii) expand our workforce. The use of proceeds has been consistent with the disclosure in the Prospectus. The total Net Proceeds received were applied by the Group during the period from 12 October 2017, when the Company' Shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Date") up to 31 December 2018 as follows:

Use of Net Proceeds:	Planned use of proceeds *HK$'000*	Actual use of proceeds from the Listing Date to 31 December 2018 *HK$'000*	Unused amount as at 31 December 2018 *HK$'000*
Satisfaction of Specific Working Capital Requirement	44,144	44,144	–
Acquisition of the site facilities and equipment	14,351	4,004	10,347
Expansion of our workforce both at office level and site level	14,350	4,564	9,786
Total	72,845	52,712	20,133

As at 31 December 2018 and the date of this annual report, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong.

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

DIRECTORS

Executive Directors

Mr. Chen Zhi (陳 志 先 生), aged 31, appointed as an executive Director in December 2018. He is the chairman of the Board and controlling Shareholder of the Company and the chairman of the nomination committee of the Board (the "Nomination Committee") and a member of the remuneration committee of the Board (the "Remuneration Committee"). Mr. Chen is the director of certain subsidiaries of the Company. Mr. Chen holds a bachelor's degree of Business Administration from the National University of Management, Kingdom of Cambodia. Currently, he is a director, chairman and controlling shareholder of Prince Real Estate (Cambodia) Group Co., Ltd., the holding company for a group of companies principally engaged in property development of commercial and residential properties in Cambodia (the "Prince Group"). Mr. Chen has over seven years of experience in the areas of property agency and development. In addition, Mr. Chen also has extensive experience in internet industry in Cambodia and Singapore, and is a director of several internet industry related companies in Cambodia and Singapore.

Mr. Qiu Dong (邱 東 先 生), aged 31, appointed as an executive Director in January 2019. Mr. Qiu is also the director of a subsidiary of the Company. Mr. Qiu has over 7 years of experience in the sales of construction stones and building decoration. Mr. Qiu is a chief executive officer of a group company principally engaged in real estate construction and decoration projects of the Prince Group. He is also a general manager of a company engaged in stone sales and interior decoration in China.

Mr. Yau Kin Wing Sino (邱建榮先生), aged 61, appointed as a Director in June 2016 and redesignated as an executive Director in September 2017 and redesignated as a chief executive officer on 15 January 2019. Mr. Yau is also the director of certain subsidiaries of the Company. Mr. Yau has over 25 years of experience in the civil engineering industry in Hong Kong. He is one of the founder of our Group.

Independent Non-Executive Directors

Mr. Chan Tsang Mo (陳增武先生), aged 34, appointed as an independent non-executive Director in January 2019. He is the chairman of the audit committee of the Board (the "Audit Committee") and a member of the Remuneration Committee and the Nomination Committee. Mr. Chan has over 10 years of finance, accounting and treasury experience. Mr. Chan assumed various positions in professional accounting and financial firms including as a senior auditor (being mainly responsible for accounting, auditing and taxation assignments) of RSM Nelson Wheeler (principally engaged in the provision of accounting services) from December 2009 to January 2011, as a supervisor in the corporate services division (being mainly responsible for accounting, payroll, treasury and audit assignments) of Intertrust Resources Management Limited (principally engaged in the provision of legal and financial administrative services) from June 2011 to June 2013, and as an accounting manager (being mainly responsible for the management and supervision of tax and financial matters) of Reignwood International Investment (Group) Co., Ltd. (principally engaged in investment services) from October 2013 to April 2016.

Mr. Chan was an executive director of Ares Asia Limited (stock code: 645), the shares of which are listed on main board of the Stock Exchange, a company principally engaged in the investment and trading of coal from June 2014 to March 2016. From May 2016 to October 2017, he worked as the financial controller in Wan Cheng Metal Packaging Company Limited (stock code: 8291), the shares of which are listed on main board of the Stock Exchange and was responsible for overseeing the consolidated accounts and preparing financial information, forecast memorandum, consolidate notes and checklists for the listing application of the company. Since August 2017, he has been the director of Morton Professional Services Limited and is responsible for advising on company formation, business establishments and legal compliance related matters. Mr. Chan currently serves as an independent non-executive director of Hong Kong Finance Investment Holding Group Limited (stock code: 7), the shares of which are listed on the main board of the Stock Exchange.

Mr. Chan has been admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2010 and currently a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan graduated from the City University of Hong Kong with a Bachelor of Business Administration degree in Accountancy in November 2006.

Mr. Fung Chi Kin (馮志堅先生), aged 69, appointed as an independent non-executive Director in September 2017. Mr. Fung is a member of the Audit Committee and Nomination Committee. Mr. Fung has over 40 years of experience in banking and finance. He was the director and the deputy general manager of Po Sang Bank Limited (merged into Bank of China (Hong Kong) Limited in 2001) and the managing director of BOCI Securities Limited. From October 1998 to June 2000, Mr. Fung served as a Council Member of the First Legislative Council of the Government. Mr. Fung was appointed as an executive director of China Trustful Group Limited ("China Trustful Group") (stock code: 8265) in March 2019 and was served as an executive director of China Trustful Group from September 2014 to May 2017, the shares of which are listed on GEM of the Stock Exchange. From August 2017 to April 2019, Mr. Fung held the position of independent non-executive director of Kenford Group Holdings Limited (stock code: 464), the shares of which are listed on the main board of the Stock Exchange. He has also acted as independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (stock code: 682), the shares of which are listed on the main board of the Stock Exchange, since September 2003. From October 2006 to May 2012, he held the position of independent non-executive director of New Times Energy Corporation Limited (stock code: 166), the shares of which are listed on the main board of the Stock Exchange.

Mr. Shen Zejing (沈澤敬先生) aged 61, was appointed an independent non-executive Director in January 2019. Mr. Shen is a member of the Audit Committee, Remuneration Committee and the Nomination Committee. Mr. Shen is currently the partner of the Hylands Law Firm. Mr. Shen holds a Bachelor's degree in law from China University of Political Science and Law and is a practicing lawyer in China. Mr. Shen has over 30 years of experiences in the fields of the corporate, securities law business, foreign-related legal business and litigation business. He has provided legal services to a number of well-known conglomerates and institutions, being act as their legal counsel to advise and represent those conglomerates and institutions in both the litigation and non-litigation matters related to the financial, real estate, corporate and other aspects.

Mr. So Wai Man (蘇偉民先生), aged 46, was appointed an independent non-executive Director in December 2018. Mr. So is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Mr. So is currently the finance director of an international trading and investment company. Mr. So holds a bachelor's degree of Business Administration in Accounting from the Hong Kong University of Science and Technology and he is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. So has over 20 years of experiences in corporate finance, planning and strategic implementation, change management and people development and he has served key financial and management positions in several multi-national corporations with diverse exposure in different industries ranging from creative agency, event agency, retail and manufacturing company.

SENIOR MANAGEMENT

Mr. Ip Ying Hang (葉映恒先生), aged 33, is the financial controller and company secretary (the "Company Secretary") of the Company. He graduated from Hong Kong Baptist University in November 2009 with a Bachelor of Commerce in Accountancy. Mr. Ip has been a member of Hong Kong Institute of Certified Public Accountants since March 2015. Mr. Ip has over eight years of experience in auditing, accounting and financial management in Hong Kong. He joined the Group in December 2015 as financial controller and company secretary of Geotech Engineering. Before that, Mr. Ip worked at SHINEWING (HK) CPA Limited from July 2011 at which his last position was assistant manager and then worked at KPMG from November 2014 at which his last position was manager.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of maintaining a high standard of corporate governance. The Company believes that an effective corporate governance practice is fundamental to enhancing shareholder value and safeguarding the interests of Shareholders and other stakeholders. The Board sets appropriate policies and implements corporate government practices appropriate to the conduct and growth of the Group's business. The code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") have been adopted to shape the Company's corporate governance structure. This corporate governance report describes how the principles of the CG Code have been applied during the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

Compliance with the Corporate Governance Code

The Company has adopted and complied with all the applicable code provisions of the CG Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2018. The Directors will periodically review the Company's corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the CG Code from time to time.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiries of the Directors, all Directors have confirmed that they have complied with the requirements of the Model Code during the year ended 31 December 2018.

THE BOARD

Role and function

The Board is responsible for and has the general powers in managing and conducting the Company's business. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference. Further details of these committees are set out in the sections headed "Audit Committee", "Nomination Committee" and "Remuneration Committee" below.

Composition

As at the date of this annual report, the Board is chaired by Mr. Chen Zhi and comprised of seven members, consisting of three executive Directors and four independent non-executive Directors. The list of Directors is set out in the section "Directors' Report" of this annual report. Biographical details of Directors are set out in the section "Biographical Details of Directors and Senior Management" in this annual report.

Board Diversity Policy

The Company has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board sets measurable objectives to implement the Board Diversity Policy and reviews such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. During the year ended 31 December 2018, the Nomination Committee has considered a number of factors includings but not limited to the age, education background and working experience of the candidates when selecting the Directors.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

Nomination Policy

The Company has adopted a nomination policy, which establishes written guidelines to the Nomination Committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors. The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure the Board has a balance of skills, experience, and diversity of perspectives appropriate to the requirements of the Company's business. Collectively, they have competencies in areas which are relevant and valuable to the Group.

Dividend Policy

The Company has adopted a dividend policy in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things, the following factors:

(i) the general financial condition of the Group;

(ii) capital and debt level of the Group;

(iii) future cash requirements and availability for business operations, business strategies and future development needs;

(iv) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(v) the general market conditions; and

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

The recommendation of the payment of dividend is subject to the determination of the Board, and, any declaration of final dividend for the year will be subject to the approval of the Shareholders. The payment of dividend is also subject to any restrictions under the Companies Law of the Cayman Islands and any other applicable laws, rules and regulations and amended and restated memorandum and articles of association of the Company (the "Restated Articles").

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. In compliance with the CG Code, the Group has appointed a separate chairman and chief executive of the Company.

As at the date of this annual report, Mr. Chen Zhi serves as the chairman of the Board and is responsible for overall business development, financial and strategic planning of the Group. Mr. Yau Kin Wing Sino serves as the chief executive officer of the Company and is responsible for overall construction projects management and daily operation of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

As at the date of this annual report, the Company has four independent non-executive Directors representing more than one-third of the Board. Among the four independent non-executive Directors, at least one of them has the appropriate professional qualifications in accounting or related financial management expertise, which is in compliance with rules 3.10 and 3.10A of the Listing Rules.

The independent non-executive Directors are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the independent non-executive Directors brings his own relevant expertise to the Board and its deliberations. None of the independent non-executive Directors has any business or financial interests with the Group nor has any relationship with other Directors.

The Company has received annual confirmation from each independent non-executive Director of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

Each of the executive and independent non-executive Directors has entered into a service agreement or a letter of appointment with the Company for a specific term and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Restated Articles.

In accordance with Article 108(a) of the Restated Articles, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

In accordance with Article 112 of the Restated Articles, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed under this Article 112 shall not taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

CORPORATE GOVERNANCE FUNCTIONS

It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The duties of the Board in performing its corporate governance functions under the CG Code include:

- to develop and review the Company's policies and practices on corporate governance make recommendations to the Board;

- to review and monitor the training and continuous professional development of Directors and senior management of the Company;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual applicable to employees of the Company and Directors; and

- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the CG Code. As at the date of this annual report, the Board has reviewed and monitored (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of Directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the CG Code disclosure requirements.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance coverage for all Directors in relation to the discharge of their responsibilities.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every newly appointed Director is provided with a comprehensive induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Development and training of Directors is an ongoing process so that they can perform their duties appropriately. During the year ended 31 December 2018, all Directors are provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they continue to make contribution to the Board in an informed and relevant manner. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

The Directors are required to provide the Company with details of the training's records. Based on those training's record, the Directors received the following training during the year ended 31 December 2018:

	Type of training	
Name of Director	**Reading and/ or on-line studying**	**Seminars and/ or workshops**
Executive Directors		
Mr. Chen Zhi (Appointed on 27 December 2018) *(note)*	N/A	√
Mr. Qiu Dong (Appointed on 15 January 2019) *(note)*	N/A	N/A
Mr. Yau Kin Wing Sino	√	√
Mr. Cheung Ting Kam (Passed away on 21 January 2018)	N/A	N/A
Mr. Kung Ho Man (Resigned on 15 January 2019)	√	√
Ms. Tang Ka Wa Danise (Resigned on 15 January 2019)	√	√
Independent non-executive Directors		
Mr. Chan Tsang Mo (Appointed on 15 January 2019)	N/A	N/A
Mr. Fung Chi Kin	√	√
Mr. Shen Zejing (Appointed on 15 January 2019) *(note)*	N/A	N/A
Mr. So Wai Man (Appointed on 27 December 2018) *(note)*	N/A	√
Mr. Cheung Wai Lun Jacky (Resigned on 15 January 2019)	√	√
Mr. Chow Chun To (Resigned on 15 January 2019)	√	√
Mr. Wei Qianjiang (Appointed on 24 August 2018 and resigned on 15 January 2019) *(note)*	N/A	√

Note: Each newly appointed Director has received induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Board Meetings

Regular Board meetings are scheduled at least four times per year. Additional meetings would be arranged if and when required. Directors may participate either in person or through electronic means of communications. Minutes of the Board and committee meetings are prepared and kept by the Company Secretary, and are open for inspection by Directors upon request. All Directors have access to the advice and services of the Company Secretary, and are allowed to seek external professional advice if needed.

The management is committed to providing the Board with appropriate and sufficient explanation and information of the Group's affairs through financial reports, business and operational reports and budget statements, in a timely manner, to enable them to make informed decisions. The Directors are also provided with access to the Group's management and the Company Secretary at all time to obtain relevant information for carrying out their duties as Directors.

During the year ended 31 December 2018, fourteen Board meetings and one general meeting were held. The attendance records of each member of the Board is set out below:

Name of Director	Meetings attended/ Number of general meetings	Meetings attended/ Number of Board meetings
Executive Directors		
Mr. Chen Zhi (Appointed on 27 December 2018)	N/A	N/A
Mr. Qiu Dong (Appointed on 15 January 2019)	N/A	N/A
Mr. Yau Kin Wing Sino	1/1	14/14
Mr. Cheung Ting Kam (Passed away on 21 January 2018)	N/A	N/A
Mr. Kung Ho Man (Resigned on 15 January 2019)	1/1	14/14
Ms. Tang Ka Wa Danise (Resigned on 15 January 2019)	1/1	14/14
Independent non-executive Directors		
Mr. Chan Tsang Mo (Appointed on 15 January 2019)	N/A	N/A
Mr. Fung Chi Kin	1/1	14/14
Mr. Shen Zejing (Appointed on 15 January 2019)	N/A	N/A
Mr. So Wai Man (Appointed on 27 December 2018)	N/A	N/A
Mr. Cheung Wai Lun Jacky (Resigned on 15 January 2019)	1/1	14/14
Mr. Chow Chun To (Resigned on 15 January 2019)	1/1	14/14
Mr. Wei Qianjiang (Appointed on 24 August 2018 and resigned on 15 January 2019)	N/A	3/3

BOARD COMMITTEES

The Board has delegated specific functions to three Board Committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs.

All the details of the membership of each committee as at the date of this annual report are as follows:

	Audit Committee	Remuneration Committee	Nomination Committee
Executive Director			
Mr. Chen Zhi	–	M	C
Mr. Qiu Dong	–	–	–
Mr. Yau Kin Wing Sino	–	–	–
Independent non-executive Director			
Mr. Chan Tsang Mo	C	M	M
Mr. Fung Chi Kin	M	–	M
Mr. Shen Zejing	M	M	M
Mr. So Wai Man	M	C	M

C: Chairman of the relevant Board Committee
M: Member of the relevant Board Committee

AUDIT COMMITTEE

The Company established the Audit Committee on 21 September 2017 in accordance with Rule 3.21 of the Listing Rules with terms of reference aligned with the provision of the CG Code as set out in Appendix 14 of the Listing Rules. The terms of reference of the Audit Committee was updated on 27 December 2018. As at the date of this annual report, the Audit Committee consists of four members, namely Mr. Chan Tsang Mo (Chairman), Mr. Fung Chi Kin, Mr. Shen Zejing and Mr. So Wai Man.

The principal duties of the Audit Committee include monitoring the integrity of the consolidated financial statements of the Group, reviewing the effectiveness of Group's internal control (including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget) and risk management as delegated by the Board, and making recommendations to the Board on the appointment and engagement of the external auditor for the audit and non-audit services. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

During the year ended 31 December 2018, the Board had no disagreement with the Audit Committee's view on the appointment of the external auditors. The consolidated financial statements for the year ended 31 December 2018 and this annual report have been reviewed by the Audit Committee.

During the year ended 31 December 2018, three meetings of the Audit Committee were held to review the Group's financial results for submission to the Board for approval, make recommendation on the re-appointment of the external auditors, review the internal control and risk management systems of the Group, oversee the audit process and review and update the terms of reference of the Audit Committee.

Members of the Audit Committee and the attendance of each members are as follows:

Audit Committee	Meeting attended/Eligible to attend
Mr. Chan Tsang Mo *(Chairman)* (Appointed on 15 January 2019)	N/A
Mr. Fung Chi Kin	3/3
Mr. Shen Zejing (Appointed on 15 January 2019)	N/A
Mr. So Wai Man (Appointed on 15 January 2019)	N/A
Mr. Chow Chun To (Resigned on 15 January 2019)	3/3
Mr. Cheung Wai Lun Jacky (Resigned on 15 January 2019)	3/3

AUDITORS' REMUNERATION

The Audit Committee is responsible for considering the appointment and re-election of the Company's external auditor and reviewing any non-audit functions performed by the external auditor. For the year ended 31 December 2018, the Group engaged Grant Thornton Hong Kong Limited ("Grant Thornton") as the Group's external auditor. The remuneration paid and payable to Grant Thornton is set out as follows:

	HK$'000
Audit services	950
Non-audit services	230

The amount of fee incurred for the non-audit services represented the service fee paid to Grant Thornton as the reporting accountant of the Company in relation to the Listing.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the consolidated financial statements of the Group and to ensure that the consolidated financial statements of the Group are prepared in a manner which give a true and fair view of the state of affairs of the Group on a going concern basis and are in compliance with the relevant accounting standards and principals, applicable laws and disclosure provisions required of the Listing Rules. The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2018 has been prepared on this basis. The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statements by external auditor, Grant Thornton, about their reporting responsibility on the consolidated financial statements of the Group are set out in the section "Independent Auditor's Report" of this annual report.

NOMINATION COMMITTEE

The Nomination Committee was established on 21 September 2017 with written terms of reference in compliance with the CG Code. The terms of reference of the Nomination Committee was updated on 27 December 2018. The primary function of the Nomination Committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. As at the date of this annual report, the Nomination Committee comprises five members, namely Mr. Chen Zhi (chairman), Mr. Chan Tsang Mo, Mr. Fung Chi Kin, Mr. Shen Zejing and Mr. So Wai Man.

During the year ended 31 December 2018, four meetings of the Nomination Committee were held to review the structure, size and composition (including the skills, knowledge and experience) of the Board and the Board Diversity Policy, assess the independence of independent non-executive Directors, and make recommendations to the Board on the appointment of new Directors, composition of the Board Committees, the amendment of the terms of reference of the Nomination Committee and the proposal of re-appointment of Directors.

Members of the Nomination Committee and the attendance of each members are as follows:

Nomination Committee	**Meeting attended/Eligible to attend**
Mr. Chen Zhi *(Chairman)* (Appointed on 15 January 2019)	N/A
Mr. Chan Tsang Mo (Appointed on 15 January 2019)	N/A
Mr. Fung Chi Kin	4/4
Mr. Shen Zejing (Appointed on 15 January 2019)	N/A
Mr. So Wai Man (Appointed on 15 January 2019)	N/A
Mr. Cheung Wai Lun Jacky (Resigned on 15 January 2019)	4/4
Mr. Yau Kin Wing Sino (Resigned on 15 January 2019)	4/4

In considering the nomination of new Directors, the Company will propose the candidates to the Nomination Committee, which will review and make recommendation to the Board on the expertise, skills and experience of the candidates appropriate to the requirements of the business of the Company. The composition of the Board has a significant element of diversity, in terms of skills, regional and industry experience and background.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 September 2017 in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review and approve the management's remuneration proposals, and ensure none of the Directors determine their own remuneration. As at the date of this annual report, the Remuneration Committee comprises four members, namely Mr. So Wai Man (Chairman), Mr. Chen Zhi, Mr. Chan Tsang Mo and Mr. Shen Zejing.

The remuneration of the Directors and senior management is determined with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Remuneration Committee also ensures that no individual will be involved in determining his own remuneration.

During the year ended 31 December 2018, four meetings of the Remuneration Committee were held for reviewing the performance and remuneration packages of individual Directors and senior management. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements of the Company for the year ended 31 December 2018.

Members of the Remuneration Committee and the attendance of each member are as follows:

Remuneration Committee	**Meeting attended/Eligible to attend**
Mr. So Wai Man *(Chairman)* (Appointed on 15 January 2019)	N/A
Mr. Chan Tsang Mo (Appointed on 15 January 2019)	N/A
Mr. Chen Zhi (Appointed on 15 January 2019)	N/A
Mr. Shen Zejing (Appointed on 15 January 2019)	N/A
Mr. Cheung Ting Kam (Passed away on 21 January 2018)	N/A
Mr. Cheung Wai Lun Jacky (Resigned on 15 January 2019)	4/4
Mr. Chow Chun To (Resigned on 15 January 2019)	4/4
Mr. Kung Ho Man (Appointed on 23 January 2018 and resigned on 15 January 2019)	4/4

The remuneration for the Directors comprises basic salary and discretionary bonus. Salary adjustments are made where the Remuneration Committee takes into account performance, contribution and responsibilities of the individual. Apart from basic salary, executive Directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness.

The Group has established guidelines and procedures for the approval and control of expenditures, to ensure the reliability of the financial reporting, effectiveness and efficiency of operation and the compliance with applicable laws and regulations. Whilst these guidelines and procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement, errors, losses, fraud or non-compliance.

The Board, through the Audit Committee, has conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group once throughout the period under review, covering all material controls, including financial, operational and compliance controls. In this respect, the Audit Committee communicates any material issues to the Board.

Although the Company does not have internal audit function, the Board has put in place adequate measures to perform the internal audit function at different aspects of the Group. The Group has engaged CT Partners Consultants Limited ("CT Partners") to review the effectiveness and efficiency of the Group's risk management and internal control systems in relation to the financial, operational and compliance controls, and the results were summarised and discussed with the Audit Committee and the Board. No significant area of concern that may affect the financial, operational, compliance, control and risk management of the Group has been identified.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by CT Partners to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of CT Partners as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

INSIDE INFORMATION POLICY

With respect to the monitoring and disclosure of inside information, the Group has adopted a policy on disclosure of inside information with the aim to ensure the insiders are abiding by the confidentiality requirement and are fulfilling the disclosure obligation of the inside information.

COMPANY SECRETARY

Mr. Ip Ying Hang has been appointed as the Company Secretary since 6 June 2016. Mr. Ip has confirmed that he has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018 in compliance with Rule 3.29 of the Listing Rules. His biographical details are set out in the section "Biographical Details of Directors and Senior Management" in this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders and potential investors is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company has adopted the shareholders' communication policy with the objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company (including the financial performance, strategic goals and plans, material development, governance and risk profile). The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and potential investors to make the informed investment decisions.

To promote effective communication, the Company maintains the website at www.geotech.hk, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Latest information on the Group including annual and interim reports, announcements and other corporate communications will be updated on the websites of the Stock Exchange (www.hkexnews.hk) and the Company's website in a timely fashion.

The 2019 AGM of the Company will be held on 28 June 2019. The notice of the AGM, setting out details of the proposed resolutions, voting procedures and other relevant information, will be sent to Shareholders at least 20 clear business days prior to the meeting.

SHAREHOLDERS' RIGHTS

Procedures for Convening General Meetings by Shareholders

The general meeting of the Company provides an opportunity for communication between the Shareholders and the Board. Pursuant to article 64 of the Restated Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting.

Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Company Secretary by mail at Units 05-08, 11/F, Delta House, 3 On Yiu Street, Shek Mun, New Territories, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at Shareholders' Meeting

Shareholders are requested to follow article 64 of the Restated Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Procedures for Convening General Meetings by Shareholders" in this annual report.

Pursuant to article 113 of the Restated Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the principal place of business or at the Company's branch share registrar and transfer office in Hong Kong. The period for lodgment of the notices required under this article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

INFORMATION DISCLOSURE

The Company discloses information in compliance with the securities regulations of the Stock Exchange, and publishes periodic reports and announcements to the public in accordance with relevant laws and regulations. Our primary focus is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public, to make rational and informed decisions.

Shareholders' enquiries

For matters in relation to the Board, Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary or relevant personnel by mail to the Company's principal place of business in Hong Kong at Units 05-08, 11/F, Delta House, 3 On Yiu Street, Shek Mun, New Territories, Hong Kong (Tel: (852) 2117 1005 Fax: (852) 3579 1488).

For share registration related matters, such as Share transfer and Registration, change of name or address, loss of Share certificates or dividends warrants, the registered Shareholder can contact:

Branch Share Registrar and Transfer Office in Hong Kong
Boardroom Share Registrars (HK) Limited
Address: Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong
Tel: (852) 2153 1688
Fax: (852) 3020 5058

CONSTITUTIONAL DOCUMENTS

The Company adopted Restated Articles on 21 September 2017, a copy of which has been posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.geotech.hk). There had been no significant changes in the Company's constitutional documents during the year ended 31 December 2018.

INTRODUCTION

Between Geotech Holdings Ltd. and its operating subsidiaries ("the Group", "we" or "our"), we have more than 20 years' experience in civil engineering and construction work in Hong Kong. We specialise in undertaking slope works as a main contractor, and we also undertake ground investigations as a subcontractor. Geotech Engineering Limited, our principal operating subsidiary, is an approved specialist contractor and an approved contractor of the Development Bureau of Government, and a registered specialist contractor of the Building Authority. This had brought us many opportunities to serve the community of Hong Kong by participating in public works related to landslip prevention and remedial works to slopes or retaining walls. We pledge to deliver premium services to fulfil our commitment to customers.

Being in the construction industry, we always pay due regard to the importance of adhering to safety standards and quality control as they can directly affect our staff and reputation. Accordingly, our management system was certified to comply with the International Organisation for Standardisation (ISO) 9001:2015 which is related to quality management, and OHSAS 18001:2007 which is related to occupational health and safety management. Also, given the nature of our specialties, we fully understand the importance of protecting our natural landscape and the environment. This is reflected in us being certified under ISO 14001:2015 in relation to environmental management. In February 2019, we were again awarded the "First Runner-up of the Best 2PM Contractor Competition" for 2018 by the Civil Engineering and Development Department.

Our management cares about our staff as much as it does the community. From 1 January 2018 to 31 December 2018 ("the year ended 31 December 2018"), we made charitable donations and also participated in the recovery work for the damage caused by super typhoon Mangkhut.

In the following pages, we would like to present to you in detail our efforts during the year ended 31 December 2018 in fulfilling our corporate social responsibilities in terms of (I) Environmental and (II) Social aspects.

I. ENVIRONMENTAL

I.1 Our environmental policy

Through our quality and environmental management systems, we continued to emphasise sustainable development in our construction work. As a result, the Group successfully renewed its certifications for ISO 9001:2015 and ISO 14001:2015.

The following remains to be key objectives of our environmental policies in accordance with our "Environmental Policy Statement":

– Strictly comply with the relevant environmental legislation and regulations;

– Prevent our operations from harming the environment or public health;

– Manage our supply chains effectively to include suppliers' or subcontractors' environmental protection initiatives as part of our selection considerations;

– Be open and responsive to the environmental expectations and concerns of our stakeholders; and

- Provide sufficient resources and facilities for the implementation of environmental nuisance abatement, waste management and pest control management.

Together with a team of environmental management professionals, we established a Safety and Environmental Department which is responsible for ensuring strict compliance with relevant environmental protection regulations in our operations. This has been achieved by the effective implementation of our "Environmental Management Plan" ("EM plan"). The EM plan is our organisational framework which sets out the duties and responsibilities of our environmental management functions. This includes an environmental management team for each project, a Site Safety & Environmental Committee, and a Site Safety & Environmental Management Committee.

Guidelines for air pollution abatement is incorporated into the EM plan. It specifies the measures that our construction teams should follow to prevent air pollution. For example, when dusty construction activities such as demolition, drilling, rock or artificial hard material excavations are carried out in close proximity to the public, our on-site project team should provide dust abatement measures, such as water spraying or the fitting of vacuum cleaning devices, to the satisfaction of the registered engineer onsite.

Mitigation measures are also in place with regards to gaseous emissions, notably black smoke/fumes, from different construction equipment.

In terms of waste handling, we strive to:

- Divert waste to other construction sites for re-use;

- Use water-based finishing materials wherever practicable;

- Re-use hard standing/old bricks;

- Re-use wood packaging in formwork;

- Use recyclable containers for fixtures & fittings.

The Group continues to adopt a "Waste Management Hierarchy" to evaluate our methods of waste management. Four principles-"Avoidance and Minimisation", "Re-use", "Recover and Recycle" and "Treatment and Disposal"- dictate our approach to treat waste generated from construction sites, and we always choose the options that would have the least impact and are more sustainable to the environment in the long term. Specifically, 5 waste targets are set:

- All excavated material or pure construction and demolition inert material (e.g. hard rock, sand, soil and broken concrete) should be sorted onsite for re-use onsite or for disposal to designated outlets (e.g. Public Fill Reception Facility);

- All metal waste should be sorted and recovered onsite for collection by recycling contractors and companies;

– All cardboard and paper packaging (for plant, equipment and materials) should be sorted onsite. They should be stockpiled properly in a dry condition and covered to prevent cross-contamination with other construction and demolition waste;

– All chemical waste must be collected and disposed of properly by licensed collectors/contractors;

– All demolition debris should be sorted onsite. Broken concrete, reinforcement bars, mechanical electrical fittings, and other hardware and fittings/materials that have established recycling outlets should be recovered.

Although our construction projects generate only minimal waste water, our onsite project teams are well aware of and are required to implement waste water pollution abatement measures whenever possible. As an example, surface runoff is to be prevented from washing across the site and spilling over to areas outside the site by diverting all the water to treatment facilities before discharge and sealing up hoarding skirts.

If our site personnel detect any environmental non-compliance, a programme of corrective actions will be implemented accordingly to rectify the situation. Weekly or monthly environmental inspections will be performed at construction sites to uncover any environmental non-compliance.

During the year ended 31 December 2018, we had no non-compliances in relation to environmental laws and regulations.

We do not produce any hazardous waste from our operations.

I.2 Emissions

Emissions may be inevitable for our industry, but we always strive to minimise harmful emissions.

In accordance with the “Air Pollution Control Ordinance”, all our machinery uses fuel with a sulphur content not exceeding 0.005%.

During the year ended 31 December 2018, we did not use any liquified petroleum gas and therefore have no relevant greenhouse gas (“GHG”) emissions to report.

The following presents our GHG emissions in other aspects for the year ended 31 December 2018:

GHG emissions from use of vehicles:

Aspects 1.1	Unit	**2018**	2017
Nitrogen oxides	gram	**245,432.65**	244,152.66
Sulphur oxides	gram	**1,264.72**	1,454.02
Respiratory suspended particles	gram	**19,728.55**	20,863.52

GHG emissions from mobile combustion sources:

Aspects 1.2	Unit	**2018**	2017
Scope 1			
Carbon dioxide	kg	**203,646.30**	234,223.03
Methane	kg	**385.43**	410.94
Nitrous oxide	kg	**22,958.44**	25,326.15

Indirect GHG emission:

Aspects 1.2	Unit	**2018**	2017
Scope 2			
Indirect GHG Emissions	kg (CO2 equivalent)	**104,987.61**	68,595.36

Non-hazardous wastes produced:

Aspects 1.4	Unit	**2018**	2017
Non-hazardous waste disposal	Tonnes	**9,266.60**	7,658.36
Non-hazardous waste intensity	Tonnes/construction project	**386.11**	348.11

I.3 Use of Resources

In our day-to-day office operations, we strive to lower our energy consumption, fully utilise resources, and recycle waste.

Our staff recycle used paper for printing, re-use old envelopes for internal communication or drafting, and prefer electronic to printed communication. To cut down GHG emission at source, most of our printing paper is purchased from suppliers who use cultivated trees.

We encourage staff to bring their own lunch and avoid takeaways to reduce the use of foam lunch boxes. To reduce food waste, we also remind them to only order what they can eat and not over-order.

We participated in the Green Office Award Labelling Scheme (GOALS) and attended training on responsible management in order to achieve sustainable development goals. Eco-friendly labels were placed close to air conditioning switches to remind staff to set the temperature at an eco-friendly level of 25^{o}c, and close to lighting switches to remind them to switch off lights which are not in use.

As a recognition of our efforts in building a green office, we were granted the status “eco-healthy workplace” by the World Green Organisation in Autumn 2018.

The following shows our direct energy and water consumption for the year ended 31 December 2018:

Direct energy consumption in total and intensity

Aspects 2.1	Unit	**2018**	2017
Electricity usage	kWh	**166,647.00**	107,200
Electricity usage intensity	kWh/no. of offices (inc. HQ + site offices)	**20,830.88**	17,866.67

Water consumption in total and intensity

Aspects 2.2	Unit	**2018**	2017
Water consumption	cu.m	**36,055.00**	13,329.00
Water consumption intensity	cu.m/no. of offices (inc. HQ + site offices)	**3,004.58**	1,666.13

II. SOCIAL

II.1 Employment and Labour Practices

Our people

The Group continued to enjoy the support of its dedicated staff who benefits from competitive remuneration packages in line with their positions, job nature, qualifications and experience.

We review our compensation and benefits programmes regularly to ensure that they remain competitive. Through regular and effective staff appraisals and communications, outstanding staff members are rewarded with internal promotions and salary increases. Furthermore, we have changed from 5.5 working days per week to the alternative Saturday schedule for our permanent staff, so that they can arrange their working time to coincide with holiday arrangements.

Our management is always ready to listen to our staff and maintains close communication with them. Close working relationships are maintained via regular internal monthly meetings between our directors and construction teams. At our head office, staff are always welcome to reflect their opinions to their supervisors, while management would provide feedback to staff mostly during appraisals and when considered appropriate.

The Group prides itself as an equal opportunity employer. It complies with laws and regulations which prohibit unfair discrimination, including the Sex Discrimination Ordinance, the Race Discrimination Ordinance and the Disability Discrimination Ordinance. We build an equitable workplace, starting from having a fair and equitable recruitment process in which we select people only based on their experience and skills. An applicant's sex, religion or skin colour would not in any degree affect his or her chance of being recruited to join the Group. The same principle applies to our staff appraisal and counselling processes.

The Group implements a zero-tolerance approach towards forced and child labour, and the hiring of illegal immigrants in either our office or construction sites is strictly prohibited. Our HR & Administrative Department adopts stringent controls in the recruitment process to prevent such illegal practices.

We maintain high standards of business ethics and require our employees to abide by the Group's code of conduct as stated in our staff handbook.

Protecting staff health and safety

The Group remains certified under OHSAS 18001:2007 for the year ended 31 December 2018. It reflects our compliance with occupational health and safety standards. To ensure workers are fully aware of the potential dangers working at construction sites, they need to attend "specific induction training" and "tool box training" before they are allowed entry into construction sites. "Refresher training" will also be offered from time to time to remind workers of the importance to follow safety rules.

We require all staff who work in construction sites to always wear personal protective equipment, including safety helmets, safety boots, dust masks, reflective vests and safety goggles. Our Safety Officers and Safety Supervisors are responsible for overseeing whether all safety measures are in place and are adhered to by our staff. Safety Officers perform site inspections on a regular basis and rectify any breaches and unsafe conditions promptly once discovered.

We have always tried our best to mitigate the risk of work injury. Nevertheless, due to the nature of the construction industry, it can be difficult to completely eliminate its occurrence.

For the year ended 31 December 2018, two construction site accidents were reported. One of the cases, regrettably, was fatal. The relevant investigation revealed that the death was due to a natural cause and was unrelated to the safety conditions at the construction site.

Regarding lost days due to work injuries, we noted a loss of 70 man-days.

Training and Development

To motivate employees' self-learning and development, we offer training sponsorship, which is granted for courses relevant to an applicant's job duties and career development.

To help new employees' integration into the Group's culture, we provide a staff handbook and an orientation course for them to familiarise themselves with their job duties and our expectations.

From time to time, we provide training courses to employees to extend their knowledge and to become better equipped for their job duties.

For safety related site training, we follow the requirement of Construction Site Safety Manual of the Development Bureau to prepare training plans for all our projects. The required duration for each session for induction training is for 1 hour and tool box talks are 15 minutes. The total number of hours delivered for these two types of training during the year ended 31 December 2018 were 2,658 hours.

II.2 Operational Practices

Supply Chain Management

The performance of our suppliers and subcontractors are key elements in our environmental management. We evaluate subcontractors' performance from time to time through:

– Weekly environmental inspections;

– Attendance at environmental meetings and training;

– Reviewing records of environmental incidents;

– Reviewing complaints from the public.

We also implement a penalty system regarding environmental breaches to regulate the environmental behaviours of subcontractors. Environmental breaches are classified into different categories and each attracts penalties depending on the seriousness of its environmental impact. Our subcontractors need to adhere to our requirements as serious breaches can mean losing business with us.

Whenever we need to source for new materials, we carry out a fair and unbiased tender process. Selection criteria includes the price offered by the supplier, their capability in meeting our requirement in terms of product and service quality, as well as service support.

Service pledge to our customers

A cornerstone to our success has been the trust we build between ourselves and customers. Accordingly, we have customer communication channels, including a company hotline and construction site representatives, for handling customer enquiries and complaints. We pledge to resolve any enquiries and complaints to the satisfaction of our customers and deliver the best construction service available.

Anti-Corruption

Over the years, we have no suspected or actual bribery, extortion, fraud and money laundering activities within the Group. We stand firmly by our anti-corruption policies and procurement practices as stated in our internal manuals. Acceptance of kickbacks, commissions or any form of benefits are strictly prohibited during any procurement, contract negotiations or other business dealings.

The manuals also provide guidance over conflicts of interest, intellectual property rights, privacy and information confidentiality, and equal opportunities.

The gift policy in our internal manuals clearly states the required process and procedure for handling and accepting gifts and advantages.

For the year ended 31 December 2018, to the best of our knowledge, no fraud or corruption occurred within the Group, and we have fully complied with the laws and regulations relating to anti-bribery and corruption.

II.3 Community Involvement

a. Donation to The Against Elderly Abuse of Hong Kong

The Against Elderly Abuse of Hong Kong is an organisation which provides a 24-hour service to support elderly citizens who have been abandoned by their families, who live alone, in poverty or have been abused. It also provides a one-stop hospice service for poor elderly citizens. By donating to The Against Elderly Abuse of Hong Kong, we extend our care and consideration towards the elderly in need.

b. Donation to the City University of Hong Kong Foundation

This organisation was established by the City University of Hong Kong to enhance the quality of teaching and learning through improving the facilities and related resources of the university, to advance research and technological development, to meet the needs of various sectors of society, to further the all-round development of students at the university, and to enhance students' competitiveness. We have donated to the organisation for its 2018 annual dinner.

c. Donation to the Hong Kong Institution of Engineers

The "LPM Contractors Scholarship" is established to provide financial assistance and encouragement to undergraduate students to pursue studies in geotechnical engineering. It will be offered to final year undergraduate students at the University of Hong Kong to encourage geotechnical engineering students for greater success. We donated HK$30,000 to the institution for supporting and nurturing engineering students during the year ended 31 December 2018.

d. Sponsorship to Young Industrialist Awards of Hong Kong

The Young Industrialist Awards of Hong Kong has been an annual flagship event of the Federation of Hong Kong Industries since 1988. It aims to honour outstanding industrialists with significant achievements in industry and commendable contributions to the economic and social development of Hong Kong, as a role model to inspire the next generation and arouse their dedication to industry and pursuit of excellence. We donated HK$3,000 for the 2018 Young Industrialist Awards of Hong Kong during the year ended 31 December 2018.

e. Safety video competition for the Construction Safety Week 2018

The Development Bureau and the Construction Industry Council jointly hosted the seventh Construction Safety Week in May 2018. Under the theme "Partnering for Safety Enhancement", this event emphasized the message that construction workers must fulfil their own duties in their respective positions and work together to create a working environment with zero accidents. The Group submitted a video related to working at height for the Safety Video Competition 2018 and was awarded a Gold Class. We hope the video can promote safety awareness among fellow workers.

f. ***Participation in recovery projects after super typhoon Mangkhut***

For the year ended 31 December 2018, super typhoon Mangkhut caused widespread damage in Hong Kong. After the typhoon left, many streets and road networks were severely damaged. Having expertise in slope remedial works, we are pleased to be able to contribute our expertise to the recovery works led by the Hong Kong government. A certificate in appreciation of our participation was issued to the Group in September 2018 by the Civil Engineering and Development Department.

FUTURE APPROACH TOWARDS SUSTAINABLE DEVELOPMENT

In future, we will:

– Continue our efforts in environmental protection and implement more effective measures to mitigate environmental pollution;

– Uphold our high standards of occupational health and safety, promote awareness of occupational safety among staff, and develop better safety equipment as appropriate; and

– Nurture more industry professionals and young people to contribute to Hong Kong society.

DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "Consolidated Financial Statements").

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands with limited liability on 6 June 2016. The Company completed the corporate reorganisation on 15 September 2017 in preparation for the Listing. Details of the Reorganisation are set out in the section headed "History and Development – Reorganisation" in the Prospectus.

The principal place of business of the Company is located at Units 05-08, 11/F, Delta House, 3 On Yiu Street, Shek Mun, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 14 to the Consolidated Financial Statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Profit or Loss and Other Comprehensive Income" on page 52 in this annual report.

BUSINESS REVIEW

The review of the business of the Group for the year ended 31 December 2018 is set out in section headed "Chairman Statement", "Management Discussion and Analysis" on page 2 and pages 4 to 10 respectively of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the rights to attend and vote at the AGM to be held on 28 June 2019, the register of members of the Company will be closed from 25 June 2019 to 28 June 2019 (both days inclusive), during which period no transfer of Shares will be effected. In order to be entitled to attend and vote at the AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration no later than 4:30 p.m. on 24 June 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 13 to the Consolidated Financial Statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries during the year ended 31 December 2018 are set out in note 14 to the Consolidated Financial Statements.

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operation, business and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group relating to the Group's business:

The Group has relied on the availability of public sector slope works projects in Hong Kong and any failure of the Group to secure public sector projects would adversely affect the Group's operations and financial results

The Group has relied and will continue to focus on public sector slope works. Projects awarded, by their nature, are only procured by customers from a limited number of project employers who are normally Government departments and statutory bodies. For the year ended 31 December 2018, revenue attributable to public sector projects represented approximately 94.3% (2017: approximately 86.5%) of the total revenue. Contracts from the Government departments and statutory bodies are normally awarded to contractors by way of public tender and there is no assurance that the Group will continue to obtain contracts from Government departments and statutory bodies in the future. If the Group is unable to successfully tender for contracts from Government departments and statutory bodies or if there is a significant decrease in the Group's revenue from public sector projects, the Group's business operations, financial results and profitability will be adversely affected.

Furthermore, the Government's spending budget on civil engineering projects (especially those involving slope works, being the principal types of works the Group undertook) may change from year to year, which in turn may be affected by various factors, including but not limited to changes in the Government's policies in relation to landslip prevention and mitigation, changes in the Government's public housing policy, the amount of investment in the construction of new infrastructure and improvement of existing infrastructure by the Government, the general financial conditions of the Government and the general economic conditions in Hong Kong. Any reduction or significant delay in the level of spending on construction projects by the Government or discontinuation of favourable Government programmes such as the Landslip Prevention and Mitigation Programme may affect the Group's business and operating results. In the event that the Government reduces or delays its level of spending on construction projects and the Group fails to secure sufficient business through the private sector, the business and financial positions and prospects of the Group could be materially and adversely affected.

The Group has faced the keen industry competition may affect the Group's profitability

The Group mainly competes with approved specialist contractors who are included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the categories of, among others, "Landslip preventive/remedial works to slopes/retaining walls" (confirmed status) and "Ground investigation field work" (Group I status) for public sector projects. Increased competition may result in lower operating margins and loss of market share, which may adversely affect the Group's profitability and financial conditions.

Rising construction costs, including the costs workers and construction materials, may increase the Group's costs of engaging subcontractors and also direct costs

Apart from using own manpower resources, the Group also engages subcontractors to perform site works for the works contracts undertaken by the Group. The fees charged by subcontractors depend on a number of factors, which generally include their own labour costs and the costs of construction materials. Therefore, if labour costs and costs of construction materials in Hong Kong keep increasing, the Group's subcontracting charges and also direct costs may increase in the future, which could materially and adversely affect the Group's business operations and financial conditions.

SHARE CAPITAL

The Company's total issued share capital as at 31 December 2018 was HK$14,000,000 divided into 1,400,000,000 ordinary Shares of HK$0.01 per Share.

Details of movements during the year ended 31 December 2018 in the share capital of the Company are set out in note 24 to the Consolidated Financial Statements.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 55 of this annual report.

As at 31 December 2018, the Company has reserved amounted to approximately HK$73.1 million available for distribution (31 December 2017: HK$76.9 million).

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Group was not aware of any noncompliance with laws and regulations that would have a significant impact on the Group in relation to issues such as environmental protection, employment and labour practices, operating practices and the community.

DIRECTORS

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

Executive Directors

Mr. Chen Zhi *(Chairman) (Appointed as executive Director and chairman of the Board on 27 December 2018 and 15 January 2019 respectively)*
Mr. Qiu Dong *(Appointed on 15 January 2019)*
Mr. Yau Kin Wing Sino *(Ceased to act as Chairman and appointed as Chief Executive Officer on 15 January 2019)*
Mr. Cheung Ting Kam *(Passed away on 21 January 2018)*
Mr. Kung Ho Man *(Resigned on 15 January 2019)*
Ms. Tang Ka Wa Danise *(Resigned on 15 January 2019)*

Independent Non-Executive Directors

Mr. Chan Tsang Mo *(Appointed on 15 January 2019)*
Mr. Fung Chi Kin
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. So Wai Man *(Appointed on 27 December 2018)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Chow Chun To *(Resigned on 15 January 2019)*
Mr. Wei Qianjiang *(Appointed on 24 August 2018 and resigned on 15 January 2019)*

In accordance with Article 108(a) of the Restated Articles, Mr. Yau Kin Wing Sino will retire from the office by rotation at the annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 112 of the Restated Articles, Mr. Chen Zhi, Mr. Qiu Dong, Mr. So Wai Man, Mr. Chan Tsang Mo and Mr. Shen Zejing will retire from office at the annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the date of the appointment, unless terminated by not less than six month's notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year commencing from the date of the appointment, unless terminated by not less than one month's notice in writing served by either party on the other.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming AGM, has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without the payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out in the section of "Biographical Details of Directors and Senior Management" on pages 11 to 13 of this annual report.

CHANGES OF INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Interim Report 2018 of the Company are set out below:

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code, notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested in	Percentage of shareholding
Mr. Chen Zhi	Interests in controlled corporation *(Note)*	737,000,000	52.64%

Note:

The 737,000,000 Shares were held by Star Merit Global Limited ("Star Merit"), a company in which wholly owned by Mr. Chen Zhi, representing approximately 52.64% of the entire issued share capital of the Company. Therefore, Mr. Chen was deemed to be interested in the Shares held by Star Merit pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as is known to 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 which would fall 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:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held/interested in	Percentage of shareholding
Star Merit *(above note)*	Beneficial owner	737,000,000	52.64%

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in or debentures of the Company or anybody corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from the contracts relating to the reorganisation of the Group in relation to the Listing and save for the related party transactions disclosed in note 28 to the Consolidated Financial Statements, no contract of significance to which the Company or any of its subsidiaries, or its holding company was a party and in which a Director or an entity connected with a Director had a material interests directly or indirectly subsisted at the end of the year or at any time during the year ended 31 December 2018.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as otherwise disclosed, no contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which the controlling shareholders' of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

CONNECTED/RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, there were no connected transactions or continuing connected transactions of the Company as defined under 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 definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under Hong Kong Accounting Standard 24 "Related Party Disclosures", and its interpretations by the Hong Kong Institute of Certified Public Accountants. None of the related party transactions set out in note 28 to the Consolidated Financial Statements constitute a connected transaction or continuing connected transaction as defined under the Listing Rules, nor a discloseable connected transaction as required under the Listing Rules.

NON-COMPETITION UNDERTAKING

Mr. Yau Kin Wing Sino, the late Mr. Cheung Ting Kam ("Mr. Cheung"), Mr. Kung Ho Man, Ms. Tang Ka Wa Danise, Flourish Team Limited and Double Wink Limited (collectively, the "Former Controlling Shareholders") entered into a deed of non-competition dated 21 September 2017 (the "Deed of Non-Competition") in favour of the Company and its subsidiaries (as defined in the Deed of Non-Competition). Pursuant to the Deed of Non-Competition, each of the Former Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of the subsidiaries), that, he/she/it shall not, and shall procure that his/her/its close associates (other than any member of the Group (as defined in the Deed of Non-Competition)) shall not carry on or be engaged, concerned or interested, or otherwise be involved directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or any business activity to be conducted by any member of the Group from time to time.

According to its terms, the Deed of Non-Competition will cease to have effect upon the date when the Former Controlling Shareholder and their close associates (other than members of the Group (as defined in the Deed of Non-Competition)) individually or taken as a whole, cease to own, in aggregate 30% or more of the then issued share capital of the Company directly or indirectly. Accordingly, the Deed of Non-Competition ceased to have effect on 4 December 2018 when the Former Controlling Shareholders sold all of their interests in the Company to Star Merit Global Limited as further discussed in the section "Directors' Report-Change of Controlling Shareholder and the Offer".

The Company has received a written confirmation from the Former Controlling Shareholders in respect of the compliance with and the enforcement of the terms of the Deed of Non-Competition by the Former Controlling Shareholders during the period from the Listing Date up to 4 December 2018.

As confirmed by way of confirmation by each of the Former Controlling Shareholders (except the late Mr. Cheung), the independent non-executive Directors were not aware of any non-compliance of the Deed of Non-Competition during the year up to 4 December 2018.

COMPETING INTERESTS

Based on the confirmations received from each of the Directors (including those who are Former Controlling Shareholders except for the late Mr. Cheung), the Directors confirm that none of any Directors, controlling shareholders of the Company nor their respective close associates is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2018 (or in respect of former Directors, up to their resignation date), and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

COMPLIANCE ADVISER'S INTEREST

As notified by the Company's compliance adviser, Grande Capital Limited ("Grande Capital"), as at 31 December 2018, except for the compliance adviser agreement and financial adviser agreement entered into between the Company and Grande Capital dated 25 January 2018 and 9 November 2018, respectively, Grande Capital nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance coverage for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising from corporate activities.

Pursuant to the Restated Articles, every Director shall be entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 21 September 2017 ("the Share Option Scheme"). The Share Option Scheme was approved by written resolutions of the Shareholders and as approved by the listing committee of the Stock Exchange which is valid and effective for a period of 10 years commencing on 21 September 2017. It is a share incentive scheme established to recognize and acknowledge the contributions that the eligible participants have or may have made to the Group. Pursuant to the Share Option Scheme, the Board may, as its discretion, offer to grant an option to any director, employee (full-time and part-time), advisor, consultant, supplier, customer, distributor, contractor, agent, business partner or service providers of the Group and to promote the success of the business of the Group.

Pursuant to the terms of the Share Option Scheme and in compliance with the provisions in Chapter 17 of the Listing Rules, the maximum number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and all share option schemes of the Company shall not exceed 140,000,000 Shares, being 10% of the Shares in issue as at 12 October 2017, being the date the Shares were listed on the Stock Exchange.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme to eligible participants in any 12 months period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant, any further grant of options in excess of this 1% limit shall be subject to the approval of Shareholders in a general meeting.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a trading date; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading dates immediately preceding the date of grant; or (iii) the nominal value of a Share.

A share option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined and notified by the Board to the participant at the time of making an offer for the grant of share option.

The total number of securities available for issue under the Share Option Scheme, and all other share option schemes of the Company must not exceed 140,000,000 Shares, representing 10% of the total number of Shares as at the date of this annual report.

No share options have been granted under the Share Option Scheme since 21 September 2017. An offer of the grant of a share option shall be accepted by the eligible participants within a period of 21 days from the date of offer of grant of share option. The consideration paid by each grantee for the acceptance and grant of each share option is HK$1.00, which has to be paid within 21 days.

There were no options outstanding as at 31 December 2018 and no share options were granted, exercised, cancelled or lapsed during the year ended 31 December 2018.

DONATIONS

The Group's charitable donations during the year ended 31 December 2018 amounted to HK$55,000 (2017: HK$172,000).

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report in relation to the Share Option Scheme, no equity-linked agreements were entered into for the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers in aggregate accounted for approximately 29.8% and 77.6% (2017: approximately 26.9% and 65.0%) respectively of the Group's total purchases for the year ended 31 December 2018. Revenue attributable to the Group's largest customer and the five largest customers in aggregate accounted for approximately 57.5% and 81.3% (2017: approximately 43.4% and 74.5%) respectively of the Group's total revenue for the year ended 31 December 2018.

To the best of the Directors' knowledge, none of the Directors nor its close associate (as defined in the Listing Rules), nor any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS

Employees

The Group has maintained good relationship with employees. The Group offers to employees salary, bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of employees, which forms the basis of the decisions with respect to salary raises, bonuses and promotions.

Customers

The Group has established stable business relationship with major customers who are mostly Government departments including CEDD, Water Supplies Department and Highways Department. Among the five largest customers (in terms of revenue) during the year ended 31 December 2018, the Group has been providing services to most of them for a period ranging from 2 to 18 years.

A majority of the Group's five largest customers have long-standing business relationship with the Group for a period ranging from approximately 2 to 18 years. The Group will therefore endeavor to accommodate their demands for the Group's services to the extent the Group's resources allow in order to capture more opportunities for larger scale projects in the future. The Group's experience as a quality subcontractor in slope works and ground investigation field works projects provides the Group's customers certain business advantages in that their projects are executed in accordance with their quality standards.

Suppliers and subcontractors

The Group maintains an internal list of approved suppliers. The Group carefully evaluates the performance of suppliers and select them based on a number of factors such as their prices, quality, past performances and timeliness of delivery. The Group will review and update an internal list of approved suppliers according to the assessment of their performance on an ongoing basis.

The Group maintains an internal list of approved subcontractors. The Group carefully evaluates the performance of subcontractors and select subcontractors based on a number of factors such as their background, technical capability, experience, fee quotations, service quality, track records, labour resources, timeliness of delivery, reputation and safety performance. The Group will review and update an internal approved list of subcontractors according to the assessment of their performance on an ongoing basis.

Subject to the Group's capacity, resources level, cost effectiveness, complexity of the projects and customers' requirements, the Group may subcontract civil engineering works such as geotechnical works, drainage works, earthworks, concreting, formwork erection, fixing steel bar and landscaping to other subcontractors in a project. The Group is accountable to customers for the works subcontracted to the Group's subcontractors.

Directors consider that the long-term business relationships with the major customers, suppliers and subcontractors would further enhance the Group's market recognition and enable the Group to attract more potential business opportunities.

RETIREMENT SCHEME

The Group participates in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Save as the aforesaid, the Group did not participate in any other pension schemes during the year ended 31 December 2018.

CHANGE OF CONTROLLING SHAREHOLDER AND THE OFFER

On 22 November 2018, Flourish Team Limited and Double Wink Limited (together, the "Vendors"), Mr. Yau Kin Wing Sino, executive director, and Star Merit entered into the share purchase agreement ("Share Purchase Agreement"), pursuant to which the Vendors agreed to sell and Star Merit agreed to purchase a total of 737,000,000 Shares, representing approximately 52.64% of the entire issued share capital of the Company at that time, for a total consideration of HK$278,586,000 (equivalent to HK$0.378 per Share). The completion of the Share Purchase Agreement took place on 4 December 2018. Since then Star Merit had become the controlling shareholder of the Company. Star Merit was required under the Code on Takeovers and Mergers in Hong Kong to make a mandatory unconditional cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it at a price of HK$0.378 per Share ("Offer"). The Offer was closed on 10 January 2019. Having made all reasonable enquiries and to the best knowledge and belief of the Company, Star Merit held 920,480,000 Shares, representing approximately 65.75% of the entire issued share capital of the Company, after the close of Offer on 10 January 2019 and up to the date of this annual report. Details of Share Purchase Agreement and the Offer are set out in the announcements of the Company dated 7 November 2018, 29 November 2018, 4 December 2018, and 10 January 2019 respectively and the circular of the Company dated 20 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules during the year ended 31 December 2018 and up to the date of this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the result and assets, liabilities and non-controlling interests of the Group for the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 116 of this annual report. This summary does not form part of the audited financial statements.

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

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries during the year ended 31 December 2018.

BORROWINGS

Details of borrowings of the Group as at 31 December 2018 are set out in note 21 to the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Restated Articles and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group during the year ended 31 December 2018 are set out in note 12 to the Consolidated Financial Statements.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 14 to 26 of this annual report.

FINAL DIVIDEND

The Board did not recommend a payment of a final dividend for the year ended 31 December 2018 (2017: nil).

AUDIT COMMITTEE

The Audit Committee had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2018.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Grant Thornton, who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM of the Company. A resolution for the re-appointment of Grant Thornton as auditor of the Company is to be proposed at the forthcoming annual general meeting. There is no change in auditor of the Company since the date of the Listing.

On behalf of the Board
Chen Zhi
Chairman and Executive Director

Hong Kong, 29 March 2019

Grant Thornton
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To the members of Geotech Holdings Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Geotech Holdings Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 115, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 ended 31 December 2018 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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)

Accounting for construction contracts

Refer to the summary of significant accounting policies in note 2.13, note 4a and note 5 to the consolidated financial statements.

Key Audit Matter

The Group recognised revenue and costs from construction contracts amounted to approximately HK$257,413,000 and HK$233,062,000 respectively for the year ended 31 December 2018.

The Group's revenue and costs of construction contracts are recognised based on output method by reference to the direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract. The value of the services transferred to customer to date is measured according to the progress certificate (by reference to the construction works certified by the customers or their agents). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

These transaction requires the management's estimation and judgement of the contract revenue, direct cost and variation works which may have an impact on the construction contract and corresponding profit margin incurred.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the construction contracts included the following:

- Understood the basis of estimation of the budgets through discussion with the management who is responsible for the budgeting of the construction contracts, and evaluated the reasonableness of the estimated profit margins by taking into account of the profit margins of historical similar projects;

- Inspected the key terms and conditions of construction contracts and verified the total contract revenue;

- Assessed and checked, on a sample basis, the accuracy of the budgeted construction revenue by agreeing to contract sum or variation orders as set out in the construction contracts or the agreements entered with customers;

- Selected, on a sample basis, the construction contracts to examine project manager's budget of the cost components to actual cost incurred, such as cost of materials, subcontracting charges and labour costs, etc. We compared the budgeted construction costs to supporting documents including but not limited to invoices, quotations and rate of labour costs, etc.; and

- Evaluated the management's assessment on the revenue recognized of the construction contracts, on a sample basis, based on the latest progress certificates issued by the customers or their agents, including the certified contract work and variation orders, if any, and discussed with management and the respective project managers about the progress of the projects and cost incurred for work performed but not certified.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the 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 FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 directors assisted by 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, in accordance with our agreed terms of engagement 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 skepticism 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 consolidated 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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.

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

29 March 2019

Chan Tze Kit
Practising Certificate No.: P05707

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (note (i))
Revenue	**5**	**257,413**	275,813
Direct costs		**(233,062)**	(232,668)
Gross profit		**24,351**	43,145
Other income	6	**4,238**	2,138
Administrative expenses		**(22,567)**	(30,592)
Finance costs	7	**(252)**	(354)
Profit before income tax	8	**5,770**	14,337
Income tax expense	9	**(433)**	(4,820)
Profit for the year		**5,337**	9,517
Other comprehensive (expense)/income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Fair value loss on financial assets at fair value through other comprehensive income *(note (ii))*		**(130)**	–
Items that may be reclassified subsequently to profit or loss			
Fair value gain on available-for-sale financial assets		**–**	151
Total comprehensive income for the year		**5,207**	9,668
		HK cents	HK cents
Earnings per share for profit attributable to equity holders of the Company			
Basic and diluted	11	**0.38**	0.79

Notes:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).

(ii) This amount is recognised under the accounting policies prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018, the balance of this reserve has been reclassified to financial assets fair value reserve and will not be reclassified to profit or loss in any future periods.

The notes on pages 57 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (note (i))
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**6,976**	8,605
Financial assets at fair value through other comprehensive income ("FVOCI")	15	**1,151**	–
Available-for-sale financial assets	15	**–**	1,281
Deferred tax assets	23	**560**	–
		8,687	9,886
Current assets			
Trade and other receivables	16	**97,700**	57,837
Amounts due from customers on construction contracts	17	**–**	49,945
Contract assets	18	**56,008**	–
Tax recoverable		**2,143**	2,931
Cash and bank balances	19	**82,347**	109,386
		238,198	220,099
Current liabilities			
Trade and other payables	20	**50,159**	30,288
Borrowings, secured	21	**–**	10,000
Obligation under finance leases	22	**1,474**	490
Amounts due to customers on construction contracts	17	**–**	1,250
Contract liabilities	18	**1,670**	–
		53,303	42,028
Net current assets		**184,895**	178,071
Total assets less current liabilities		**193,582**	187,957
Non-current liabilities			
Obligation under finance leases	22	**942**	433
Deferred tax liabilities	23	**948**	1,039
		1,890	1,472
Net assets		**191,692**	186,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (note (i))
CAPITAL AND RESERVES			
Share capital	24	**14,000**	14,000
Reserves	25	**177,692**	172,485
Total equity		**191,692**	186,485

Note:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).

Mr. Chen Zhi
Director

Mr. Yau Kin Wing Sino
Director

The notes on pages 57 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000 (Note 24)	Share premium* HK$'000 (Note 25)	Capital reserve* HK$'000 (Note 25)	Available-for– sale financial assets revaluation reserve* HK$'000 (Note 25)	Financial assets fair value reserve* HK$'000 (Note 25)	Retained earnings* HK$'000	Total HK$'000
Balance at 1 January 2017	10,011	–	–	9	–	101,435	111,455
Profit for the year	–	–	–	–	–	9,517	9,517
Other comprehensive income, net of tax:							
Items that may be classified subsequently to profit or loss							
– Fair value gain on available-for sale financial assets	–	–	–	151	–	–	151
Total comprehensive income for the year	–	–	–	151	–	9,517	9,668
Transaction with owners:							
Effect of Reorganisation	(10,011)	–	10,011	–	–	–	–
Share capitalisation issue *(Note 24)*	11,500	(11,500)	–	–	–	–	–
Issue of share capital *(Note 24)*	2,500	92,862	–	–	–	–	95,362
Interim dividends 2017 *(Note 10)*	–	–	–	–	–	(30,000)	(30,000)
Transaction with owners	3,989	81,362	10,011	–	–	(30,000)	65,362
Balance at 31 December 2017	14,000	81,362	10,011	160	–	80,952	186,485
Impact on initial application of HKFRS 9 *(Note 3)*	–	–	–	(160)	160	–	–
Balance at 1 January 2018	14,000	81,362	10,011	–	160	80,952	186,485
Profit for the year	–	–	–	–	–	5,337	5,337
Other comprehensive expense, net of tax:							
Items that will not be classified subsequently to profit or loss							
– Fair value loss on financial assets at FVOCI	–	–	–	–	(130)	–	(130)
Total comprehensive income for the year	–	–	–	–	(130)	5,337	5,207
Balance at 31 December 2018	**14,000**	**81,362**	**10,011**	**–**	**30**	**86,289**	**191,692**

* The reserves accounts comprise the Group's reserves of HK$177,692,000 (2017: HK$172,485,000) as at 31 December 2018 in the consolidated statement of financial position.

The notes on pages 57 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Cash flow from operating activities		
Profit before income tax	**5,770**	14,337
Adjustments for:		
Depreciation	**3,095**	2,904
Finance costs	**252**	354
Interest income	**(510)**	(22)
Gain on disposal of property, plant and equipment	**(190)**	(118)
Operating profit before working capital changes	**8,417**	17,455
Increase in trade and other receivables	**(37,348)**	(1,400)
Increase in contract assets/amounts due from customers on construction contracts	**(6,063)**	(7,543)
Increase/(Decrease) in trade and other payables	**19,871**	(7,503)
Increase/(Decrease) in contract liabilities/amounts due to customers on construction contracts	**420**	(1,231)
Cash used in operations	**(14,703)**	(222)
Interest paid	**(252)**	(354)
Income tax paid	**(296)**	(5,693)
Net cash used in operating activities	**(15,251)**	(6,269)
Cash flow from investing activities		
Interest received	**510**	22
Prepayment paid for purchase of property, plant and equipment	**–**	(6,797)
Purchase of property, plant and equipment	**(1,606)**	(6,221)
Proceeds from disposal of property, plant and equipment	**630**	1,221
Net cash used in investing activities	**(466)**	(11,775)
Cash flow from financing activities		
Proceeds from issuance of share capital	**–**	105,000
Share issuance expenses	**–**	(9,638)
Repayment of borrowings	**(10,000)**	(6,667)
Payment of finance lease liabilities	**(1,322)**	(210)
Dividends paid	**–**	(30,000)
Decrease in amount due from/to directors	**–**	15,267
Decrease in amounts due from related companies	**–**	267
Net cash (used in)/generated from financing activities	**(11,322)**	74,019
Net (decrease)/increase in cash and cash equivalents	**(27,039)**	55,975
Cash and cash equivalents at the beginning of year	**109,386**	53,411
Cash and cash equivalents at end of year represented by cash and bank balances *(Note 19)*	**82,347**	109,386

The notes on pages 57 to 115 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Geotech Holdings Ltd. (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 6 June 2016. The addresses of the registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands, and its principal place of business is Units 05-08, 11/F, Delta House, 3 On Yiu Street, Shek Mun, New Territories, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred to as the "Group") are principally engaged in provision of construction and engineering services.

As at 31 December 2017, the Company's immediate and ultimate holding company was Flourish Team Limited ("Flourish Team"), a company incorporated in the British Virgin Islands (the "BVI") and owned as to 49% by Mr. Yau Kin Wing Sino ("Mr. Yau"), 49% by the late Mr. Cheung Ting Kam ("Mr. Cheung") and 2% by Mr. Kung Ho Man ("Mr. Kung"). Double Wink Limited ("Double Wink"), a company incorporated in the BVI, held 2% interest in the Company and Double Wink is wholly owned by Ms. Tang Ka Wa Danise ("Ms. Tang"). As a result, the controlling shareholders of the Company as at 31 December 2017 included Flourish Team, Double Wink, Mr. Yau, the late Mr. Cheung, Mr. Kung and Ms. Tang. On 22 November 2018, Flourish Team, Double Wink and Mr. Yau entered into a sale and purchase agreement and whereby Flourish Team and Double Wink have agreed to sell 737,000,000 shares of the Company, representing approximately 52.64% of the issued share capital of the Company, to Star Merit Global Limited ("Star Merit"), a company incorporated in the BVI and wholly owned by Mr. Chen Zhi ("Mr. Chen"). The transaction was completed on 4 December 2018. Since 4 December 2018 (including as at 31 December 2018), the Company's immediate and ultimate holding company is Star Merit, the ultimate controlling shareholder of the Company is Mr. Chen.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 October 2017.

These consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 29 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented in the consolidated financial statements. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis except for financial assets at FVOCI (2017: available-for-sale financial assets) which are stated at fair value. The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands ("HK$'000"), except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. 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.

2.2 Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

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

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Foreign currency translation

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

2.4 Property, plant and equipment

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

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

Plant and machinery	30%
Motor vehicles	20% to 30%
Furniture and fixtures	20%
Leasehold improvement	33⅓% to 50%
Computer and software	20 to 30%

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial instruments

a) *Financial assets*

Policy applicable from 1 January 2018

Recognition and derecognition

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred.

Classification and initial measurement of financial assets

Except for those trade receivables and retention receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

– amortised cost;
– FVTPL; or
– FVOCI.

The classification is determined by both:

– the entity's business model for managing the financial asset; and
– the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for expected credit losses ("ECL") of trade receivables and retention receivables which is presented within administrative expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial instruments (Continued)

a) Financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and bank balances and trade and other receivables fall into this category of financial instruments.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group elects to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income and accumulated in "Financial assets fair value reserve" in equity. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer's perspective.

The equity instruments at FVOCI are not subject to impairment assessment. The cumulative gain or loss in "Financial assets fair value reserve" will not be reclassified to profit or loss upon disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial instruments (Continued)

a) Financial assets (Continued)

Policy applicable before 1 January 2018

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see Note 2.6) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial instruments (Continued)

a) Financial assets (Continued)

Policy applicable before 1 January 2018 (Continued)

Available-for-sale financial assets (Continued)

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

b) Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument and initially measured at fair value and where applicable, adjusted for transaction costs. Subsequently financial liabilities are measured at amortised cost using the effective interest method. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2.16).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial instruments (Continued)

b) Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.10).

Borrowings

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

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

Trade and other payables

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

2.6 Impairment of financial assets and contract assets

Policy applicable from 1 January 2018

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included trade receivables, retention receivables, contract assets recognised and measured under HKFRS 15 and other financial assets measured at amortised cost.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables, retention receivables and contract assets

For trade receivables, retention receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Other financial assets measured at amortised cost (Continued)

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor; or

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Detailed analysis of ECL assessment of trade receivables, retention receivables, contract asset and other financial assets at amortised cost are set out in note 31.4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable before 1 January 2018

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

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

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– The disappearance of an active market for that financial asset because of financial difficulties; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

If any such evidence exists, the impairment loss is measured and recognised as follows:

i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable before 1 January 2018 (Continued)

ii) Available-for-sale financial assets carried at fair value

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

iii) Financial assets carried at cost

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of the impairment losses is recognised in profit or loss of the period in which the impairment occurs and not reversed in subsequent periods.

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

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of non-financial assets

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

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

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

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

2.8 Contract assets and contract liabilities/Construction contracts

Policy applicable from 1 January 2018

A contract asset is recognised when the Group recognises revenue (see note 2.13) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.6 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.5).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.13). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.5).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Contract assets and contract liabilities/Construction contracts (Continued)

Policy applicable before 1 January 2018

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design.

The Group's construction contracts are at fixed prices. The accounting policy for contract revenue is set out in note 2.13.

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

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

2.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.10 Leases

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

Classification of assets leased to the Group

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Leases (Continued)

Assets acquired under finance leases

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

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

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

Operating lease charges as the lessee

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

Assets leased out under operating leases as the lessor

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.12 Share capital

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

2.13 Revenue recognition

Revenue arises mainly from the contracts for the construction services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer

2. Identifying the performance obligations

3. Determining the transaction price

4. Allocating the transaction price to the performance obligations

5. Recognising revenue when/as performance obligation(s) are satisfied

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Revenue recognition (Continued)

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Construction contracts

Revenue from construction contracts are recognised over time as the Group's performance creates and enhances an asset that the customer controls which referred as the designated areas where the construction work services performed. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services. The value of the services transferred to customer to date is measured according to the progress certificate (by reference to the construction works certified by the customers or their agents).

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

Interest income

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

Rental income

Accounting policies for rental income are set out in note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

2.15 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

Short-term employee benefits

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

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

2.16 Borrowing costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Borrowing costs (Continued)

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

2.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Accounting for income taxes (Continued)

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

– income or loss excluding reversals of temporary differences; and

– reversals of existing temporary differences

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

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

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

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

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

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

  (i) the same taxable entity; or

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

2.18 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

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

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

  (ii) has significant influence over the Group; or

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

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

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

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

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

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

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;

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

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

  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

3. ADOPTION OF NEW AND AMENDED HKFRSS

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and consolidated financial statements and effective for the annual period beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 1	As part of Annual Improvements to HKFRSs 2014-2016 Cycle
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 15 Revenue from Contracts with Customers

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

HKFRS 15 has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, HKFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

There was no material impact of transition to HKFRS 15 on retained earnings at 1 January 2018. In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount on 31 December 2017 under HKAS 18 and HKAS 11	**Reclassification**	**Carrying amount on 1 January 2018 under HKFRS 15**
	HK$'000	HK$'000	HK$'000
Current assets			
Amounts due from customers on construction contracts	49,945	(49,945)	–
Contract assets	–	49,945	49,945
Current liabilities			
Amounts due to customers on construction contracts	1,250	(1,250)	–
Contract liabilities	–	1,250	1,250

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The adoption of HKFRS 15 has no material impact on the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

HKFRS 9 Financial instruments

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an ECL model for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of HKFRS 9 has impacted the following areas:

(a) Classification and measurement

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. The Group elected to irrevocably designate these investments as financial assets at FVOCI. As a result, available-for-sale financial assets under HKAS 39 has been reclassified as financial assets at FVOCI under HKFRS 9. Fair value changes previously accounted for in available-for-sale financial asset revaluation reserve has transferred to the opening balance of financial assets fair value reserve as at 1 January 2018.

In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount on 31 December 2017 under HKAS 39	Reclassification	Carrying amount on 1 January 2018 under HKFRS 9
	HK$'000	HK$'000	HK$'000
Non-current assets			
Available-for-sales financial assets	1,281	(1,281)	–
Financial assets at FVOCI	–	1,281	1,281

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 9 Financial instruments (Continued)

(a) Classification and measurement (Continued)

The impact of these changes on the Group's equity is as follows:

	Available-for-sale financial assets revaluation reserve HK$'000	**Financial assets fair value reserve** HK$'000
Balance at 31 December 2017 under HKAS 39	160	–
Reclassification from available-for-sale financial assets to financial assets at FVOCI	(160)	160
Balance at 1 January 2018 under HKFRS 9	–	160

(b) Impairment

Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month ECL or a lifetime ECL, depending on the asset and the facts and circumstances.

For trade receivables, retention receivables and contract assets, the Group applies a simplified approach of recognising lifetime ECL as these items do not have a significant financing component. The Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix.

For all other financial assets at amortised cost, the Group adopted a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- The receivables with low credit risk on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group;

- If a significant increase in credit risk since initial recognition is identified, the receivables is moved to "Stage 2" but is not yet deemed to be credit impaired;

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 9 Financial instruments (Continued)

(b) Impairment (Continued)

- If the receivables is credit-impaired, the financial instrument is then moved to "Stage 3".

Receivables in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on ECL on a lifetime basis.

Measurement of ECLs

When estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings.

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Repayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKAS 1 and HKAS 8	Definition of Materials[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date to be determined.
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

Issued but not yet effective HKFRSs (Continued)

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

As disclosed in note 2.10, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a "lease liability" and corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 27, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to approximately HK$3,228,000 for premises, approximately HK$2,426,000 is payable within one year.

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

Issued but not yet effective HKFRSs (Continued)

HKFRS 16 Leases (Continued)

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Critical accounting judgements

Construction contracts

As explained in notes 2.13, revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts, with reference to the progress certificates issued by the customers and their agents. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs by comparing the budgeted amounts to the actual costs incurred. When the outcome of a construction contract cannot be estimated reliably (uncertified work or unagreed income), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

Management exercised their judgements and estimated based on contract costs and revenues with reference to the latest available information, which includes detailed contract sum and works performed. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the timing and recognition of payments and the age and recoverability of any uncertified work and unagreed income from variations to the contract scope or claims. The impact of the changes in accounting estimates is then reflected in the ongoing results. Details of the contract assets/liabilities are disclosed in note 18 (2017: amounts due from/(to) customers on construction contracts are disclosed in note 19).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Estimate uncertainty

Estimation of impairment of trade and other receivables and contract assets within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgement 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 as set out in note 2.6. As at 31 December 2018, the aggregate carrying amounts of trade and other receivables and contract assets amounted to HK$97,700,000 and HK$56,008,000 respectively. Details of the trade and other receivables and contract assets are disclosed in note 16 and note 18 respectively.

Before the adoption of HKFRS 9, the Group assesses at the end of each reporting period whether there is any objective evidence that trade and other receivables are impaired. In determining whether there is objective evidence of impairment, the Group takes into consideration the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained. As at 31 December 2017, the carrying amount of the Group's trade and other receivables is HK$57,837,000. Details of the trade and other receivables are disclosed in note 16.

5. REVENUE

The Group's principal activities are disclosed in Note 1 of the consolidated financial statements.

Revenue recognised for the years ended 31 December 2018 and 2017 are as follows:

	2018 HK$'000	2017 HK$'000
Contracting revenue	**257,413**	275,813

The Group's operating activities are attributable to a single operating segment focusing on construction and engineering services. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that is regularly reviewed by the executive directors, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance. The CODM monitors the revenue from the engagement in construction and engineering services with no discrete information available to the CODM. The CODM reviews the profit for the period of the Group as a whole for performance assessment.

All performance obligations of revenue from contracts with customers of the Group are satisfied over time.

5. REVENUE (Continued)

Geographical information

The Group's revenue from external customers based on the location of the operation is derived solely in Hong Kong (place of domicile). Non-current assets of the Group based on the location of assets are all located in Hong Kong. Accordingly, no segment analysis by geographical information is presented.

Information about major customers

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

	2018	2017
	HK$'000	HK$'000
Customer A	**148,043**	119,571
Customer B	**32,013**	N/A*

* The corresponding revenue does not contribute over 10% of total revenue of the Group.

6. OTHER INCOME

	2018	2017
	HK$'000	HK$'000
Consultancy fee income	**290**	300
Rental income from lease of machinery	**1,127**	261
Government grants *(Note)*	**–**	71
Labour charges income	**–**	82
Safety consultancy income	**485**	623
Interest income	**510**	22
Gain on disposal of property, plant and equipment	**190**	118
Exchange gain	**315**	55
Other	**1,321**	606
	4,238	2,138

Note:

Government grants of HK$71,000 was granted during the year ended 31 December 2017 to subsidy the retirement of Pre-Euro IV Diesel Commercial Vehicles of the Group. There were no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grant in the future.

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Bank loan and overdrafts interest	211	342
Finance charge on obligation under finance lease	41	12
	252	354

8. PROFIT BEFORE INCOME TAX

	2018 HK$'000	2017 HK$'000
Profit before tax is stated after charging/(crediting):		
(a) Staff costs (including directors' remuneration *(Note 12(a))*)		
Salaries, fee and allowances	26,336	34,607
Discretionary bonuses	3,375	4,651
Retirement scheme contributions	905	1,331
Staff costs (including directors' remuneration) *(note (i))*	30,616	40,589
(b) Other items		
Depreciation, included in:		
Direct costs		
– Owned assets	379	740
– Leased assets	126	32
Administrative expenses		
– Owned assets	2,494	2,116
– Leased assets	96	16
	3,095	2,904
Operating lease charges in respect of premises	1,764	1,990
Subcontracting charges (included in direct costs)	195,667	174,438
Listing expenses	–	10,705
Gain on disposal of property, plant and equipment	(190)	(118)
Auditors' remuneration	1,366	1,206

Note: (i) Staff costs (including directors' remuneration)

	2018 *HK$'000*	*2017* *HK$'000*
Direct costs	*20,350*	*29,698*
Administrative expenses	*10,266*	*10,891*
	30,616	*40,589*

9. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Provision for Hong Kong Profits Tax		
– Current tax	**1,441**	4,050
– (Over)/Under provision in respect of prior years	**(357)**	250
	1,084	4,300
Deferred tax *(Note 23)*	**(651)**	520
Total income tax expense	**433**	4,820

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of Geotech Engineering Limited, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime.

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the year.

The taxation for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
Profit before income tax	**5,770**	14,337
Tax at Hong Kong profits tax rates of 16.5%	**952**	2,366
Tax effect of expense not deductible for tax purpose *(note)*	**626**	2,228
Tax effect of non-taxable income	**(136)**	(8)
Utilisation of tax losses previously not recognised	**–**	(71)
(Over)/Under provision in respect of prior years	**(357)**	250
Effect of the two-tiered profits tax rates regime	**(165)**	–
Tax effect of recognition of tax losses previously not recognised	**(560)**	–
Other	**73**	55
Income tax expense for the year	**433**	4,820

Note: Tax effect of expense not deductible for tax purpose for the year ended 31 December 2017 was mainly arose from listing expenses.

10. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim dividends	–	30,000

Prior to the Group's reorganisation of the Company in connection with the listing of its shares on the Stock Exchange (the "Reorganisation"), Praise Marble Limited ("Praise Marble") had declared to its then equity owner of HK$30,000,000 for the year ended 31 December 2017.

The rates for dividends and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

No dividend was paid or proposed during 2018, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	5,337	9,517
	'000	'000
Number of shares		
Weighted average number of ordinary shares	1,400,000	1,205,479

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 includes (i)100 ordinary shares in issue at beginning of the year; (ii) 1,149,999,900 new ordinary shares issued pursuant to the Capitalisation Issue (note 24(iii)), as if all these shares had been in issue throughout the year ended 31 December 2017, and (iii) 55,479,000 shares, representing the weighted average of 250,000,000 new ordinary shares issued pursuant to the Initial Public Offering and Share Placing (the "Share Offer") (note 24(iv)).

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

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executive's emoluments

Remuneration of the directors disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Fee HK$'000	Salaries, allowances and benefits HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive directors:					
Mr. Chen *(Note vii)*	–	16	–	–	16
Mr. Yau Kin Wing Sino	–	1,262	241	18	1,521
Mr. Cheung Ting Kam *(Note ii)*	–	103	–	2	105
Mr. Kung Ho Man *(Note i)*	–	1,055	438	23	1,516
Ms. Tang Ka Wa Danise *(Note iii)*	–	723	250	24	997
Independent non-executive directors:					
Mr. Fung Chi Kin *(Note iv)*	–	360	–	–	360
Mr. Chow Chun To *(Note v)*	–	180	–	–	180
Mr. Cheung Wai Lun Jacky *(Note v)*	–	180	–	–	180
Mr. So Wai Man *(Note vii)*	–	2	–	–	2
Mr. Wei Qianjing *(Note vi)*	–	64	–	–	64
	–	3,945	929	67	4,941

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

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

	Fee	Salaries, allowances and benefits	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2017					
Executive directors:					
Mr. Yau Kin Wing Sino	–	1,248	113	18	1,379
Mr. Cheung Ting Kam *(Note ii)*	–	1,259	113	18	1,390
Mr. Kung Ho Man *(Note i)*	–	989	139	26	1,154
Ms. Tang Ka Wa Danise *(Note iii)*	–	671	95	24	790
Independent non-executive directors:					
Mr. Fung Chi Kin *(Note iv)*	–	102	–	–	102
Mr. Chow Chun To (Note v)	–	51	–	–	51
Mr. Cheung Wai Lun Jacky *(Note v)*	–	51	–	–	51
	–	4,371	460	86	4,917

Notes:

(i) Appointed on 6 June 2016 and resigned on 15 January 2019. He was also as the Chief Executive Officer of the Company, the remuneration for Chief Executive Officer is also included.

(ii) Appointed on 6 June 2016 and deceased on 21 January 2018.

(iii) Appointed on 6 June 2016 and resigned on 15 January 2019.

(iv) Appointed on 19 September 2017.

(v) Appointed on 19 September 2017 and resigned on 15 January 2019.

(vi) Appointed on 24 August 2018 and resigned on 15 January 2019.

(vii) Appointed on 27 December 2018.

For the year ended 31 December 2018 and 2017, no emoluments were paid by the Group to the above directors as an inducement to join or upon joining the Group.

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group include three directors for the year ended 31 December 2018 (2017: three), whose emoluments are disclosed in note 12(a). The aggregate of the emoluments in respect of the remaining two (2017: two) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, fee and allowances	1,471	1,225
Discretionary bonuses	176	412
Retirement scheme contributions	36	36
	1,683	1,673

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands:		
Nil – HK$1,000,000	2	2

For the year ended 31 December 2018, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group (2017: nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Leasehold improvement HK$'000	Computer and software HK$'000	Total HK$'000
Cost						
At 1 January 2017	966	11,572	2,625	1,874	1,618	18,655
Additions	1,039	4,381	826	683	425	7,354
Disposals	–	(4,444)	(719)	(627)	(387)	(6,177)
At 31 December 2017	2,005	11,509	2,732	1,930	1,656	19,832
At 1 January 2018	**2,005**	**11,509**	**2,732**	**1,930**	**1,656**	**19,832**
Additions	**405**	**290**	**359**	**851**	**1**	**1,906**
Disposals	**(146)**	**(1,160)**	**(616)**	**(971)**	**(591)**	**(3,484)**
At 31 December 2018	**2,264**	**10,639**	**2,475**	**1,810**	**1,066**	**18,254**
Accumulated depreciation						
At 1 January 2017	(743)	(7,933)	(1,747)	(1,664)	(1,310)	(13,397)
Charge for the year	(209)	(1,674)	(410)	(313)	(298)	(2,904)
Depreciation written back upon disposals	–	3,584	505	627	358	5,074
At 31 December 2017	(952)	(6,023)	(1,652)	(1,350)	(1,250)	(11,227)
At 1 January 2018	**(952)**	**(6,023)**	**(1,652)**	**(1,350)**	**(1,250)**	**(11,227)**
Charge for the year	**(401)**	**(1,670)**	**(343)**	**(519)**	**(162)**	**(3,095)**
Depreciation written back upon disposals	**31**	**967**	**514**	**946**	**586**	**3,044**
At 31 December 2018	**(1,322)**	**(6,726)**	**(1,481)**	**(923)**	**(826)**	**(11,278)**
Net book value						
At 31 December 2018	**942**	**3,913**	**994**	**887**	**240**	**6,976**
At 31 December 2017	1,053	5,486	1,080	580	406	8,605

As at 31 December 2018, the Group's motor vehicles of HK$1,129,000 (2017: HK$1,061,000) are held under finance leases (note 22).

14. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

Company name	Place of incorporation/ establishment	Type of legal entity	Issued and paid up capital/ Registered capital	Equity interest attributable to the Group		Principal activities
				2018	2017	
Indirectly held						
Geotech Engineering Limited	Hong Kong	Limited liability company	10,000,000 ordinary shares	100%	100%	Provision of construction and engineering services
GeoResources Limited	Hong Kong	Limited liability company	10,000 ordinary shares	100%	100%	Provision of trading, design and engineering services
Richway Construction Engineering Limited	Hong Kong	Limited liability company	1 ordinary share	100%	100%	Provision of construction and engineering services
Yau Wing Construction & Engineering Limited	Hong Kong	Limited liability company	1 ordinary share	100%	100%	Provision of construction and engineering services

Note: As at 31 December 2018, the aggregate amount of reserves available for distribution to shareholders of the Company was HK$73,137,000 (2017: HK$76,852,000).

15. FINANCIAL ASSETS AT FVOCI/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Unlisted securities – Unit Trust Fund	1,151	1,281

For the year ended 31 December 2018, the fair value of the Group's financial assets at FVOCI (2017: available-for-sale financial assets) has been measured as described in note 31.6.

16. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	29,458	13,928
Retention receivables	18,876	16,663
Other receivables and prepayment	47,541	18,853
Prepayments for property, plant and equipment *(note)*	–	6,797
Utility and other deposits	1,825	1,596
	97,700	57,837

Note: The amount is refundable if the transfer of targeted property, plant and equipment are not completed within one year from the payment date.

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

Trade Receivables

Based on the invoice dates, the ageing analysis of the trade receivables, net of ECL allowance (2017: provision for impairment), was as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	26,854	8,756
31-60 days	1,959	3,184
61-90 days	16	1,137
Over 90 days	629	851
	29,458	13,928

16. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, based on the judgement of the management of the Group, the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix is negligible.

As at 31 December 2017, trade receivables which were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Retention receivables

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

	2018 HK$'000	2017 HK$'000
Due within one year	7,556	8,731
Due after one year	11,320	7,932
	18,876	16,663

Retention receivables are interest-free and repayable approximately one year after the expiry of the maintenance period of construction projects.

At the end of the reporting date, the Group reviewed trade receivables, retention receivables and other receivables for evidence of impairment on both an individual and collective basis. Based on this assessment, no ECL allowance (2017: provision for impairment) has been recognised at 31 December 2018 (2017: nil). For detail of ECL assessment, please refer to note 31.4.

17. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

	2018 HK$'000	2017 HK$'000
Contract costs incurred plus recognised profits less recognised losses	–	902,328
Less: progress billings	–	(853,633)
Contract work-in-progress	–	48,695
Analysed for reporting purposes as:		
Amounts due from customers on construction contracts	–	49,945
Amounts due to customers on construction contracts	–	(1,250)
	–	48,695

The gross amounts due from/(to) customers on construction contracts are expected to be recovered/settled within one year.

18. CONTRACT ASSETS AND CONTRACT LIABILITIES

18.1 Contract assets

	2018 HK$'000	2017 HK$'000
Contract assets arising from construction contracts	56,008	–

Notes:

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included as "Amounts due from customers on construction contracts" were reclassified to contract assets.

The amount of contract assets is expected to be recovered/settled within one year.

18. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

18.2 Contract liabilities

	2018	2017
	HK$'000	HK$'000
Contract liabilities arising from construction contracts from billings in advance of performance	**1,670**	–

Notes:

The Group has initially applied HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included as "Amounts due to customers on construction contracts" were reclassified to contract liabilities.

All of the contract liabilities is expected to be recovered/settled within one year.

Movements in contract liabilities

	2018
	HK$'000
Balance at 1 January	**1,250**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(1,171)**
Increase in contract liabilities as a result of billing in advance of construction activities	**1,591**
Balance at 31 December	**1,670**

18. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

18.2 Contract liabilities (Continued)

Unsatisfied long-term construction contracts

The transaction price allocated to the remaining unsatisfied or partially satisfied performance obligations as at 31 December are as follows:

	2018 HK$'000
Within one year	75,062
More than one year	204,239
	279,301

These amounts disclosed above do not include transaction price allocated to performance obligations which have been satisfied but not yet recognised due to variable consideration constraint.

19. CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash at bank	82,236	109,318
Cash on hand	111	68
	82,347	109,386

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

The directors consider that the fair values of cash at bank are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

20. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables *(note (i))*	**27,353**	11,536
Retention payables *(note (ii))*	**12,922**	10,143
Accruals and other payables	**9,884**	8,609
	50,159	30,288

Ageing analysis of payables based on the invoices date is as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	**24,213**	7,267
31-60 days	**1,650**	2,643
61-90 days	**569**	545
Over 90 days	**921**	1,081
	27,353	11,536

Notes:

(i) Payment terms granted by suppliers are 30 to 60 days from the invoice date of the relevant purchases.

(ii) Retention payables are interest-free and settled in accordance with the terms of the respective contracts.

(iii) All trade and other payables are denominated in HK$.

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

21. BORROWINGS, SECURED

At 31 December 2018, the bank loans were repayable as follows:

	2018 HK$'000	2017 HK$'000
Bank loans repayable within one year *(note (i))*	–	10,000
	–	10,000

Notes:

(i) At 31 December 2017, the bank loans are interest-bearing at 3.16% per annum.

(ii) At 31 December 2017, the bank loan to the extent of HK$10,000,000 granted to the Group was secured by a corporate guarantee given by the Company and the Group's available-for-sale financial assets (note 15).

(iii) At 31 December 2018, the Group has unused banking facilities of approximately HK$10,000,000 (2017: HK$22,000,000). The unused banking facilities were secured by corporate guarantee given by the Company (2017: corporate guarantee given by the Company and the Group's available-for-sale financial assets (note 15)).

22. OBLIGATION UNDER FINANCE LEASES

The analysis of the Group's obligation under finance lease is as follows:

	2018 HK$'000	2017 HK$'000
Total minimum lease payments:		
Within one year	1,547	527
After one year but within two years	658	443
After two years but within three years	315	–
	2,520	970
Future finance charges	(104)	(47)
Present value of lease obligation	2,416	923

22. OBLIGATION UNDER FINANCE LEASES (Continued)

	2018 HK$'000	2017 HK$'000
Present value of minimum lease payment:		
Within one year	**1,474**	490
After one year but within two years	**632**	433
After two years but within three years	**310**	–
	2,416	923
Less: Portion due within one year included under current liabilities	**(1,474)**	(490)
Portion due after one year included under non-current liabilities	**942**	433

The Group has entered into finance leases for motor vehicles. These lease periods are for 2 to 3 years. At the end of the lease term, the Group has the option to purchase the leased motor vehicles at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. None of the leases including contingent rentals. The effective interest rate on these finance leases was 4.27% to 4.29% for the year ended 31 December 2018 (2017: 4.27% to 4.29%).

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

As at 31 December 2018, finance leases of HK$1,715,000 (2017: nil) are entered for acquisition of eight (2017: nil) motor vehicles held by the Group in trust but used by and belong to subcontractors.

23. DEFERRED TAXATION

The movements in deferred tax liabilities and (assets) and recognised in the consolidated statement of the financial position during the year are as follows:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
1 January 2017	519	–	519
Charged to profit or loss *(note 9)*	520	–	520
As at 31 December 2017 and 1 January 2018	1,039	–	1,039
Credited to profit or loss *(note 9)*	(91)	(560)	(651)
As at 31 December 2018	948	(560)	388

23. DEFERRED TAXATION (Continued)

The amounts recognised in the consolidated statement of financial position are as follows:

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**560**	–
Deferred tax liabilities	**(948)**	(1,039)
	(388)	(1,039)

At 31 December 2018, the Group has no unrecognised deferred tax assets in respect of cumulative tax losses. (2017: the Group has unrecognised deferred tax assets in respect of cumulative tax losses of HK$2,656,000 as it is not probable that future taxable income against which the losses can be utilised will be available in the entity. These tax losses do not expire under current legislation.)

24. SHARE CAPITAL

	2018		2017	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorised:				
As at 1 January	**4,000,000,000**	**40,000**	10,000,000	100
Increase in authorised share capital *(note ii)*	**–**	**–**	3,990,000,000	39,900
As at 31 December	**4,000,000,000**	**40,000**	4,000,000,000	40,000
Issued and fully paid:				
As at 1 January *(note i)*	**1,400,000,000**	**14,000**	100	–
Issuance of ordinary shares pursuant to the Capitalisation Issue *(note iii)*	**–**	**–**	1,149,999,900	11,500
Issuance of ordinary shares pursuant to the share offer *(note iv)*	**–**	**–**	250,000,000	2,500
As at 31 December	**1,400,000,000**	**14,000**	1,400,000,000	14,000

Notes:

(i) Pursuant to the Reorganisation, the Company credited the 100 nil-paid shares as fully paid at par as the consideration for acquisition of Praise Marble on 15 September 2017.

(ii) Pursuant to the written resolution of all shareholder passed on 21 September 2017, the authorised share capital of the Company was increased from HK$100,000 to HK$40,000,000 divided into 4,000,000,000 shares of HK$0.01 each.

24. SHARE CAPITAL (Continued)

Notes:

(iii) Pursuant to the written resolutions of the shareholder passed on 21 September 2017, 1,149,999,900 ordinary shares of HK$0.01 each were allotted and issued at par by way of capitalisation of the sum of HK$11,499,999 from the share premium account of the Company (the "Capitalisation Issue").

(iv) On 12 October 2017, upon listing on the Stock Exchange, 250,000,000 new shares with par value of HK$0.01 each of the Company were allotted and issued at a price of HK$0.42 per share by way of Share Offer. The proceeds of HK$2,500,000 representing the par value of these ordinary shares, were credited to the Company's share capital. The remaining proceeds less the listing costs directly attributable to the issue of shares amounted to HK$92,862,000, were credited to the Company's share premium account. The shares capital of the Company was then increased to HK$14,000,000 divided into 1,400,000,000 shares of HK$0.01 each.

25. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2018 and 2017 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group as at 31 December 2018 and 2017 represents the share capital of entities comprising the Group prior to the reorganisation and the reserves arising from the Reorganisation.

Financial assets fair value reserve/Available-for-sale financial assets revaluation reserve

The financial assets fair value reserve/available-for-sale financial assets revaluation reserve represents the change in fair value arising from the investment in unlisted securities – Unit Trust Fund (note 15).

26. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	14	**86,067**	86,067
Loan to a subsidiary		**99,900**	99,900
		86,067	185,967
Current assets			
Other receivables		**1,601**	607
Amounts due from subsidiaries		**190**	–
Cash and cash equivalents		**91**	92
		101,782	699
Current liabilities			
Accruals		**1,419**	–
Amounts due to subsidiaries		**13,226**	9,747
		14,645	9,747
Net current assets/(liabilities)		**87,137**	(9,048)
Net assets		**173,204**	176,919
CAPITAL AND RESERVES			
Share capital	24	**14,000**	14,000
Reserves *(Note)*		**159,204**	162,919
Total equity		**173,204**	176,919

Mr. Chen Zhi
Director

Mr. Yau Kin Wing Sino
Director

26. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

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

	Share premium HK$'000	Capital reserve* HK$'000	Accumulated loss HK$'000	Total HK$000
Balance at 1 January 2017	–	–	(10)	(10)
Effect of Reorganisation	–	86,067	–	86,067
Issuance of ordinary shares pursuant to the Capitalisation Issue *(Note 24(iii))*	(11,500)	–	–	(11,500)
Issuance of ordinary shares pursuant to Share Offer *(Note 24(iv))*	92,862	–	–	92,862
Loss and total comprehensive expense for the year	–	–	(4,500)	(4,500)
Balance at 31 December 2017	81,362	86,067	(4,510)	162,919
Loss and total comprehensive expense for the year	–	–	(3,715)	(3,715)
Balance at 31 December 2018	**81,362**	**86,067**	**(8,225)**	**159,204**

* Capital reserve of the Company represents the difference between the total equity of Praise Marble acquired by the Company pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefore.

27. OPERATING LEASE COMMITMENTS

As lessee

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

	2018 HK$'000	2017 HK$'000
Within one year	**2,426**	918
In the second to fifth years inclusive	**802**	773
	3,228	1,691

The Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of one to two years (2017: one to two year). The leases do not include contingent rentals.

28. RELATED PARTY TRANSACTIONS

Key management personnel remuneration

The emoluments of the directors and senior management of the Company, who represent the key management personnel during the years ended 31 December 2018 and 2017 are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, fee and allowances	**4,681**	4,967
Discretionary bonuses	**1,023**	703
Retirement scheme contributions	**85**	104
	5,789	5,774

29. CONTINGENT LIABILITIES

At 31 December 2018 and 2017, the Group has been involved in a number of claims, litigations and potential claims against the Group regarding the employees' compensation and common law personal injury. The directors are of the opinion that the claims and litigations are not expected to have a material impact on the consolidated financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the consolidated financial statements.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Bank loans	Finance lease liabilities	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2018	**10,000**	**923**	**10,923**
Cash-flows:			
– Repayment	**(10,000)**	**(1,322)**	**(11,322)**
Non-cash:			
– Acquisition *(note 32)*	**–**	**2,815**	**2,815**
At 31 December 2018	**–**	**2,416**	**2,416**
At 1 January 2017	16,667	–	16,667
Cash-flows:			
– Repayment	(6,667)	(210)	(6,877)
Non-cash:			
– Acquisition *(note 32)*	–	1,133	1,133
At 31 December 2017	10,000	923	10,923

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

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

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

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.1 Categories of financial assets and liabilities

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

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost:		
– Trade and other receivables	79,937	–
– Cash and bank balances	82,347	–
Loans and receivables:		
– Trade and other receivables	–	49,443
– Cash and bank balances	–	109,386
	162,284	158,829
Available-for-sale financial assets	–	1,281
Financial assets at FVOCI	1,151	–
	163,435	160,110
Financial liabilities		
At amortised costs:		
– Trade and other payables	(50,159)	(30,288)
– Obligation under finance leases	(2,416)	(923)
– Borrowings, secured	–	(10,000)
	(52,575)	(41,211)

31.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its cash at bank denominated in United Stated Dollars ("US$") of HK$40,995,000 (2017: HK$40,161,000), which is not the functional currency of the Group. Since HK$ are pegged to US$ under the Linked Exchange Rate System, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between HK$ and US$.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from borrowings and obligation under finance leases. Borrowings bearing variable rates and fixed rate expose the Group to cash flow interest rate risk and fair value interest rate risk respectively and the exposure to the Group is considered immaterial. Obligation under finance leases bearing fixed rate expose the Group to fair value interest rate risk and the exposure to the Group is considered immaterial.

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

31.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at 31 December 2018 and 2017 as summarised in note 31.1.

As at 31 December 2017, in respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow–up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2018, for trade receivables and contract assets, the Group usually provide customers with a credit term of 21 to 30 days (2017: 21 to 30 days). For the settlement of trade receivables from provision of construction services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. For retention receivables, the Group negotiated with customers case by case on the settlement arrangement after the retention period.

The Group applies the simplified approach for trade receivables, retention receivables and contract assets to provide ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for these receivables due from third parties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue balances.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.4 Credit risk (Continued)

The Group assesses ECL under HKFRS 9 on trade receivables, retention receivables and contract assets based on provision matrix, the analysis of credit risk are based on debtors' ageing because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the judgement of the management of the Group, the exposure to credit risk and ECL for trade receivables, retention receivables and contract assets which are assessed collectively based on provision matrix is negligible at 31 December 2018.

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. With no material past due and default history, the expected loss rate are considered to be insignificant.

Trade receivables and contract assets are written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. The directors of the Group reviewed and considered no irrecoverable amounts should be taken account for the overdue trade receivables balances as at 31 December 2018.

At 31 December 2018, the Group has concentration of credit risk as 54% and 86% (2017: 34% and 34%) of the total trade receivables were due from the Group's largest customer and five largest customers respectively. The aggregate amounts of trade receivables from these customers amounted to HK$15,839,000 and HK$25,359,000 (2017: HK$4,681,000 and HK$4,681,000) of the Group's total trade receivables at 31 December 2018.

For other financial assets, the Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its other receivables into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1 When other receivables are first recognised, the Group recognises an allowance based on 12 months' ECLs.

Stage 2 When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.

Stage 3 When other receivables are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

As at 31 December 2018, the credit rating of other receivables were performing. The Group assessed that the ECL for other receivables are not material under the 12 months ECL method. Thus no loss allowance provision was recognised during the reporting period.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.5 Liquidity risk

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

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

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities at 31 December 2018 and 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

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

	On demand or within one year HK$'000	Over 1 year but within 5 years HK$'000	Total undiscounted Cash flow HK$'000	Carrying amount HK$'000
At 31 December 2018				
Trade and other payables	**(50,159)**	**–**	**(50,159)**	**(50,159)**
Obligation under finance leases	**(1,547)**	**(973)**	**(2,520)**	**(2,416)**
	(51,706)	**(973)**	**(52,679)**	**(52,575)**

	On demand or within one year HK$'000	Over 1 year but within 5 years HK$'000	Total undiscounted Cash flow HK$'000	Carrying amount HK$'000
At 31 December 2017				
Trade and other payables	(30,288)	–	(30,288)	(30,288)
Obligation under finance leases	(527)	(443)	(970)	(923)
Bank loan	(10,256)	–	(10,256)	(10,000)
	(41,071)	(443)	(41,514)	(41,211)

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash. The Group's existing cash resources and other liquid assets significantly exceed the cash outflow requirements.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.6 Fair value measurement

(a) Financial assets measured at fair value

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2018	**Fair value at 31 December HK$'000**	**Fair value measurement using Level 2 HK$'000**
Recurring fair value measurement		
Financial assets		
Financial assets at FVOCI:		
Unlisted securities	**1,151**	**1,151**

2017	Fair value at 31 December HK$'000	Fair value measurement using Level 2 HK$'000
Recurring fair value measurement		
Financial assets		
Available-for-sale financial assets:		
Unlisted securities	1,281	1,281

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.6 Fair value measurement (Continued)

(a) Financial assets measured at fair value (Continued)

There were no transfers between categories during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair values categorised in Levels 2 are unchanged compared to the previous reporting periods and are described below:

The financial assets at FVOCI (2017:available-for-sale financial assets) are unlisted securities dominated in US$. Fair values have been determined by reference to their quoted prices as stated in the bank statements at each of the reporting date and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate. The effects of non-observable inputs are not significant for the unlisted securities.

During the year ended 31 December 2018, fair value change on securities is recognised in other comprehensive income and included under "Financial assets fair value reserve" (2017: "Available-for-sale financial assets revaluation reserve").

(b) Fair value of financial assets and liabilities carried at other than fair value

The carry amounts of the Group's financial assets and liabilities are not materially different from their fair values at 31 December 2018 and 2017 due to their short maturities.

32. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2018, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the leases of HK$2,815,000 (2017: HK$1,133,000) which were directly settled by licensed money lenders and banks to the sellers of motor vehicles.

During the year, finance lease of HK$2,515,000 (2017: nil) are entered for acquisition of eight (2017: nil) motor vehicles held by the Group in trust but used by and belong to subcontractors. The finance lease of HK$300,000 (2017: HK$1,133,000) are entered for acquisition of one (2017: three) motor vehicle held and used by the Group, which are not reflected in the consolidated statement of cash flows.

33. CAPITAL MANAGEMENT

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

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

The gearing ratio at each reporting date was:

	2018 **HK$'000**	2017 HK$'000
Total borrowings		
Borrowings, secured	**–**	10,000
Obligation under finance leases	**2,416**	923
	2,416	10,923
Total equity	**191,692**	186,485
Gearing ratio	**1.3%**	5.9%

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	257,413	275,813	344,766	391,427	305,262
Cost of sales	(233,062)	(232,668)	(295,210)	(331,008)	(263,129)
Gross profit	24,351	43,145	49,556	60,419	42,133
Other income	4,238	2,138	3,103	1,260	1,042
Administrative and other operating expenses	(22,567)	(30,592)	(25,796)	(18,503)	(11,705)
Operating profit	6,022	14,691	26,863	43,176	31,470
Finance costs	(252)	(354)	(358)	(257)	(447)
Profit before income tax	5,770	14,337	26,505	42,919	31,023
Income tax expense	(433)	(4,820)	(6,101)	(7,516)	(5,078)
Profit for the year	5,337	9,517	20,404	35,403	25,945
Other comprehensive (expenses)/income, net of tax					
Items that will not be reclassified subsequently to profit or loss					
Fair value loss on financial assets at fair value through other comprehensive income	(130)	–	–	–	–
Item that may be classified subsequently to profit or loss					
Fair value gain/(loss) on available-for-sale financial assets	–	151	(9)	(43)	7
Total comprehensive income for year	5,207	9,668	20,395	35,360	25,952

ASSET AND LIABILTIES

	As at 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Non-current assets	8,687	9,886	6,388	11,535	15,790
Current assets	238,198	220,099	162,530	168,180	117,976
Non-current liabilities	1,890	1,472	519	951	2,210
Current liabilities	53,303	42,028	56,944	87,705	72,657
Equity attributable to equity holders of the Company	191,692	186,485	111,455	91,059	58,899