# Progressive Path Group Holdings Limited
# 進昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1581

# ANNUAL REPORT 2019

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

Mr. Wu Wing Hang *(Chairman)*
Mr. Chan Tak Ming

### *Independent Non-executive Directors*

Mr. Wong Yiu Kit Ernest
Mr. Lee Man Tai
Mr. Leung Ka Fai

## AUDIT COMMITTEE

Mr. Lee Man Tai *(Chairman)*
Mr. Wong Yiu Kit Ernest
Mr. Leung Ka Fai

## NOMINATION COMMITTEE

Mr. Leung Ka Fai *(Chairman)*
Mr. Wu Wing Hang
Mr. Wong Yiu Kit Ernest

## REMUNERATION COMMITTEE

Mr. Wong Yiu Kit Ernest *(Chairman)*
Mr. Wu Wing Hang
Mr. Lee Man Tai

## COMPANY SECRETARY

Ms. Lee Ying Ying

## AUTHORISED REPRESENTATIVES

Mr. Wu Wing Hang
Ms. Lee Ying Ying

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1108, 11/F.
Tuen Mun Central Square
No. 22 Hoi Wing Road
Tuen Mun
New Territories
Hong Kong

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong
(with effect from 11 July 2019:
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong)

## PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited

## AUDITOR

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

## COMPANY'S WEBSITE

www.ppgh.com.hk

## STOCK CODE

1581

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of Directors (the "Director") of Progressive Path Group Holdings Limited (the "Company"), it is my pleasure to present to you the 2019 annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2019 (the "Year").

For the Year, the Group's revenue decreased by approximately 42.0% to approximately HK$221.3 million as compared to approximately HK$381.8 million for the year ended 31 March 2018. The Group's profit attributable to shareholders decreased from approximately HK$5.7 million for the year ended 31 March 2018 to loss of approximately HK$45.5 million for the year ended 31 March 2019. Such change from profit to loss were mainly due to the combined effect of (i) a substantial decline in revenue from construction work as most of the construction projects were substantially completed and keen competition faced by the Group in obtaining new businesses during the Year; (ii) a substantial decline in revenue from construction machinery rental income, which was mainly caused by the completion of the Hong Kong Section of the Express Rail Link and the artificial island of the Hong Kong-Zhuhai-Macao Bridge and fewer construction projects available in the market; (iii) substantial decrease in revenue from trading of construction machinery as the demand of those machines decrease; and (iv) a decline in gross profit margin since the depreciation cost of machinery purchased recently remained significant.

Despite the fact that most of the Ten Major Infrastructure Projects have been completed, the government still keeps up its investment in Hong Kong for sustaining a long term growth. The construction industry in Hong Kong is expected to grow in the coming years after the launch of major projects such as the Three-runway system at Chek Lap Kok Airport, Tuen Mun – Chek Lap Kok Link, etc. Thus, the Group has invested on upgrading the rental fleet by bringing in brand new and environmentally friendly equipment, which has ensured the continuous provision of high quality, reliable and safe equipment to the construction market.

Looking ahead, the Group will seek to continue to improve its integrated competitiveness and profitability by enhancing the tendering strategy and product and service offerings. The Group has always had our strategies for striving long term success. The Director will also closely and carefully monitor the latest development in the foundation and site formation industry as well as the construction machinery rental industry in Hong Kong. The Board believes the Group's business strategy and industry expertise could generate and contribute greater value to its shareholders and investors.

On behalf of the Board, I would like to take this opportunity to express my gratitude to the Group's management team and staff members for their continuous dedication and contribution to the Group over the years. I would also offer my heartfelt thanks to the Group's business partners for their support and trust. Last but not least, I convey my appreciation for the support of the shareholders.

**Wu Wing Hang**
*Chairman*

Hong Kong, 26 June 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

The worldwide economic environment and the local economy in Hong Kong are full of uncertainties and challenges and have affected the market on the negative side. The large construction projects, for examples, the Hong Kong Section of the Express Rail Link and the artificial island of the Hong Kong-Zhuhai-Macao Bridge have substantially completed and opened for public use during the year, The Group also has had to adjust our tendering strategies by lowering the bidding prices for new contracts in order to maintain our competitiveness. Nevertheless, the Directors believe that the demand for construction machinery will grow in the coming years after the launch of major projects, for examples, Three-runway system at Chek Lap Kok Airport, Tuen Mun – Chek Lap Kok Link, etc. Thus, the Group has invested on upgrading the rental fleet by bringing in brand new and environmentally friendly equipment, which has ensured the continuous provision of high quality, reliable and safe equipment to the construction market.

Despite the uncertainty of the global political and economic atmosphere, the Group is confident about the outlook and the prospects of the construction industry in Hong Kong. We believe that the Group is well positioned to capture the growing demand for the foundation and site formation industry as well as the construction machinery rental industry in Hong Kong.

## BUSINESS AND FINANCIAL REVIEW

The Group is principally engaged in (i) construction works; (ii) the provision of construction machinery rental services; and (iii) trading of construction machinery. Our construction machinery rental services represent the rental of construction machines and construction vehicles to our customers, and the provision of machine operators and transportation services as part of our one-stop construction machinery rental services. Our construction works represent the construction projects undertaken by us, the nature of which are broadly classified as foundation and site formation works, and builder's work and general building works. Our trading of new construction machinery are sourced from the construction machinery manufacturer in Korea.

Going forward, we will continue to focus on developing our business by undertaking new construction projects, rental arrangements and trading of construction machinery in Hong Kong.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RISKS AND UNCERTAINTIES

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following highlights are the principal risks and uncertainties identified by the Group. Such factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

### *Operational Risks*

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

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

It is quite common in the construction industry that the settlement of the receivables take relatively a longer period of time by our customers especially at the times of unexpected crises due to political and economic factors. To mitigate the pressure of financial liquidity, the Group prepares aging analysis on a regular basis and communicates with the management level of the customers so as to get better understanding of their solvency status.

### *Market Risks*

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

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

However, construction machinery rental service is constraint by the rules and regulation imposed by the Environmental Protection and Labour Department of HKSAR. New legal challenges and policies could be released due to the change of environmental and social issues. Such changes will lead to increase of cost and burden for the Group. In light of such potential risk, we have acquired new environmental type of machineries to replace the old ones so to meet the environmental requirements and protect the public health.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

During the Year, the Group had revenue generated from construction works, construction machinery rental and trading of construction machinery. Set out below is the breakdown of revenue of the Group during the Year and 2018:

| | Year ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Construction works | **82,772** | 133,595 |
| Construction machinery rental | **132,036** | 196,794 |
| Trading of construction machinery | **6,530** | 51,427 |
| | **221,338** | 381,816 |

### *Revenue from construction works*

During the Year, the revenue derived from our ten projects (2018: eleven projects) amounted to approximately HK$82.8 million (2018: HK$133.6 million), accounting for approximately 37.4% (2018: 35.0%) of our total revenue. Such decrease in revenue was the results of the completion of four out of these ten construction projects, where generally a relatively lower revenue was derived from projects at their ending phase and keen competition faced by the Group obtaining new business during the Year. At the meanwhile, the Group has engaged in two new projects during the Year (2018: three projects); nevertheless, one of them only commenced since October 2018 and did not contribute much revenue to the Group yet during the Year. The Group has been actively participating in tenders for new public and private construction projects.

As at 31 March 2019, there were six projects on hand with total outstanding contract sum amounting to HK$70.4 million. Four projects are expected to be completed in the year ending 31 March 2020, two projects are expected to be completed in the year ending 31 March 2021 and none of them is expected to have any material interruption.

# MANAGEMENT DISCUSSION AND ANALYSIS

Below set out a list of projects which contributed revenue to the Group during the Year:

| Site Location | Type of Works | Status |
|---|---|---|
| Hong Kong International Airport | Foundation and site formation works | Completed |
| Hong Kong Boundary Crossing Facilities | Foundation and site formation works | Completed |
| West Kowloon Terminus Station North | Builder's work and general building works | Completed |
| Tuen Mun | Builder's work and general building works | Work in progress |
| Liantang/Heung Yuen Wai Boundary Control Point | Builder's work and general building works | Work in progress |
| Anderson Road Quarry Site | Foundation and site formation works | Work in progress |
| Hong Kong International Airport North Commercial District | Foundation and site formation works | Work in progress |
| HK-ZH-Macau bridge Hong Kong Boundary Crossing Facilities – Vehicle Clearance Plazas and Ancillary Buildings and Facilities | Foundation and site formation works | Completed |
| Yau Tong | Foundation and site formation works | Work in progress |
| Tuen Mun – Chek Lap Kok Link – Northern Connection Sub-sea Tunnel Section | Foundation and site formation works | Work in progress |

### *Revenue from construction machinery rental*

During the Year, the revenue derived from the construction machinery rental amounted to approximately HK$132.0 million (2018: HK$196.8 million), accounting for approximately 59.6% (2018: 51.5%) of our total revenue. The substantial decline in construction machinery rental income of the Group was mainly the result of the decrease in demand for machinery rental business accordingly upon the completion of the Hong Kong Section of the Express Rail Link and the artificial island of the Hong Kong-Zhuhai-Macao Bridge and fewer construction projects available in the market.

### *Revenue from trading of construction machinery*

During the Year, the revenue derived from our trading of construction machinery business amounted to approximately HK$6.5 million (2018: HK$51.4 million), accounting for approximately 3.0% (2018: 13.5%) of our total revenue. The substantial decrease in revenue from trading of construction machinery as the demand of those machines decrease, which is mainly due to the same reasons with the decrease in revenue in construction machinery rental business stated above.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROSS (LOSS)/PROFIT AND GROSS (LOSS)/PROFIT MARGIN

The Group's total gross profit decreased by approximately HK$55.9 million, from approximately HK$36.6 million for the year ended 31 March 2018 to gross loss of approximately HK$19.3 million for the Year while our gross profit margin decreased from approximately 9.6% for the year ended 31 March 2018 to gross loss margin of approximately 8.7% for the Year. The decrease in gross profit margin was mainly attributable to (i) some projects incurred loss as additional construction costs were incurred towards the completion stage; (ii) the decrease in gross profit margin of newly awarded contracts; (iii) the general price reduction for construction machinery rental services; (iv) the cost of fuel and gasoline increased steadily during the Year; and (v) the depreciation cost of recently purchased machinery remained significant during the Year. Below set out the breakdowns of the gross (loss)/profit and gross (loss)/profit margin of the Group:

| | Year ended 31 March | | | |
|---|---|---|---|---|
| | **2019 HK$'000** | | 2018 HK$'000 | |
| | **Gross (Loss)/ Profit** | **Gross (Loss)/ Profit Margin** | Gross Profit | Gross Profit Margin |
| Construction works | **(6,550)** | **(7.9%)** | 14,324 | 10.7% |
| Construction machinery rental | **(13,933)** | **(10.6%)** | 17,888 | 9.1% |
| Trading of construction machinery | **1,168** | **17.9%** | 4,406 | 8.6% |
| | **(19,315)** | **(8.7%)** | 36,618 | 9.6% |

## ADMINISTRATIVE EXPENSES

The administrative expenses of the Group for the Year amounted to approximately HK$27.9 million, representing a decrease of approximately 7.9% compared with approximately HK$30.3 million for the previous year. Such decrease is mainly due to the decrease in the general operational costs and legal and professional fee incurred of the Group. The overall decrease in administrative expenses was partially offset by the increase in the loss allowance on trade receivables of approximately HK$2.5 million.

## NET (LOSS)/PROFIT

Loss after tax of approximately HK$45.5 million for the Year as compared to profit of approximately HK$5.7 million for the previous year. The decrease is mainly attributable to the substantial decline in all revenue line and the drop in gross profit margin while the depreciation under the cost of sales did not decrease materially.

## TREASURY POLICY

It is the Group's policy to adopt a prudent approach towards its cash management policies and thus maintained a healthy liquidity position throughout the Year. To minimize the exposure to credit risk, the Group would regularly review the timeliness of receivables settlement and evaluate the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments would constantly meet its funding requirements for current and future operations.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded the liquidity and capital requirements primarily through capital contributions from shareholders, bank borrowings, cash inflows from operating activities.

As at 31 March 2019, the Group had bank balances of approximately HK$42.7 million (2018: HK$77.4 million). The decrease is mainly due to the acquisition of new fleets of machineries during the Year. The new bank borrowings during the Year was approximately HK$94.9 million (2018: HK$55.2 million). The total interest-bearing liabilities of the Group including bank loans and finance leases as at 31 March 2019 was approximately HK$104.8 million (2018: HK$135.3 million). The gearing ratio is calculated based on the amount of total interest-bearing liabilities divided by total equity. The gearing ratio of the Group as at 31 March 2019 was approximately 51.4% (2018: 53.6%).

## PLEDGE OF ASSETS

As at 31 March 2019, the Group's bank borrowings and finance lease liabilities were secured by the property and machinery and equipment with an aggregate net carrying value of approximately HK$69.2 million (2018: HK$67.1 million) and insurance prepayment with an aggregate net book value of approximately HK$9.8 million (2018: HK$9.6 million).

## FOREIGN EXCHANGE RISK

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

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group employed 263 staff (2018: 279). Total staff costs including Directors' emoluments for the Year amounted to approximately HK$89.0 million (2018: HK$86.9 million). The salary and benefit levels of the employees of the Group are competitive and individual performance is rewarded through the Group's salary and bonus system. The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the qualification and performance of each employee.

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 32 to the consolidated financial statements.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL EXPENDITURE AND COMMITMENTS

Our capital expenditure primarily comprises purchase of machinery and motor vehicles. Our capital expenditure was principally funded by bank borrowings, finance leases, internal resources and proceeds from new shares offer through the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 December 2016 (the "Listing"). The following table sets forth our Group's capital expenditure during the Year and previous year:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Motor vehicles | **2,716** | 9,766 |
| Machinery | **51,240** | 30,485 |
| Others | **8** | 628 |
| | **53,964** | 40,879 |

As at 31 March 2019, the Group had no material capital commitments.

## CONTINGENT LIABILITIES

As at 31 March 2019, one of the subsidiaries has been named as defendant in two (2018: four) High Court actions in respect of claim for compensation of personal injury for an amount of approximately HK$7.7 million (2018: HK$6.8 million) in aggregate. The Directors considered the claims are covered by the relevant insurance policies. No provision for potential liability has been made in the consolidated financial statements.

## EVENTS AFTER THE YEAR

There is no material subsequent event undertaken by the Company or by the Group after 31 March 2019 and up to the date of this annual report.

## SIGNIFICANT INVESTMENT AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Year, the Group had no significant investment held and did not have any material acquisition and disposal of subsidiaries and associated companies.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, the Group did not have other plans for material investments and capital assets during the Year and as at the date of this annual report.

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Year and up to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

## FINAL DIVIDEND

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS FROM LISTING

The Company's shares have been listed on the Main Board of the Stock Exchange since 8 December 2016. After the exercise of the Over-allotment Option, the receipt of proceeds, after deduction of underwriting commission and other related estimated listing expenses, including both recognized in the consolidated statement of comprehensive income and deducted from the share premium ("net proceeds") from the Listing were approximately HK$102.3 million. As at 31 March 2019, the net proceeds had been utilized as follows:

| **Use of net proceeds** | **Net proceeds from the share offer** HK$ million | **Actual utilization up to 31 March 2019** HK$ million | **Unutilized amounts as at 31 March 2019** HK$ million |
|---|---|---|---|
| Replacement and enhancement our fleet of machinery | 80.4 | 53.3 | 27.1 |
| Reinforcement of our workforce | 12.2 | 8.5 | 3.7 |
| General working capital | 9.7 | 9.7 | – |
| | 102.3 | 71.5 | 30.8 |

The unutilized amounts of the net proceeds will be applied in the manner consistent with that mentioned in the prospectus of the Company dated 28 November 2016. The unutilized net proceeds had been deposited into licensed bank in Hong Kong.

## PROSPECTS

Despite the fact that most of the Ten Major Infrastructure Projects have been completed, in view of the Policy of the Government of the Hong Kong Special Administrative Region, the Government continue in increasing land supply and commitment to infrastructure investments, the Group expects a rebound in the construction industry in the long run. To maintain our competitiveness, the Group continues to replace and enhance our fleet of machinery to strengthen the market position in Hong Kong to capture more sizeable and profitable projects and construction machinery rental business.

Premised on those competitive edges of the Group, the Board remain confident with the future development of the Group. Nevertheless, we believe that we should have touched the bottom and an improvement of our business is expected in the future.

## CHANGE OF INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the change of information of Director is as follow:

Mr. Wong Yiu Kit Ernest resigned as an independent non-executive director of Legend Strategy International Holdings Group Company Limited (stock code: 1355) in September 2018.

# REPORT OF THE DIRECTORS

The Board presents to the shareholders this annual report together with the audited consolidated financial statements for the Year.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company while the principal subsidiaries are principally engaged in the construction works, provision of construction machinery rental services and trading of construction machinery. Details of the principal activities of its subsidiaries are set out in notes 1 and 38 to the consolidated financial statements. There was no significant change in the Group's principal activities during the Year.

## BUSINESS REVIEW

Discussion and analysis of principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622), including a discussion of the principal risks facing the Group and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" set out on pages 4 to 11 of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 46 of this annual report. No dividend was paid or proposed by the Company during the Year, nor has any dividend been proposed by the Directors since the end of the Year.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements of this annual report.

## RELATIONSHIP WITH KEY STAKEHOLDERS

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

### *Employees*

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

### *Customers*

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

# REPORT OF THE DIRECTORS

### *Sub-contractors and Suppliers*

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

## SHARE CAPITAL AND SHARES ISSUED DURING THE YEAR

Details of movements during the Year in the share capital of the Company are set out in note 28 to the consolidated financial statements of this annual report.

## RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 49 of this annual report.

As at 31 March 2019, the Group had retained profit amounted to approximately HK$48,945,000 available for distribution to the Company's shareholders.

## EQUITY-LINKED AGREEMENTS

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

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 15 November 2016. The principal terms of the Share Option Scheme is set out in note 32 to the consolidated financial statements of this annual report. The main purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group. The total number of shares available for issue under the Share Option Scheme is 100,000,000 shares, representing 9.64% of the issued shares of the Company as at the date of this annual report.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme during the Year and up to the date of this annual report.

## DIRECTORS

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

*Executive Directors*
Mr. Wu Wing Hang
Mr. Chan Tak Ming

*Independent Non-Executive Directors*
Mr. Wong Yiu Kit Ernest
Mr. Lee Man Tai
Mr. Leung Ka Fai

# REPORT OF THE DIRECTORS

In accordance with article 108 of the Company's articles of association (the "Articles"), Mr. Wu Wing Hang and Mr. Wong Yiu Kit Ernest will retire from office as Directors at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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

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

## DIRECTORS' SERVICE CONTRACT

All the INEDs have respectively entered into a letter of appointment with the Company for a term of two years unless terminated by not less than three month's notice in writing served by either party on the other.

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

## MANAGEMENT CONTRACTS

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

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

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

## COMPETING INTERESTS

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

# REPORT OF THE DIRECTORS

## NON-COMPETITION UNDERTAKING

Each of the controlling shareholders has made an annual declaration to the Company up to 31 March 2019, he/it has complied with the terms of non-competition undertakings ("Non-Competition Undertakings") given in favour of the Company. The INEDs have also reviewed the status of compliance by each of the controlling shareholders with the undertakings stipulated in the Non-Competition Undertakings and have confirmed that, as far as the INEDs can ascertain, there is no breach of any of such undertakings.

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

As at 31 March 2019, interests and long positions in the shares, underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules are as follows:

### *(i) Long position in the shares*

| Name of Director | Capacity/Nature of interest | Shares held | Approximate number of shareholding percentage |
|---|---|---|---|
| Mr. Wu Wing Hang ("Mr. Wu") | Interest in controlled corporation – Corporate interest (Note) | 610,995,000 | 58.89% |

Note: The 610,995,000 shares are held by Profit Gold Global Limited ("Profit Gold"). Mr. Wu beneficially owns 100% of the entire issued share capital of Profit Gold and is deemed, or taken to be, interested in all the shares held by Profit Gold for the purposes of the SFO. Mr. Wu is the director of Profit Gold.

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

| Name of Director | Name of associated corporation | Capacity/Nature | Number of shares held | Percentage of shareholding |
|---|---|---|---|---|
| Mr. Wu | Profit Gold | Beneficial owner (Note) | 1 | 100% |

Note: Mr. Wu beneficially owns 100% of the entire issued share capital of Profit Gold, and he is deemed or taken to be interested in all the shares in Profit Gold for the purposes of the SFO. Mr. Wu is the director of Profit Gold.

### *(iii) Short positions*

Other than as disclosed above, as at 31 March 2019, none of the Directors nor chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

# REPORT OF THE DIRECTORS

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

As at 31 March 2019, so far as it is known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or individuals (other than a Director or chief executive of the Company) who had or were deemed or taken to have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in the shares of the Company:

| Name | Capacity/Nature of interest | Number of shares held/ interested in | Percentage of shareholding |
|---|---|---|---|
| Profit Gold | Beneficial owner (Note 1) | 610,995,000 | 58.89% |
| Ms. Kwok Wai Sheung Melody ("Ms. Kwok") | Interest of spouse (Note 2) | 610,995,000 | 58.89% |

Notes:

1. 610,995,000 shares were beneficially owned by Profit Gold, which is wholly owned by Mr. Wu.

2. Ms. Kwok, being spouse of Mr. Wu is deemed to be interest in the 610,995,000 shares held by Mr. Wu under the SFO.

Save as disclosed above, as at 31 March 2019, the Directors are not aware of any other corporation or individual (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have, any interests or short positions in any shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

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

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

The approximate percentages of the Group's revenue and cost of sales attributable to major customers, subcontractors and suppliers during the Year and 2018 are as follows:

| | **31 March 2019** | 31 March 2018 |
|---|---|---|
| Approximate % of total revenue | | |
| from the largest customer | **34.3%** | 21.3% |
| from the five largest customers in aggregate | **50.4%** | 51.2% |
| Approximate % of cost of sales | | |
| from the largest subcontractor | **10.5%** | 7.8% |
| from the five largest subcontractors in aggregate | **15.9%** | 18.5% |
| from the largest supplier | **3.3%** | 13.2% |
| from the five largest suppliers in aggregate | **7.0%** | 21.4% |

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

## PRE-EMPTIVE RIGHTS

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

## RELATED PARTY TRANSACTIONS

With respect to the related party transactions as disclosed in note 33 to the consolidated financial statements of this annual report, all transactions which also constitute connected transactions or continuing connected transactions are fully exempted connected transactions or continuing connected transactions of the Company as all the applicable percentage ratios are less than 0.1%. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in relation to any connected transactions and continuing connected transactions.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS

During the Year, there were no connected transactions or continuing connected transactions of the Company which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## MARKET CAPITALIZATION

As at 31 March 2019, the market capitalization of the listed securities of the Company was approximately HK$347,562,500 based on the total number of 1,037,500,000 issued shares of the Company and the closing price of HK$0.335 per share.

## PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

## EVENTS AFTER YEAR

There is no material subsequent event undertaken by the Company or by the Group after 31 March 2019 and up to the date of this annual report.

## INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 March 2019 have been audited by SHINEWING (HK) CPA Limited, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

## CORPORATE GOVERNANCE CODE

The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the Year and up to the date of this annual report except for the deviation from code provision A.2.1 of the CG Code as explained in the Corporate Governance Report.

The details of Group's compliance with the CG Code is set out in the Corporate Governance Report from page 24 to page 32 of this annual report.

## CHARITABLE DONATIONS

During the Year, the Group made charitable donations amounting to approximately HK$107,300.

## DIRECTORS AND OFFICERS INSURANCE

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

# REPORT OF THE DIRECTORS

## ENVIRONMENTAL POLICIES

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

Details are set out in the Environmental, Social and Governance Report (the "ESG Report") from page 33 to page 39 of this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

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

On behalf of the Board
**Wu Wing Hang**
*Chairman*

Hong Kong, 26 June 2019

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### *Executive Directors*

**Mr. Wu Wing Hang (胡永恒) ("Mr. Wu")**, aged 40, is the founder of our Group. Mr. Wu is also a member of the nomination and remuneration committee. He was appointed as a Director on 21 April 2016 and was designated as an executive Director on 13 July 2016. He was also appointed as the Chairman of our Group on 13 July 2016. He is currently responsible for overseeing the corporate strategy and operational management of our Group. Mr. Wu is also a director of all the wholly-owned subsidiaries of our Group.

Mr. Wu has over 20 years of experience in the construction works and construction machinery rental service industry. He completed his secondary school education in City College in Hong Kong in 1995. In 2010, Mr. Wu established Luen Yau Construction Company. He established Luen Yau Construction Company Limited in December 2007 and served as its director.

Mr. Wu is the spouse of Ms. Kwok Wai Sheung Melody, the human resources and administration Manager of the Company. For Mr. Wu's interest in the shares of the Company within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors" in this annual report.

**Mr. Chan Tak Ming (陳德明) ("Mr. Chan")**, aged 53, was appointed as Director on 31 May 2016 and was designated as an executive Director on 13 July 2016. He is currently responsible for overseeing the rental operation of our Group.

Mr. Chan has over 30 years of experience in the construction works and construction machinery rental service industry. He completed his secondary school education in Oberlin College in Hong Kong in 1983. Mr. Chan joined our Group in August 2003 as a machine operator and was promoted to the position of head of machine rental department in July 2013.

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## *Independent Non-executive Directors*

**Mr. Wong Yiu Kit Ernest (黃耀傑) ("Mr. Wong")**, aged 51, was appointed as an independent non-executive Director on 15 November 2016. He is also the chairman of the remuneration committee and a member of the audit and nomination committees of our Company.

Mr. Wong has over 25 years of experience in venture capital, corporate finance, business development and general management. Mr. Wong is the president and group chief financial officer of KVB Kunlun Holdings Limited and is the executive director, chief financial officer and the company secretary of KVB Kunlun Financial Group Limited (stock code: 6877). Mr. Wong is also an independent non-executive director of Renheng Enterprise Holdings Limited (stock code: 3628), HongDa Financial Holding Ltd (stock code: 1822), China Regenerative Medicine International Limited (stock code: 8158) and Common Splendor International Health Industry Limited (stock Code: 286) whose shares are listed on the Stock Exchange. Mr. Wong served as the board director at Adamas Finance Asia Limited from May 2008 to June 2019. a company listed on the London Stock Exchange (LSE stock code: ADAM), and served as its chief financial officer from May 2008 to October 2011. Mr. Wong also served as the chief financial officer of the Hong Kong Applied Science and Technology Research Institute and the vice president of Vertex Management (HK) previously. Mr. Wong was an independent non-executive director of Legend Strategy International Holdings Group Company Limited (stock code: 1355) from November 2016 to September 2018, whose shares are listed on the Stock Exchange.

Mr. Wong obtained a bachelor's degree in business administration from The University of Hong Kong, a master's degree of science in investment management from The Hong Kong University of Science and Technology and a master's degree of science in electronic engineering from the Chinese University of Hong Kong. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in England and Wales. He is also the charter-holder of the Institute of Chartered Financial Analysts. He is now the deputy chairman of the HKU Convocation, the court member of The University of Hong Kong, the past president of the Hong Kong University Graduates Association and a committee member of the Association of Chartered Certified Accountants Hong Kong.

**Mr. Lee Man Tai (李文泰) ("Mr. Lee")**, aged 42, was appointed as an independent non-executive Director on 15 November 2016. He is also the chairman of the audit committee and a member of the remuneration committee of our Company.

In November 2000, Mr. Lee obtained his Bachelor degree in business administration from Lingnan University, Hong Kong. In November 2010, he further obtained a Master degree in business administration in financial services from The Hong Kong Polytechnic University. Mr. Lee was admitted as a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants in May 2012 and October 2012 respectively. He is also a representative for Type 1 and Type 6 regulated activities under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong).

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee has over 17 years of experience in financial and auditing industries. Mr. Lee served as the chief financial officer and company secretary in several listed companies including China Yuanbang Property Holdings Limited, a listed company on the main board of Singapore Exchange Securities Trading Limited with stock code BCD between October 2006 to October 2012, China 33 Media Group Limited (stock code: 8087) between October 2012 and May 2014 and Flying Financial Service Holdings Limited (stock code: 8030) as the chief financial officer between July 2014 to April 2015 and company secretary between August 2014 to April 2015. Mr. Lee also served as the company secretary and financial controller of Chanco International Group Limited (with its name changed to Ascent International Holdings Limited effective from 14 June 2016) (stock code: 264) from April 2015 to September 2015 and from April 2015 to January 2016 respectively. He is currently an independent non-executive director of China Energy Development Holdings Limited (stock code: 228) since January 2016.

**Mr. Leung Ka Fai (梁家輝) ("Mr. Leung")**, aged 40, was appointed as an independent non-executive Director on 15 November 2016. He is also the chairman of the nomination committee and a member of the audit committee of our Company.

In October 2008, Mr. Leung obtained his Master degree in Chinese language and literature from The Hong Kong Polytechnic University. He further obtained a Postgraduate diploma in education (teaching in Chinese) from The Hong Kong Baptist University in November 2012 as well as a Master degree in sociology from The Chinese University of Hong Kong in November 2014.

Mr. Leung is a district council member of Sha Tin District Council since January 2008. He is also a committee member of Yunfu City of the Chinese People's Political Consultative Conference in PRC from January 2013 to January 2016.

Mr. Leung has over 5 years of experience in management. He served as a business director of Beta Field Capital Limited from December 2011 to February 2012 and an independent non-executive director of China Biotech Services Holdings Limited (stock code: 8037, formerly known as Rui Kang Pharmaceutical Group Investments Limited and Longlife Group Holdings Limited respectively) from June 2013 to December 2017. He was also appointed as an independent non-executive director of China Ding Yi Feng Holdings Limited (stock code: 612, formerly known as China Investment Fund International Holdings Limited and China Investment Fund Company Limited respectively) from 22 April 2016 to 20 July 2016 and subsequently appointed and redesignated as a non-executive director with effect from 31 October 2016 (the trading of its shares was suspended since 8 March 2019).

# BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Ms. Kwok Wai Sheung Melody (郭慧嫦) ("Ms. Kwok")**, aged 41, is our human resources and administration manager. She is currently responsible for human resources management, training and education of employees.

In 1995, Ms. Kwok completed her secondary school education in Ho Ngai Prevocational School (Sponsored by Sik Sik Yuen) in Hong Kong. Ms. Kwok is the spouse of Mr. Wu.

Ms. Kwok has over 19 years of experience in the construction industry. She joined Luen Yau Construction Co. in July 2003 as a human resources and administration manager. Prior to joining our Group, Ms. Kwok worked as a site clerk in Dickson Construction Co., Ltd. from September 1998 to December 2000 and China Harbour Engineering Co. from November 1997 to September 1998.

## COMPANY SECRETARY

**Ms. Lee Ying Ying (李盈熒) ("Ms. Lee")**, aged 44, is our chief financial officer and company secretary and was appointed on 13 July 2016. She joined our Group in December 2015 and is currently responsible for finance management and company secretarial works.

In December 2005, Ms. Lee obtained her Master degree in professional accounting from The Hong Kong Polytechnic University. She was admitted as an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in June 2002 and a fellow member of the Association of Chartered Certified Accountants in April 2007.

Ms. Lee has over 20 years of experience in the auditing and accounting field. She has served a number of auditing position in various private companies from June 1994 to November 2003. From November 2003 to February 2013, Ms. Lee served as an administration and financial director and was promoted to the chief financial officer in 3 Wells Group Holdings Limited. She is also as a director of P&M Corporate Services Limited since December 2013.

# CORPORATE GOVERNANCE REPORT

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

According to code provision A.2.1 of the CG Code, the role of the chairman and the chief executive officer of the Company should be separate and should not be performed by the same individual. Throughout the Year and up to the date of this annual report, the role of the chairman of the Company is performed by Mr. Wu Wing Hang but the office of the chief executive officer of the Company is vacated. The daily operation and management of the Company is monitored by the executive Directors as well as the senior management. The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company.

Having made specific enquiry of all Directors, the Company is satisfied that all the Directors have complied with the Model Code throughout the Year.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

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

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

The composition of the Board is as follows:

*Executive Directors*
Mr. Wu Wing Hang *(Chairman)*
Mr. Chan Tak Ming

*Independent non-executive Directors*
Mr. Wong Yiu Kit Ernest
Mr. Lee Man Tai
Mr. Leung Ka Fai

Biographical details of each Director and relationship between Board members are set out on page 20 to page 23 of this annual report.

The Company has signed a letter of appointment with each of the independent non-executive Directors. For a term of two years, which may be terminated earlier by no less than three months' written notice served by either party on the other.

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

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

# CORPORATE GOVERNANCE REPORT

During the Year, five regular Board meetings and a general meeting were held. Details of the attendance of the Directors to the regular Board meetings and general meeting are as follows:

| Directors | Attendance/ Number of Board Meetings | Attendance/ Number of General Meetings |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wu Wing Hang | 5/5 | 1/1 |
| Mr. Chan Tak Ming | 5/5 | 1/1 |
| *Independent non-executive Directors* | | |
| Mr. Wong Yiu Kit Ernest | 4/5 | 1/1 |
| Mr. Lee Man Tai | 4/5 | 1/1 |
| Mr. Leung Ka Fai | 4/5 | 1/1 |

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

## BOARD DIVERSITY

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

## CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company encourages the Directors to attend any relevant programme to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively. During the Year, the Directors have participated in continuous professional development programmes, such as external seminars organized by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. All Directors have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest. Such induction materials and briefing will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

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

## BOARD COMMITTEES

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

| Directors | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Mr. Wu Wing Hang | – | M | M |
| Mr. Chan Tak Ming | – | – | – |
| Mr. Wong Yiu Kit Ernest | M | M | C |
| Mr. Lee Man Tai | C | – | M |
| Mr. Leung Ka Fai | M | C | – |

Notes:

C – Chairman of the relevant committee

M – Member of the relevant committee

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

Pursuant to Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code, the Audit Committee comprises three independent non-executive Directors, namely Mr. Lee Man Tai, Mr. Wong Yiu Kit Ernest and Mr. Leung Ka Fai. Mr. Lee Man Tai is the Chairman of the Audit Committee. The primary duties of the Audit Committee include, among other things, reviewing and supervising the financial reporting process and internal control systems, as well as the overall risk management of the Group, reviewing the consolidated financial statements and the interim and annual reports of the Group, reviewing the terms of engagement and scope of audit work of the external auditors, and performing the corporate governance function.

The Audit Committee's authority and duties are set out in written terms of reference, which have been revised by the Board on 31 December 2018 and are available on the websites of the Company and the Stock Exchange.

The Audit Committee held three meetings during the Year to review, and recommend to the Board for approval, the audited financial statements of the Company for the year ended 31 March 2018, the unaudited interim financial statements for the six-month period ended 30 September 2018, the internal control and financial reporting matters, and produced with the revised terms of reference of the Audit Committee. The individual attendance record of each member at the meetings of Audit Committee are set out below:

| Name of member of the Audit Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Lee Man Tai | 3/3 |
| Mr. Wong Yiu Kit Ernest | 3/3 |
| Mr. Leung Ka Fai | 3/3 |

## NOMINATION COMMITTEE

Pursuant to paragraph A.5 of the CG Code, the Nomination Committee comprises one executive Director, namely Mr. Wu Wing Hang and two independent non-executive Directors, namely Mr. Leung Ka Fai and Mr. Wong Yiu Kit Ernest. Mr. Leung Ka Fai is the Chairman of the Nomination Committee. The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying and nomination of Directors and making recommendations to the Board on appointment and re-appointment of Directors.

# CORPORATE GOVERNANCE REPORT

During the Year, the Nomination Committee held two meetings to (i) review the structure, size and diversity of the Board; (ii) assess the independence of the independent non-executive Directors; (iii) recommend to the Board for consideration the re-election of all the retiring Directors at the forthcoming annual general meeting; and (iv) produced with the revised terms of reference of the Nomination Committee. The individual attendance record of each member of the Nomination Committee is set out below:

| Name of member of the Nomination Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Leung Ka Fai | 2/2 |
| Mr. Wu Wing Hang | 2/2 |
| Mr. Wong Yiu Kit Ernest | 2/2 |

The Board has adopted the nomination policy which sets out the nomination criteria and procedures for the Company to appoint additional Directors or re-elect Directors.

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations. Qualified candidates will then be recommended to the Board for approval.

## REMUNERATION COMMITTEE

Pursuant to paragraph B.1 of the CG Code, the Remuneration Committee comprises one executive Director, namely Mr. Wu Wing Hang and two independent non-executive Directors, namely Mr. Wong Yiu Kit Ernest and Mr. Lee Man Tai. Mr. Wong Yiu Kit Ernest is the Chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, formulating and making recommendations to the Board on the remuneration policy, determining the specific remuneration packages of all executive Directors and senior management and making recommendations to the Board of the remuneration of independent non-executive Directors.

The Remuneration Committee's authority and duties are set out in written terms of reference, which have been revised by the Board on 31 December 2018 that are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee held one meeting during the Year and the individual attendance record of each member of the Remuneration Committee is set out below:

| Name of member of the Remuneration Committee | Attendance/ Number of Meetings |
|---|---|
| Mr. Wong Yiu Kit Ernest | 1/1 |
| Mr. Wu Wing Hang | 1/1 |
| Mr. Lee Man Tai | 1/1 |

No Director takes part in any discussion about his own remuneration. Full details of remuneration of the Directors and the five highest paid employees are provided in notes 12 and 13 respectively to the consolidated financial statements of this annual report.

# CORPORATE GOVERNANCE REPORT

## COMPANY SECRETARY

The Company Secretary, who is also the chief financial officer of the Company, is a full time employee of the Company. During the Year, the Company Secretary undertook no less than 15 hours of relevant professional training as required under Rule 3.29 of the Listing Rules. Her biography is set out on page 23 of this annual report in the section of "Biographies of the Directors and Senior Management".

## ACCOUNTABILITY AND AUDIT

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

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

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

## DISCLOSURE OF INSIDE INFORMATION

The Company has put in place a policy for the disclosure of inside information in compliance with the SFO. The policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Company and its subsidiaries.

## AUDITOR'S REMUNERATION

During the Year, the remuneration paid or payable to the Company's auditor, SHINEWING (HK) CPA Limited, and its affiliated firms, in respect of their audit and non-audit services was as follows:

| | **Service Fee** HK$'000 |
|---|---|
| Audit services | 894 |
| Non-audit services: | |
| – Review for interim report | 250 |
| – Others* | 36 |
| | 286 |
| Total | 1,180 |

* Performed by SHINEWING (HK) CPA Limited's affiliated firms.

## DIVIDEND POLICY

The Company has adopted a dividend policy on 31 December 2018. Pursuant to the policy, the Board should take into account, the actual and expected financial performance of the Group; retained earnings and distributable reserves of the Company and each of the other members of the Group; economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group, business strategies of the Group, including future cash commitments and investment needs to sustain the long-term growth aspect of the business; the current and future operations, liquidity position and capital requirements of the Group; statutory and regulatory restrictions and any other factors that the Board may consider relevant. The Board will review the dividend policy as appropriate from time to time.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

## SHAREHOLDERS' RIGHTS

### *How shareholder can convene an extraordinary general meeting*

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

(a) Pursuant to article 64 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "Eligible Shareholder(s)") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition;

# CORPORATE GOVERNANCE REPORT

(b) The written requisition must state the purposes of the meeting, signed by the Eligible Shareholder(s) and deposit it to the Board or the Company Secretary at the Company's principal place of business at Unit 1108, 11/F., Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists;

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

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

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

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

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the Company Secretary in writing by mail to the Company's principal place of business in Hong Kong at Unit 1108, 11/F., Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories, Hong Kong.

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

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

## SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

As of the year ended 31 March 2019 and up to the date of this annual report, there were no changes made to the constitutional documents of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## INTRODUCTION

The Group is a Hong Kong-based subcontractor engaged in (i) construction works; (ii) the provision of construction machinery rental; and (iii) trading of construction machinery. Our construction works services mainly include foundation and site formation works, and builder's work and general building works. The Group works unstintingly to operate its business in an economic, social and environmentally sustainable manner. It has committed itself to continuous improvement in corporate social responsibility, in order to meet the changing needs of society as it evolves.

This ESG Report has been prepared in compliance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules. The ESG Report primarily highlights the Group's major initiatives and activities from 1 April 2018 to 31 March 2019. It covers major businesses and operations in construction works and construction machinery rental services in Hong Kong.

The Group is committed to comply with laws and regulations covering environmental and social responsibilities that have a significant impact on the Group. We are committed to strengthening corporate social responsibility governance, promoting the sustainable development of the Group, and creating and sharing with stakeholders' sustainable values in the economic, social, and environmental fields.

## ENVIRONMENTAL

### *Emissions*

Reducing greenhouse gas emissions is the most important mitigation measure for tackling climate change, and carbon footprint assessment provides the underlying indicators for reducing greenhouse gas emissions.

#### Air pollutants and greenhouse gas emissions

Multiple sources of emissions are generated from our business operations. Emissions generated by the Group mainly arise from electricity consumption at offices used and from diesel fuel consumed by Group-owned vehicles. Given that emissions were substantially due to equipment usage and Group-owned vehicles, our mitigation strategy focuses significantly on these sources. A range of measures is used to avoid, reduce or control pollution where technically and economically feasible, with the implementation of various energy-saving measures to reduce the emission of greenhouse gases. We have opted to use a more energy-efficient fuel, Shell Fuel-save Diesel, for most of our vehicles and machinery (e.g. excavator and lorry cranes). To reduce the emission of carbon dioxide, the Company has strictly controlled total energy consumption and adjusted the energy utilization structure, to cut down on the use of energy with high carbon dioxide content. It has adopted clean energy and promoted the clean production strategy. While discarding obsolete capacity and processes and purchasing energy-saving and advanced equipment, we have also applied cutting-edge technologies to help with energy conservation and pollution prevention. Under the amendment of the Air Pollution Control Ordinance (Cap. 311, Laws of Hong Kong) in 2008 by the Environmental Protection Department ("EPD"), we ensure all machinery used are diesel-driven, with sulphur content not higher than 0.005%, and endeavour to reduce our carbon emission levels when we are operating in any construction sites.

The Group-owned vehicles are both for rental and construction purposes, therefore the Group is unable to retrieve usage records. As a result, atmospheric emission data for nitrogen oxides and particulate matter are unavailable. Sulphur oxides produced by the combustion of diesel was about 28 kg.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Emissions data during the Year:**

| Type of Emission | Unit (ton) |
|---|---|
| Scope 1 – Direct emissions from fuels used in vehicles | 4,562 |
| Scope 2 – Indirect emissions from purchased electricity | 6 |
| Scope 3 – Other indirect emissions | 3 |
| **Total GHG Emissions** | **4,571** |

### Waste Management

Due to the nature of the industry, the Group does not produce hazardous waste. During the Year, the Group did not experience any emission-related non-compliance issue that could have had a significant impact on the environment. The main non-hazardous wastes of the Group are construction-related which are all disposed of according to the Waste Disposal Ordinance (Cap. 354, Laws of Hong Kong). The Group also strictly follow the requirements of the EPD and the main contractors. We have engaged a qualified construction waste collector to handle construction waste discharges if necessary.

## *Use of Resources*

Environmental protection is the responsibility of every staff of the Group. The focus is on reducing natural resource consumption. The Group promotes the paperless office, encourages employees to maximize the use of electronic communications and electronic documents, avoid unnecessary printing and copying, reduce paper consumption, and recycle office waste paper and other office supplies. To put into practice the concept of the "3Rs" (Reduce, Reuse and Recycle) in our offices and site offices, we have implemented stages of time regarding environmental policies. For instance, we encourage staff to reduce paper usage by double-sided copying and frequent use of electronic information systems for communication and documentation; to switch off lights and electrical facilities/appliances (computers and printers) when leaving the workplace or when they are not in use; to purchase and use energy-efficient products; to use natural lighting and ventilation in site offices; to encourage a paperless work environment in terms of internal and external email communication; and to place recycling bins in offices to encourage recycling.

As a business in the construction industry, the Group is mainly engaged in the construction of infrastructure, real estate, urban complexes, etc. The operational processes do not involve consumption of fresh water, packaging materials or packaging material-related businesses. Therefore, these indicators are not applicable.

During the Year, the natural resources consumed is as follows:

| Use of natural resources | Unit | Consumption | Intensity (Per staff) |
|---|---|---|---|
| Electricity | kWh | 9,066 | 34.4 |
| Paper | kg | 613 | 2.3 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *The Environment and Natural Resources*

Under its commitment to a development path of environmental protection and sustainability, the Group has always taken environmental protection measures in the processes of design, development and operation of each and every project. As a construction business, the Group's environmental impact in the course of business development comprises only solid – vegetation and construction – waste within the scope of construction. Each project of the Group has a site agent to control construction waste and ensure it can be processed in a timely and effective manner. The Group also fosters a greener environment within the scope of construction through a good line design.

To minimize environmental impact, the Group regularly monitors the potential impact of its business operations on the environment and promotes a green office and production environment through four basic principles: reducing, reusing, recycling and replacing. At the same time, the Group verifies the effective use of resources each year, to ensure continuous improvement in this field. The Group has also engaged the Hong Kong Quality Assurance Agency to carry out regular confirmation of our ISO 14001 qualification for management of waste and resource provision in our construction works. During construction works, the operation of machinery and equipment and the construction processes create noise, which may affect people living or working nearby.

We strictly implement the guidelines regarding construction noise pollution caused by our main contractors, and comply with the Noise Control Ordinance (Cap. 400, Laws of Hong Kong). Under the Noise Control Ordinance, all construction activities are controlled by means of a system of Construction Notice Permits ("CNP") issued by the EPD. In addition, the carrying out of general construction works using powered mechanical equipment is prohibited between 7 p.m. and 7 a.m., and at any time on a general holiday, including Sundays, unless a valid CNP is in force. In our daily operations, we seek to minimize impact on wastewater pollution. Based on the guidelines from main contractors, we have set up a wastewater collection basin in each construction site for wastewater handling.

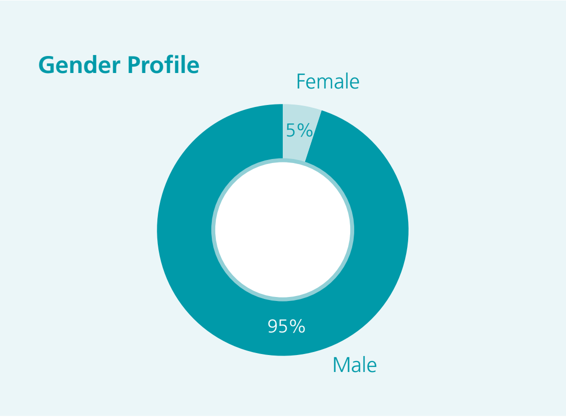
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

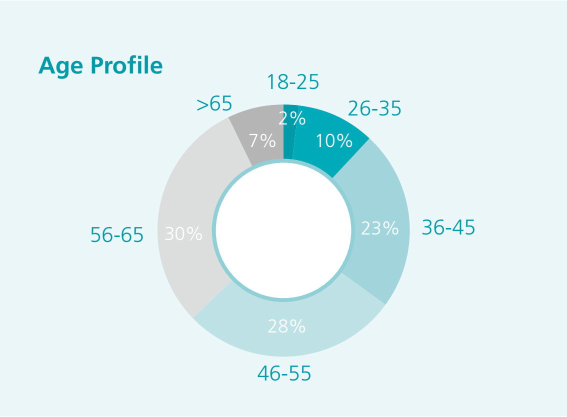
## EMPLOYMENT AND LABOUR PRACTICES

### *Employment*

Employees are the most valuable assets of the Group, and the Group's growth depends on the unremitting efforts and dedicated service of all staff. The Group respects human rights and believes that every employee should be treated with respect. Starting from the employment system, the Group is committed to creating an equal and ideal working environment for our employees. From recruitment to promotion, the Group follows open, fair and ability-first management principles. We only consider the qualifications, experience and skills of applicants and employees, and disregard gender, race, ethnicity, age or religion. The Group makes available a variety of job opportunities, and encourages promotion and retention of talent. To attract and retain talent, we conduct annual appraisals to review staff performance.

As at 31 March 2019, the Group has 263 staff, including office and site staffs. The composition of our staff was shown in the following figures. Due to the nature of our business, male employees represent the major part of our labour force. Due to our operational locations, all our staff members are located in Hong Kong. Moreover, since the major business of the Group is construction as a sub-contractor, the majority of our employees are junior level staff.




Our staff enjoys equality of opportunity while working with us. Under our human resources policies, we comply firmly with the relevant laws and legislation such as the Employment Ordinance (Cap. 57, Laws of Hong Kong), Employees' Compensation Ordinance (Cap. 282, Laws of Hong Kong), Personal Data (Privacy) Ordinance (Cap. 486, Laws of Hong Kong), Sex Discrimination Ordinance (Cap. 480, Laws of Hong Kong) and Disability Discrimination Ordinance (Cap. 487, Laws of Hong Kong). For the Year, the Group did not notice of non-compliance in relation to employment and labour laws regulations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Health and Safety*

Under a philosophy that puts life and safety first, the Group upholds best-in-industry work safety standards and practices. Prior to the commencement of each project, we employ a Registered Safety Officer ("RSO") and establish relevant safety policies and procedures with regular review by the Board. Our RSO is responsible for providing basic safety rules and training to our staffs and sub-contractors, monitoring the work environment and staff facilities regularly, acting as a key contact for emergency and injury reporting, and working out annual safety assessments in both offices and sites. Moreover, the Group has specifically engaged a registered safety auditor to oversee the implementation of the health and safety policies and to update the policies annually so as to ensure that the Group maintains a high standard of health and safety. Furthermore, the Group has obtained OHSAS 18001:2007 accreditation for our occupational health and safety management system, which is committed to taking account of occupational health and safety requirements.

We ensure our site staffs are provided with full sets of Personal Protective Equipment ("PPE") such as safety helmets, harnessing, earplugs, goggles, dust masks, gloves, safety shoes and reflective waistcoats. All our machinery and site vehicles also undertake regular performance and safety testing. The Company attaches great importance to safety training, and focuses on the frontline and operational personnel. Through pre-work education and project site broadcast and billboard measures, the Company raises the safety awareness of staff and guarantees operational safety. At the same time, close communication and collaboration with main contractors is also important, so that we can obtain timely updates from them. Safety meetings and site inspections are held regularly to monitor the health and safety of workers. As at 31 March 2019, the Group had reported 5 work-injury incidents, which lead to 995 lost days. The Group is pleased to report that no work-related fatalities occurred.

### *Training and Development*

The Group believes that nurturing and retaining talent is the key to ensuring our business development and strengthening our competitiveness. The Group has focused on the cultivation of professional skills and accumulation of knowledge in training measures, as we are keen to provide health and safety training to our employees in multiple areas, including workplace safety, safe use of PPE and operations involving manual handling.

Before commencing onsite work, our employees are required to attend an induction training session, to ensure they have understood health and safety policies in the workplace. The Group recognizes the importance of employee self-development, and ensures equality of opportunity in training for different levels of staff.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Labour standards*

The Group has implemented a strict recruitment procedure through the Human Resource Department (the "HR Department") and upon discovery of any child labour and use of forced labour, the person will be dismissed immediately. The Board will discuss and review the discovered event to prevent it from happening again. Additionally, we prohibit all forms of forced labour, child labour and employment of illegal workers in any workplaces, and are committed to complying with the relevant laws and regulations.

The Group has zero tolerance for use of forced or child labour, or the hiring of illegal immigrants in either our office or construction sites. Our HR Department imposes stringent controls in the recruitment process to prevent such illegal recruitment. During the Year, the Group did not aware of any occurrence of hiring child labour and the use of forced labour.

## OPERATING PRACTICES

### *Supply Chain Management*

The Group believes that the reliability and quality of construction works are crucial to our reputation. For this reason, it has implemented quality control procedures with documentation covering all stages of our construction processes, from procurement of raw materials to completion of construction works, allowing us to verify and ensure the consistency of quality. The Group has adopted and implemented a quality control system that complies with international standard ISO 9001:2008. In carrying out procurements, we ensure that the services or goods are sourced from the approved suppliers' list. We also evaluate existing suppliers' and sub-contractors' performance on a regular basis. When selecting new suppliers or sub-contractors, during our tender process we take into account their quality of work or services, on-time delivery record, financial stability, past performance and reputation. During the Year, all suppliers are from Hong Kong, as we can reduce transportation costs that way, and our business operations were based locally.

### *Product Responsibility*

The Group is committed to delivering quality construction projects completed to specification. To this end, our Health Safety & Environment and Quality policies are strictly implemented, while the quality management system of our construction arm has adopted the requirements of ISO 9001 to ensure product quality.

In recognition of our quality control system, we have obtained several certifications – ISO 9001:2008, ISO 14001:2004 and Occupational Health Safety Assessment Series ("OHSAS") 18001:2007 – from Accredited Certification International Limited.

Also, we recognize that good customer relationships and after-sales services are the key factors influencing our success and sustainability. Therefore, we have set up a dedicated customer communication channel to handle queries and feedback efficiently. Similarly, customer complaints are thoroughly investigated and root causes are identified and acted on, in line with quality management system standards. We endeavour to deliver our construction works and rental services in a way that meets customers' expectations and provides satisfaction.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a result, we are committed to substantiating compliance with relevant laws and regulations within our construction works and rental services, and to ensuring all machinery is approved or exempted by label as Non-Road Mobile Machinery and we have obtained the Certificate of Test and Thorough Examination of Lifting Appliances under the Labour Department of Hong Kong and EPD respectively. Plant and equipment operators must hold the licensed construction machinery and vehicle operators' registration under the Construction Workers Registration Board of the Construction Industry Council.

During the Year, no complaint was received from customers regarding our services, and the Group has not identified any non-compliance with the relevant laws and regulations in respect of product responsibility.

### *Anti-Corruption*

At the heart of the Group lie our core values of honesty, integrity and fair play. The Group expects its Directors, officers and employees to uphold those values at all times. An anti-corruption policy and whistleblowing programs are also included in our staff handbook and internal control manual to demonstrate this commitment. We have also set up a separate email address as a confidential whistleblowing channel to the Audit Committee, to allow employees to report any misconduct or malpractice observed.

As at 31 March 2019, the Group complied with the relevant rules and regulations regarding bribery, extortion, fraud and money laundering. We are not aware of any breach of laws and regulations within the Group.

### *Community Involvement*

The Group always fulfils its employment responsibility, which is considered to be a key element of corporate social responsibility. We are committed to deepening our contribution to the community. In addition, we contribute to society through donations to various organizations which focus on youth development and the promotion of traditional Chinese culture for over HK$100,000. The Group will continue to participate actively in social welfare activities, to better serve the community and motivate our employees to participate in community enhancement events.

# INDEPENDENT AUDITOR'S REPORT

**SHINEWING** (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**TO THE MEMBERS OF PROGRESSIVE PATH GROUP HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Progressive Path Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 113, which comprise the consolidated statement of financial position as at 31 March 2019, 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 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## 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.

## REVENUE RECOGNITION FROM CONSTRUCTION WORKS

Refer to note 7 to the consolidated financial statements and the accounting policies on page 60.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| We identified construction works revenue as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole and there are significant degree of management judgement exercised by the management of the Group in determining the total outcome of the construction projects as well as the percentage of completion of construction works and the amount of contract revenue recognised.<br><br>As stated in note 4 to the consolidated financial statements, the Group recognised contract revenue and costs by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Accordingly, revenue recognition on contract revenue involves a significant degree of management estimates and judgment, with estimates being made to assess the total contract costs and stage of completion of the contracts.<br><br>The Group has recognised revenue from construction works of approximately HK$82,772,000 for the year ended 31 March 2019. | We have discussed with the project managers and the management of the Group and checked the supporting documents, such as construction contracts, variation orders and payment certificates to assess the reasonableness of the management's estimation of the budgeted revenue and budgeted contract costs.<br><br>We have recalculated the percentage of completion based on accumulated actual cost incurred to date over the total budget cost.<br><br>We assessed reliability of management's assessment in budget cost by considering the historical actual costs and estimation of budget costs of completed project. |

# INDEPENDENT AUDITOR'S REPORT

## IMPAIRMENT ASSESSMENT OF PROPERTY, PLANT AND MACHINERY

Refer to note 16 to the consolidated financial statements and the accounting policies on page 66.

| The key audit matter | How the matter was addressed in our audit |
| --- | --- |
| We identified the impairment assessment of property, plant and equipment as a key audit matter due to the significance of the carrying value of property, plant and equipment to the consolidated financial statements as a whole and the judgements associated with the assessment of the recoverable amount of property, plant and equipment by the management of the Group.<br><br>As at 31 March 2019, the carrying amounts of property, plant and equipment was HK$107,371,000.<br><br>As stated in note 4 to the consolidated financial statements, the determination of the recoverable amounts of the assets is based on the higher of:<br><br>• Value in use, based on the estimation on the future profitability from construction works and construction machinery rental services; and<br><br>• Fair value less cost of disposal, based on the estimation on resale values, with reference to the historical disposal values or market transactions. | We have obtained the understanding on the management's impairment assessment process on identifying assets, through review of documentation, discussion with management and valuer, that may be indicative to be impaired, and evaluating the reasonableness of the management's assessment with reference to the revenue generated from the property, plant and machinery in recent years.<br><br>We have assessed the reasonableness of the management's key assumptions used to estimate the value in use of the property, plant and machinery by evaluating the estimated future income generated from the assets with reference to the historical construction projects, the management's business strategy, or other relevant information in the industry. |

## LOSS ALLOWANCE ON TRADE RECEIVABLES AND CONTRACT ASSETS

Refer to notes 18 and 19 to the consolidated financial statements and the accounting policies on page 70.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| As at 31 March 2019, the Group has trade receivables and contract assets derived from construction contracts of approximately HK$138,714,000 and HK$37,132,000 respectively. Since 1 April 2018, the Group has adopted expected credit losses ("ECL") model to estimate the loss allowance of trade receivables and contract assets under HKFRS 9. As at 31 March 2019, the loss allowance of trade receivables and contract assets was approximately HK$18,452,000 and HK$97,000 respectively.<br><br>We identified the loss allowance on trade receivables and contract assets as a key audit matter as the amounts are significant to the consolidated financial statements as a whole and there is significant degree of management judgement involved in assessing the ECL model, based on the historical credit loss experience, forward-looking factors specific to the debtors and economic environment. | Our audit procedures were designed to review the management's assessment of ECL model adopted for the loss allowance on trade receivables and contract assets.<br><br>We have obtained an understanding of methodology for ECL model, development processes and its relevant controls, through review of documentation, discussion with management and valuer. We have also assessed the reasonableness of assumptions and judgements made by management on model adoption and parameters selection. We have examined the key data inputs to the ECL model on a sample basis to assess their accuracy and completeness. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

## AUDITOR'S RESPONSIBILITIES FOR 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, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 of the Company.

## AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

We communicate with 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 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.

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Pang Wai Hang.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
26 June 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2019*

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **221,338** | 381,816 |
| Cost of sales | | **(240,653)** | (345,198) |
| Gross (loss) profit | | **(19,315)** | 36,618 |
| Other income | 8 | **7,769** | 8,176 |
| Administrative expenses | | **(27,914)** | (30,300) |
| Finance costs | 9 | **(5,265)** | (6,533) |
| (Loss) profit before taxation | | **(44,725)** | 7,961 |
| Income tax expenses | 10 | **(774)** | (2,248) |
| (Loss) profit and total comprehensive (expense) income for the year attributable to the owners of the Company | 11 | **(45,499)** | 5,713 |
| (Loss) earnings per share: | | | |
| Basic and diluted | 15 | **(4.39 cents)** | 0.55 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **107,371** | 112,358 |
| Deposit paid for acquisition of property, plant and equipment | | **4,038** | 1,565 |
| Pledged deposits | 22 | **2,157** | – |
| | | **113,566** | 113,923 |
| Current assets | | | |
| Inventories | 17 | **–** | 6,211 |
| Trade and retention receivables | 18 | **138,714** | 212,373 |
| Contract assets | 19 | **37,132** | – |
| Amounts due from customers for contract work | 20 | **–** | 17,073 |
| Deposits, prepayments and other receivables | 21 | **16,919** | 14,363 |
| Income tax recoverable | | **2,288** | 464 |
| Bank balances and cash | 22 | **42,655** | 77,441 |
| | | **237,708** | 327,925 |
| Current liabilities | | | |
| Trade and other payables | 23 | **35,219** | 46,463 |
| Amounts due to customers for contract work | 20 | **–** | 264 |
| Amount due to a related company | 24 | **–** | 86 |
| Bank and other borrowings | 25 | **36,813** | 45,452 |
| Obligations under finance leases – due within one year | 26 | **30,078** | 38,027 |
| | | **102,110** | 130,292 |
| Net current assets | | **135,598** | 197,633 |
| Total assets less current liabilities | | **249,164** | 311,556 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2019*

| | Notes | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 28 | **10,375** | 10,375 |
| Reserves | | **193,480** | 242,087 |
| | | **203,855** | 252,462 |
| Non-current liabilities | | | |
| Bank and other borrowings | 25 | **11,353** | – |
| Obligations under finance leases – due after one year | 26 | **26,563** | 51,820 |
| Deferred tax liabilities | 27 | **7,393** | 7,274 |
| | | **45,309** | 59,094 |
| | | **249,164** | 311,556 |

The consolidated financial statements on pages 46 to 113 were approved and authorised for issue by the board of directors on 26 June 2019 and are signed on its behalf by:

**Wu Wing Hang**
*Director*

**Chan Tak Ming**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2019*

| | Share capital HK$'000 | Share premium HK$'000 | Other reserve HK$'000 (Note i) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | 10,375 | 109,078 | 35,457 | 91,839 | 246,749 |
| Profit and total comprehensive income for the year | – | – | – | 5,713 | 5,713 |
| At 31 March 2018 | 10,375 | 109,078 | 35,457 | 97,552 | 252,462 |
| Effect of changes in accounting policies (note 2) | – | – | – | (3,108) | (3,108) |
| **At 1 April 2018** (as restated) | **10,375** | **109,078** | **35,457** | **94,444** | **249,354** |
| Loss and total comprehensive expense for the year | **–** | **–** | **–** | **(45,499)** | **(45,499)** |
| **At 31 March 2019** | **10,375** | **109,078** | **35,457** | **48,945** | **203,855** |

Note:

i) Other reserve represents the retained earnings in respect of the construction machinery rental business (the "Construction Machinery Rental Business") contribution from the controlling shareholder prior to the transfer of business to the Group. Since 1 April 2015, the Construction Machinery Rental Business has been transferred from the controlling shareholder to Luen Yau Construction Company Limited ("Luen Yau Construction").

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2019*

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| (Loss) profit before taxation | **(44,725)** | 7,961 |
| Adjustments for: | | |
| Gain on disposal of property, plant and equipment | **(5,936)** | (2,360) |
| Bank interest income | **(3)** | (9) |
| Bad debt expenses | **381** | – |
| Impairment loss on trade receivables | **7,683** | 5,194 |
| Impairment loss on contract assets | **97** | – |
| Reversal of impairment loss on trade receivables | **–** | (4,311) |
| Finance costs | **5,265** | 6,533 |
| Depreciation of property, plant and equipment | **51,201** | 73,758 |
| Operating cash flows before movements in working capital | **13,963** | 86,766 |
| Decrease (increase) in inventories | **5,362** | (11,767) |
| Decrease in trade and retention receivables | **37,656** | 3,125 |
| Decrease in amount due from customers for contract work | **–** | 3,638 |
| Decrease in contract assets | **4,061** | – |
| Increase in deposits, prepayments and other receivables | **(2,556)** | (3,905) |
| Decrease in trade and other payables | **(11,244)** | (46,938) |
| Increase in amount due to customers for contract work | **–** | 168 |
| Decrease in contract liabilities | **(264)** | – |
| Cash generated from operations | **46,978** | 31,087 |
| Hong Kong Profits Tax paid | **(1,865)** | (5,079) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **45,113** | 26,008 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(43,449)** | (16,693) |
| Placement of deposits for acquisition of property, plant and equipment | **(4,038)** | (1,565) |
| Placement of pledged deposits | **(2,157)** | – |
| Bank interest income received | **3** | 9 |
| Proceeds from disposal of property, plant and equipment | **13,686** | 7,091 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(35,955)** | (11,158) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2019*

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Repayment of bank borrowings | **(92,194)** | (51,436) |
| Repayment of obligations under finance lease | **(41,307)** | (28,743) |
| Interest paid | **(5,265)** | (6,533) |
| Repayment to a related company | **(86)** | (5,268) |
| New bank borrowings raised | **94,908** | 55,229 |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(43,944)** | (36,751) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(34,786)** | (21,901) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **77,441** | 99,342 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH** | **42,655** | 77,441 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 21 April 2016 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") on 8 December 2016. Its ultimate holding company and immediate holding company is Profit Gold Global Limited, a limited company incorporated in the British Virgin Islands ("BVI"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company while the principal subsidiaries are principally engaged in the construction works, provision of construction machinery rental and trading of construction machinery.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is same as the functional currency of the Company and its subsidiaries (the "Group").

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HK (IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *2.1 HKFRS 9 Financial Instruments*

HKFRS 9 replaced the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 April 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 April 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 3 below.

#### 2.1.1 Classification and measurements of financial instruments

The directors of the Company have reviewed and assessed the Group's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at the date and concluded that all initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

Debt investments previously classified as loan and receivables carried at amortised cost:

Some of the debt instruments (including trade receivables and other receivables) amounting to approximately HK$189,869,000 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these instruments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon application of HKFRS 9.

#### 2.1.2 Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

As at 1 April 2018, an additional allowance on the Group's trade receivables of approximately HK$3,722,000, have been recognised, thereby reducing the opening retained earnings of approximately HK$3,108,000, net of their related deferred tax impact of approximately HK$614,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *2.1 HKFRS 9 Financial Instruments* (Continued)

#### 2.1.3 Summary of effects arising from initial application of HKFRS 9

The table below summaries the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 April 2018.

| | Carrying amount at 31 March 2018 (HKAS 39) HK$'000 | Adoption of HKFRS 9 – Reclassification HK$'000 | Adoption of HKFRS 9 – Remeasurement HK$'000 | Carrying amount at 1 April 2018 (HKFRS 9) HK$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Loan and receivables** | | | | |
| – Trade and retention receivables | 212,373 | (212,373) | – | – |
| – Deposits and other receivables | 1,713 | (1,713) | – | – |
| – Bank balances and cash | 77,441 | (77,441) | – | – |
| **At amortised cost** | | | | |
| – Trade receivables | – | 188,156 | (3,722) | 184,434 |
| – Deposits and other receivables | – | 1,713 | – | 1,713 |
| – Contract assets | – | 24,217 | – | 24,217 |
| – Bank balances and cash | – | 77,441 | – | 77,441 |

The table below summaries the impact of transition to HKFRS 9 on retained earnings at 1 April 2018.

| | Retained earnings HK$'000 |
|---|---|
| Balance at 31 March 2018 as originally stated | 97,552 |
| Recognition of additional expected credit losses | (3,722) |
| Deferred tax effect | 614 |
| Balance at 1 April 2018 as restated | 94,444 |

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under HKAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of HKFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of HKFRS 9.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *2.2 HKFRS 15 Revenue from contracts with customers*

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 April 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings or other components of equity, as appropriate and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue. Details are described below.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 3 below.

The impact of transition to HKFRS 15 was insignificant on the retained earnings at 1 April 2018.

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. Enhanced disclosures are set out in note 7.

The Group is principally engaged in the construction works, provision of construction machinery rental services and trading of construction machinery. The construction works and trading of construction machinery are sold both on their own in separately identified contracts with customers.

#### 2.2.1 Sale of goods

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no impact on the timing of revenue recognition in this regard.

#### 2.2.2 Revenue from construction works

The Group was involved in a construction contract that was previously accounted for under HKAS 11 and not yet completed at 1 April 2018. The Group concluded that such contract will continue to be recognised over time using input method in measuring progress. Upon initial application of HKFRS 15, amounts due from/to customers for contract work of approximately HK$17,073,000 and approximately HK$264,000, respectively, were reclassified to contract assets and contract liabilities at 1 April 2018 respectively.

Other than the abovementioned, the directors of the Company considered that the application of HKFRS 15 has had no material impact on i) the amount or timing of revenue recognition in the respective periods; and ii) the Group's presentation in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *2.2 HKFRS 15 Revenue from contracts with customers* (Continued)

#### 2.2.3 Summary of effects arising from initial application of HKFRS 15

The amount of adjustments for each financial statement line item of the consolidated statement of financial position at 1 April 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

| | Note | **Carrying amount previously reported at 31 March 2018** | **Impact of adoption of HKFRS 15 – Reclassification** | **Impact on adoption of HKFRS 15 – Measurement** | **Carrying amount at restated (before adoption of HKFRS 9) at 1 April 2018*** |
|---|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade and retention receivables | (a) | 212,373 | (24,217) | – | 188,156 |
| Amounts due from customers for contract work | (a) | 17,073 | (17,073) | – | – |
| Contract assets | (a) | – | 41,290 | – | 41,290 |
| Amounts due to customers for contract work | (a) | 264 | (264) | – | – |
| Contract liabilities | (a) | – | 264 | – | 264 |

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

(a) In relation to construction contracts previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Retention receivables of approximately HK$24,217,000 were reclassified to contract assets, whilst amounts due to customers for contract work of approximately HK$264,000 were reclassified to contract liabilities.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *2.2 HKFRS 15 Revenue from contracts with customers* (Continued)

#### 2.2.4 Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 March 2019 as a result of the adoption of HKFRS 15 on 1 April 2018

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 March 2019, by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

Impact on the consolidated statement of financial position at 31 March 2019

| | **As reported** | **Impact of adopting HKFRS 15** | **Amount excluding impacts of adopting HKFRS 15** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Trade and retention receivables | 138,714 | 22,199 | 160,913 |
| Amounts due from customers for contract work | – | 14,933 | 14,933 |
| Contract assets | 37,132 | (37,132) | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *New and revised HKFRSs issued but not yet effective*

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) Interpretation 23 | Uncertainty Over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[5] |
| Amendments to HKFRS 9 | Prepayment 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 1 and HKAS 8 | Definition of Material[2] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associate and Joint Venture[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 cycle[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 not yet been 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 and to asset acquisitions that occur on or after the beginning of that period.

The directors of the Company anticipate that, except as described below, the application of other new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

### *HKFRS 16 Leases*

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *HKFRS 16 Leases* (Continued)

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related Interpretations when it becomes effective.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of approximately HK$1,470,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above.

The Group plans to elect the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only the contracts that are entered into on or after the date of initial application.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Company Ordinance. The consolidated financial statements have been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The principal accounting policies are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss is attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### *Revenue recognition*

**Policy application to the year ended 31 March 2019 (with application of HKFRS 15)**

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Revenue recognition* (Continued)

**Policy application to the year ended 31 March 2019 (with application of HKFRS 15)** (Continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. 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.

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.

The Group recognised revenue from the following major sources:

- Construction works; and
- Trading of construction machinery

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Revenue recognition*** (Continued)

**Policy application to the year ended 31 March 2019 (with application of HKFRS 15)** (Continued)

Sales of goods

Revenue from trading of construction machinery is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of equipment).

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on an asset under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with an onerous contract. An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Input method)

Revenue from construction works is recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on input method. Input methods recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. The Group's efforts or inputs are expended evenly throughout the performance period, the Group recognise revenue on a straight-line basis.

Variable consideration

For contracts that contain variable consideration (variation order of construction work), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Revenue recognition* (Continued)

**Policy application to the year ended 31 March 2019 (with application of HKFRS 15)** (Continued)

Significant financing component

For contracts where the period between payment and transfer of the associated goods is one year or less, the Group applies the practical expedient not to adjust the transaction price for any significant financing component.

**Policy application to the year ended 31 March 2018**

Revenue is measured at the fair value of the consideration received or receivable for services provided in the normal course of business and net of discounts.

Revenue recognition for construction contracts in relation to site construction, upgrade services of the infrastructure and foundation works included in the segment of construction works is set out in the section headed "Construction contracts" below.

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Sale of scrap material income is recognised when the customer has accepted the goods and the related risks and rewards of ownership. The income is after deduction of any trade discounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Construction contracts (applicable to the year ended 31 March 2018)*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and retention receivables.

### *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Borrowing costs*

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### *Retirement benefits cost*

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

### *Short-term and other long-term employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Taxation* (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

### *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight line method for the property, plant and equipment. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### *Cash and cash equivalents*

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Impairment on tangible assets*

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

### *Financial instruments*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)**

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)** (Continued)

Financial assets (Continued)

*Financial assets at amortised cost (debt instruments) (Continued)*

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)** (Continued)

Financial assets (Continued)

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has 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 a default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- 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 for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- 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;

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Financial instruments* (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)** (Continued)

Financial assets (Continued)

*Significant increase in credit risk (Continued)*

- significant increases in credit risk on other financial instruments of the same debtor;
- 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.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor;
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)** (Continued)

Financial assets (Continued)

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Financial instruments* (Continued)

**Under HKFRS 9 (applicable on or after 1 April 2018)** (Continued)

Financial assets (Continued)

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKAS 39 (applicable before 1 April 2018)**

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and retention receivables, deposits and other receivables, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment loss on financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial instruments*** (Continued)

**Under HKAS 39 (applicable before 1 April 2018)** (Continued)

Financial assets (Continued)

*Impairment loss on financial assets (Continued)*

For certain categories of financial assets, such as trade and retention receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and retention receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and retention receivables and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Other financial liabilities*

Other financial liabilities including trade and other payables, amount due to a related company, bank and other borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Financial instruments* (Continued)

**Under HKAS 39 (applicable before 1 April 2018)** (Continued)

Financial liabilities and equity instruments (Continued)

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Derecognition*

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### *Key sources of estimation uncertainty*

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Construction contracts revenue recognition

The Group recognised contract revenue and costs by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

#### Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful life, using the straight line method. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 March 2019, the carrying amounts of property, plant and equipment are approximately HK$107,371,000 (2018: HK$112,358,000).

#### Estimated impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations if there is indication of impairment. The calculations and valuations require the use of judgement and estimates on future operating cash flows and discount rates adopted. As at 31 March 2019, the carrying amounts of property, plant and equipment are approximately HK$107,371,000 (2018: HK$112,358,000), no impairment losses was recognised for the years ended 31 March 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### *Key sources of estimation uncertainty* (Continued)

#### Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 March 2019 the carrying amounts of inventories were approximately nil (2018: HK$6,211,000), no allowance for inventories was recognised for the years ended 31 March 2019 and 2018.

#### Allowance recognised in respect of trade and other receivables

The impairment provisions for trade receivables, other receivables and contract assets are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. At 31 March 2019, loss allowances for ECL of trade receivables, other receivables and contract assets are approximately HK$18,452,000, nil and HK$97,000 respectively.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank and other borrowings disclosed in note 25, obligations under finance leases disclosed in note 26, and bank balances and cash disclosed in note 22, and equity attributable to the owners of Group, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through use of debts, payment of dividends and issuance of new shares.

## 6. FINANCIAL INSTRUMENTS

### *Categories of financial instruments*

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortised cost/loans and receivables (including cash and cash equivalents) | **184,010** | 291,527 |
| **Financial liabilities** | | |
| Financial liabilities stated at amortised cost | **139,442** | 181,769 |

### *Financial risk management objectives and policies*

The Group's major financial assets and liabilities include trade receivables, deposits and other receivables, pledged deposits, bank balances and cash, trade and other payables, bank and other borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases (note 26). The Company currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to bank balances, variable-rate bank borrowings, and obligations under finance leases (notes 22, 25 and 26 respectively). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's Hong Kong dollar denominated borrowings and obligation under finance leases.

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2018: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 March 2019 (2018: post-tax profit for the year) would increase/decrease (2018: decrease/increase) by approximately HK$286,000 (2018: HK$482,000). This is mainly attributable to the Group's exposure to interest rates on variable-rate bank borrowings and obligation under finance leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 6. FINANCIAL INSTRUMENTS (Continued)

### *Financial risk management objectives and policies* (Continued)

#### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 March 2018, impairment loss was recognised when there was objective evidence of impairment loss.

Starting from 1 April 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for trade receivables with significant outstanding balances which are assessed individually, the Group determines the ECL on the remaining balances collectively by using a provision matrix grouped by common risk characteristic. The provision rates applied is estimated using the historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-art guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

## 6. FINANCIAL INSTRUMENTS (Continued)

### *Financial risk management objectives and policies* (Continued)

**Credit risk** (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the management of the Group has delegated a team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising ECL |
|---|---|---|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2) | Lifetime ECL – not credit impaired |
| Default | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written-off |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 6. FINANCIAL INSTRUMENTS (Continued)

### *Financial risk management objectives and policies* (Continued)

**Credit risk** (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

| 31 March 2019 | Note | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount HK$'000 | Loss allowance HK$'000 | Net carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| Trade receivables | 18 | N/A | (Note) | Lifetime ECL (simplified approach) | 157,166 | (18,452) | 138,714 |
| Contract assets | 19 | N/A | Performing | Lifetime ECL (simplified approach) | 37,229 | (97) | 37,132 |
| Other receivables | 21 | N/A | Performing | 12-month ECL | 337 | – | 337 |
| | | | | | | (18,549) | |

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Apart from debtors with significant outstanding balances, the Group determines the ECL on these items by using a provision matrix grouped by common risk characteristic with reference to historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Note 18 includes further details on the loss allowance for these assets respectively.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group has concentration of credit risk as 5% (2018: 3%) and 14% (2018: 36%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at 31 March 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 6. FINANCIAL INSTRUMENTS (Continued)

### *Financial risk management objectives and policies* (Continued)

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on bank and other borrowings and obligations under finance leases as a significant source of liquidity and the management monitors the utilisation of bank and other borrowings and obligations under finance leases and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

| | At 31 March 2019 | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | 1 to 2 years HK$'000 | 2 to 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
| Trade and other payables | 34,635 | – | – | 34,635 | 34,635 |
| Bank and other borrowings | 38,916 | 6,471 | 5,932 | 51,319 | 48,166 |
| Obligations under finance leases | 32,152 | 27,543 | – | 59,695 | 56,641 |
| | 105,703 | 34,014 | 5,932 | 145,649 | 139,442 |

| | At 31 March 2018 | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | 1 to 2 years HK$'000 | 2 to 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
| Trade and other payables | 46,384 | – | – | 46,384 | 46,384 |
| Amount due to a related company | 86 | – | – | 86 | 86 |
| Bank borrowings | 47,035 | – | – | 47,035 | 45,452 |
| Obligations under finance leases | 41,559 | 28,284 | 26,406 | 96,249 | 89,847 |
| | 135,064 | 28,284 | 26,406 | 189,754 | 181,769 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 6. FINANCIAL INSTRUMENTS (Continued)

### *Financial risk management objectives and policies* (Continued)

**Liquidity risk** (Continued)

As at 31 March 2019, bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$31,688,000 (2018: HK$45,452,000). Taking into account the Group's financial position, the directors of the company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash flows will amount to approximately HK$33,034,000 (2018: HK$47,151,000).

**Fair value measurement objective and policies**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of current financial assets, current and non-current financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

## 7. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on construction works, construction machinery rental and trading of construction machinery. An analysis of the Group's revenue for the year is as follows:

| | **2019**<br>**HK$'000** | 2018*<br>HK$'000 |
|---|---|---|
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| – Construction works | **82,772** | 133,595 |
| – Trading of construction machinery | **6,530** | 51,427 |
| | **89,302** | 185,022 |
| Revenue from other sources | | |
| – Construction machinery rental | **132,036** | 196,794 |
| | **221,338** | 381,816 |

* The amounts for the year ended 31 March 2018 were recognised under HKAS 11 in HKAS 18 and related interpretations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers within the scope of HKFRS 15:

| For the year ended 31 March 2019 | Construction works HK$'000 | Trading of construction machinery HK$'000 | Total HK$'000 |
|---|---|---|---|
| Timing of revenue recognition | | | |
| At a point in time | – | 6,530 | 6,530 |
| Over time | 82,772 | – | 82,772 |
| | 82,772 | 6,530 | 89,302 |

### *Transaction price allocated to the remaining performance obligations*

As at 31 March 2019, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is approximately HK$70,351,000. The amount represents revenue expected to be recognised in the future from construction contracts. The Group will recognise this revenue as the service is completed, which is expected to occur over the next 18 months.

Information reported to the directors, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments are as follows:

– Construction works;

– Construction machinery rental; and

– Trading of construction machinery

During the year ended 31 March 2018, the Group commenced a reporting and operating segment, namely, trading of construction machinery segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Segment revenues and results*

The following is an analysis of the Group's revenue and results by reportable and operating segment.

**For the year ended 31 March 2019**

| | Construction works HK$'000 | Construction machinery rental HK$'000 | Trading of construction machinery HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue | | | | |
| External revenue | 82,772 | 132,036 | 6,530 | 221,338 |
| Inter-segment revenue | – | 72,257 | – | 72,257 |
| Segment revenue | 82,772 | 204,293 | 6,530 | 293,595 |
| Eliminations | | | | (72,257) |
| Group revenue | | | | 221,338 |
| Segment (loss) profit | (12,659) | (26,434) | 851 | (38,242) |
| Unallocated income | | | | 7,769 |
| Unallocated corporate expenses | | | | (8,987) |
| Unallocated finance costs | | | | (5,265) |
| Loss before tax | | | | (44,725) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Segment revenues and results* (Continued)

For the year ended 31 March 2018

| | Construction works HK$'000 | Construction machinery rental HK$'000 | Trading of construction machinery HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue | | | | |
| External revenue | 133,595 | 196,794 | 51,427 | 381,816 |
| Inter-segment revenue | – | 69,999 | – | 69,999 |
| Segment revenue | 133,595 | 266,793 | 51,427 | 451,815 |
| Eliminations | | | | (69,999) |
| Group revenue | | | | 381,816 |
| Segment profit | 7,999 | 10,899 | 2,753 | 21,651 |
| Unallocated income | | | | 3,865 |
| Unallocated corporate expenses | | | | (11,022) |
| Unallocated finance costs | | | | (6,533) |
| Profit before tax | | | | 7,961 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, other income and finance costs. This is the measure reported to the directors with respect to the resource allocation and performance assessment.

Inter-segment sales are conducted with terms mutually agreed by both contract parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Segment assets and liabilities*

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

**Segment assets**

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Construction works | **138,438** | 147,949 |
| Construction machinery rental | **161,601** | 178,833 |
| Trading of construction machinery | **3,943** | 36,977 |
| Total segment assets | **303,982** | 363,759 |
| Corporate and other assets | **47,292** | 78,089 |
| Total assets | **351,274** | 441,848 |

**Segment liabilities**

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Construction works | **74,826** | 109,832 |
| Construction machinery rental | **15,074** | 24,350 |
| Trading of construction machinery | **–** | – |
| Total segment liabilities | **89,900** | 134,182 |
| Corporate and other liabilities | **57,519** | 55,204 |
| Total liabilities | **147,419** | 189,386 |

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segment, other than unallocated deposits, prepayments and other receivables, income tax recoverable, pledged deposits and bank balance and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- All liabilities are allocated to operating segments, other than unallocated other payables, amounts due to a related company, bank and other borrowings and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Other segment information*

**For the year ended 31 March 2019**

| | Construction works HK$'000 | Construction machinery rental HK$'000 | Trading of construction machinery HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Amounts include in the measure of segment profit or segment assets: | | | | | |
| Addition to non-current assets (Note) | 20,776 | 33,188 | – | – | 53,964 |
| Depreciation of property, plant and equipment | 7,849 | 42,623 | – | 729 | 51,201 |
| Loss allowance on trade receivables | 1,605 | 6,078 | – | – | 7,683 |
| Loss allowance on contract assets | 97 | – | – | – | 97 |
| Gain on disposal of property, plant and equipment | (2,287) | (3,649) | – | – | (5,936) |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | | |
| Interest income | – | – | – | (3) | (3) |
| Interest expense | – | – | – | 5,265 | 5,265 |
| Income tax expense | – | – | – | 774 | 774 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Other segment information* (Continued)

For the year ended 31 March 2018

| | Construction works HK$'000 | Construction machinery rental HK$'000 | Trading of construction machinery HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Amounts include in the measure of segment profit or segment assets: | | | | | |
| Addition to non-current assets (Note) | 16,515 | 24,364 | – | – | 40,879 |
| Depreciation of property, plant and equipment | 7,849 | 64,473 | – | 1,436 | 73,758 |
| Reversal of impairment loss on trade receivables | – | (4,311) | – | – | (4,311) |
| Impairment loss on trade receivables | – | 5,194 | – | – | 5,194 |
| Gain on disposal of property, plant and equipment | (954) | (1,406) | – | – | (2,360) |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | | |
| Interest income | – | – | – | (9) | (9) |
| Interest expense | – | – | – | 6,533 | 6,533 |
| Income tax expenses | – | – | – | 2,248 | 2,248 |

Note: Non-current assets excluded those relating to deposit paid for acquisition of property, plant and equipment and pledged deposits.

### *Information about major customers*

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Customer A[1] | **77,384** | 81,125 |
| Customer B[2] | **N/A[4]** | 48,800 |
| Customer C[3] | **N/A[4]** | 39,462 |

1 Revenue from both construction work, construction machinery rental and trading of construction machinery segments.
2 Revenue from construction machinery rental segment.
3 Revenue from trading of construction machinery segment.
4 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Geographical information*

During the year ended 31 March 2019, the Group is organised into three (2018: three) operating segments as construction works, construction machinery rental and trading of construction machinery (2018: construction works construction machinery rental and trading of construction machinery) primarily in Hong Kong and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to these three (2018: three) segments. Accordingly, no geographical information is presented.

## 8. OTHER INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Sales of scrap materials | **234** | 294 |
| Insurance claim | **352** | 674 |
| Auxiliary and other service income | **1,238** | 490 |
| Reversal of impairment loss on trade receivables | **–** | 4,311 |
| Gain on disposal of property, plant and equipment | **5,936** | 2,360 |
| Bank interest income | **3** | 9 |
| Sundry income | **6** | 38 |
| | **7,769** | 8,176 |

## 9. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| bank and other borrowings | **1,364** | 1,274 |
| obligations under finance leases | **3,901** | 5,259 |
| | **5,265** | 6,533 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 10. INCOME TAX EXPENSES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | 41 | 5,081 |
| Deferred taxation (note 27) | 733 | (2,833) |
| Income tax expenses | 774 | 2,248 |

Notes:

a) Pursuant to rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

b) 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 rates 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 corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 March 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 March 2018, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit.

The income tax expenses can be reconciled to the (loss) profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| (Loss) profit before taxation | (44,725) | 7,961 |
| Tax calculated at the domestic income tax rate of 16.5% | (7,380) | 1,314 |
| Tax effect of expenses not deductible for tax purposes | 683 | 926 |
| Tax effect of income not taxable for tax purposes | (1) | (2) |
| Tax loss not recognised | 7,496 | 40 |
| Utilisation of tax loss previously not recognised | (4) | – |
| Temporary difference previously not recognised | – | 30 |
| Effect of tax exemption granted | (20) | (60) |
| Income tax expense for the year | 774 | 2,248 |

Note: Tax exemption represented a reduction of Hong Kong Profits Tax for both years of assessment 2018/2019 and 2017/2018 by 75%, subject to a ceiling of HK$20,000 and HK$30,000 for each entity respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 11. (LOSS) PROFIT FOR THE YEAR

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Staff costs | | |
| Salaries, wages and other benefits | 81,812 | 79,487 |
| Retirement benefits scheme contribution | 3,049 | 3,266 |
| Total staff costs (excluding directors' remuneration (note 12)) | 84,861 | 82,753 |
| Auditor's remuneration | 894 | 942 |
| Bad debt expenses | 381 | – |
| Depreciation of property, plant and equipment | 51,201 | 73,758 |
| Loss allowance on trade receivables | 7,683 | 5,194 |
| Loss allowance on contract assets | 97 | – |
| Operating leases rental relates to office premises, storage area and staff quarters | 838 | 463 |
| Amount of inventories recognised as an expense | 5,362 | 46,778 |
| Exchange loss | 27 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of directors' emoluments and chief executive are as follows:

| Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertaking: | Fees | Salaries, allowances and other benefits | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 March 2019** | | | | |
| *Executive directors* | | | | |
| Mr. Wu Wing Hang (Note i) | **–** | **3,575** | **18** | **3,593** |
| Mr. Chan Tak Ming (Note i) | **–** | **390** | **18** | **408** |
| *Independent non-executive directors* | | | | |
| Mr. Wong Yiu Kit, Ernest | **60** | **–** | **–** | **60** |
| Mr. Lee Man Tai | **60** | **–** | **–** | **60** |
| Mr. Leung Ka Fai | **60** | **–** | **–** | **60** |
| | **180** | **3,965** | **36** | **4,181** |
| Year ended 31 March 2018 | | | | |
| *Executive directors* | | | | |
| Mr. Wu Wing Hang (Note i) | – | 3,575 | 18 | 3,593 |
| Mr. Chan Tak Ming (Note i) | – | 390 | 18 | 408 |
| *Independent non-executive directors* | | | | |
| Mr. Wong Yiu Kit, Ernest | 60 | – | – | 60 |
| Mr. Lee Man Tai | 60 | – | – | 60 |
| Mr. Leung Ka Fai | 60 | – | – | 60 |
| | 180 | 3,965 | 36 | 4,181 |

Note:

i) The remuneration includes remuneration received from the Group by the director in his capacity as an employee of the subsidiaries.

No chief executive was appointed during the years ended 31 March 2019 and 2018.

The directors of the Company did not waive or agree to waive the emolument paid by the Group during the years ended 31 March 2019 and 2018. No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years ended 31 March 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments, one (2018: one) was director of the Company whose emoluments are set out in note 12. The emoluments of the remaining four (2018: four) highest paid individuals were as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **4,980** | 4,000 |
| Contributions to defined contribution retirement benefits scheme | **72** | 72 |
| | **5,052** | 4,072 |

Their emoluments were within the following bands:

| | **2019 Number of individuals** | 2018 Number of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **1** | 2 |
| HK$1,000,001 to HK$1,500,000 | **3** | 2 |

No emoluments were paid by the Group to the five highest paid individuals as an inducement for joining the Group or as compensation for loss of office during the years ended 31 March 2019 and 2018.

## 14. DIVIDEND

No dividend was paid or proposed during the year ended 31 March 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

## 15. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) earnings for the purpose of basic and diluted (loss) earnings per share | **(45,499)** | 5,713 |

| | **2019** | 2018 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share ('000 shares) | **1,037,500** | 1,037,500 |

The weighted average number of ordinary shares in issue during the year ended 31 March 2019 represents 1,037,500,000 ordinary shares in issue during the year ended 31 March 2019.

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 March 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Motor vehicles | Machinery | Furniture and equipment | Leasehold improvement | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | | |
| At 1 April 2017 | 9,686 | 113,229 | 242,364 | 175 | 403 | 365,857 |
| Additions | – | 9,766 | 30,485 | 102 | 526 | 40,879 |
| Disposals/write-off | – | (4,816) | (32,204) | – | (116) | (37,136) |
| At 31 March 2018 and 1 April 2018 | 9,686 | 118,179 | 240,645 | 277 | 813 | 369,600 |
| Additions | – | 2,716 | 51,240 | 8 | – | 53,964 |
| Disposals/write-off | – | (4,932) | (63,887) | – | – | (68,819) |
| At 31 March 2019 | 9,686 | 115,963 | 227,998 | 285 | 813 | 354,745 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| At 1 April 2017 | 65 | 53,364 | 162,241 | 70 | 149 | 215,889 |
| Charge for the year | 387 | 25,883 | 47,068 | 37 | 383 | 73,758 |
| Eliminated on disposals/write-off | – | (4,816) | (27,473) | – | (116) | (32,405) |
| At 31 March 2018 and 1 April 2018 | 452 | 74,431 | 181,836 | 107 | 416 | 257,242 |
| Charge for the year | 387 | 19,552 | 30,840 | 51 | 371 | 51,201 |
| Eliminated on disposals/write-off | – | (2,747) | (58,322) | – | – | (61,069) |
| At 31 March 2019 | 839 | 91,236 | 154,354 | 158 | 787 | 247,374 |
| **NET CARRYING VALUES** | | | | | | |
| At 31 March 2019 | 8,847 | 24,727 | 73,644 | 127 | 26 | 107,371 |
| At 31 March 2018 | 9,234 | 43,748 | 58,809 | 170 | 397 | 112,358 |

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease, or 25 years |
| Motor vehicles | 4 years |
| Machinery | 4 years |
| Furniture and equipment | 5 years |
| Leasehold improvement | 2 years |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

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

The buildings are situated in Hong Kong and held under medium lease term.

At 31 March 2019, the Group's buildings with carrying values of approximately HK$8,847,000 (2018: HK$9,234,000) have been pledged to secure banking facilities granted to the Group.

The net carrying values of property, plant and equipment held under finance leases were as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Machinery | 17,442 | 20,642 |
| Motor vehicles | 23,446 | 37,197 |
| | 40,888 | 57,839 |

## 17. INVENTORIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Machinery held as merchandise for resale | – | 6,211 |

## 18. TRADE AND RETENTION RECEIVABLES

The following is an analysis of trade and retention receivables at the end of each reporting period:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Receivables at amortised cost comprise: | | |
| Trade receivables | 157,166 | 195,203 |
| Less: loss allowance for trade receivables | (18,452) | (7,047) |
| | 138,714 | 188,156 |
| Retention receivables (note) | – | 24,217 |
| | 138,714 | 212,373 |

Note: As at 31 March 2018, except for the amounts of approximately HK$8,356,000, which were expected to be recovered or settled after one year, all of the remaining balances are expected to be recovered within one year. All retention receivables are included in current assets as the Group expects to realise these within its normal operating cycle. Upon application of HKFRS 15, the retention receivables was reclassified to contract assets.

As at 31 March 2019, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK$57,036,000 (2018: HK$85,626,000).

The Group does not hold any collateral over these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 18. TRADE AND RETENTION RECEIVABLES (Continued)

The Group does not have a standardised and universal credit period granted to its customers, and the credit period of individual customer is considered on a case-by-case basis and stipulated in the project contract, as appropriate. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The following is an aged analysis of trade receivables, net of loss allowance, presented based on the certified report or invoices which approximates revenue recognition date at the end of each reporting period.

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Within 30 days | **19,928** | 29,930 |
| 31 to 60 days | **23,166** | 25,697 |
| 61 to 90 days | **4,492** | 7,315 |
| 91 to 180 days | **9,847** | 14,373 |
| 181 to 365 days | **11,797** | 85,623 |
| Over 365 days | **69,484** | 25,218 |
| | **138,714** | 188,156 |

The aged analysis of trade receivable that were past due but not impaired are as follows:

| | 2018<br>HK$'000 |
|---|---|
| Past due but not impaired: | |
| Within 30 days | 25,562 |
| 31 to 60 days | 7,424 |
| 61 to 90 days | 410 |
| 91 to 180 days | 35,169 |
| Over 181 days | 89,379 |
| | 157,944 |

As at 31 March 2018, included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$157,944,000 which were past due at the end of each reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 18. TRADE AND RETENTION RECEIVABLES (Continued)

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on collectively basis or on individually basis as follows:

| | **Weighted average expected loss rate** % | **Gross carrying amount** HK$'000 | **Loss allowance** HK$'000 |
|---|---|---|---|
| On collectively basis | | | |
| Not yet dued | 0.0% | 24,829 | – |
| Past dued 1–90 days | 0.0% | 19,685 | – |
| Past dued 91–180 days | 1.5% | 5,961 | 89 |
| Past dued 181–365 days | 9.5% | 7,556 | 718 |
| Past dued 1–2 years | 58.5% | 9,738 | 5,693 |
| Past dued over 2 years | 100% | 4,404 | 4,404 |
| | | 72,173 | 10,904 |
| On individually basis | 2.4%–19.1% | 84,993 | 7,548 |
| | | 157,166 | 18,452 |

The movement in the loss allowance for trade receivables is set out below:

| | **2019** HK$'000 | 2018 HK$'000 |
|---|---|---|
| At the beginning of the year | **7,047** | 6,164 |
| Effect on adoption of HKFRS 9 | **3,722** | N/A |
| Impairment loss recognised on trade receivables | **7,683** | 5,194 |
| Reversal on impairment of trade receivables | **–** | (4,311) |
| At the end of the year | **18,452** | 7,047 |

As at 31 March 2018, included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balances of approximately HK$7,047,000 due to long outstanding and unsatisfactory repayment record.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 19. CONTRACT ASSETS AND CONTRACT LIABILITIES

### *(a) Contract assets*

| | **31 March 2019 HK$'000** | 1 April 2018 HK$'000 |
|---|---|---|
| Unbilled revenue of construction contracts (note i) | **14,933** | 17,073 |
| Retention receivables of construction contracts (note ii) | **22,296** | 24,217 |
| | **37,229** | 41,290 |
| Less: loss allowance for contract assets | **(97)** | – |
| | **37,132** | 41,290 |

Notes:

i) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditioned on the Group's future performance accepted by the customers. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.

ii) Retention receivables included in contract assets represents the Group's right to receive consideration for work performed and not yet billed because the rights are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Group on the service quality of the construction work performed by the Group.

The Group classifies these contract assets under current assets because the Group expects to realise them in its normal operating cycle.

The Group recognised lifetime ECL for contract assets based on individual significant customer or the ageing of customers collectively that are not individually significant as follows:

| | **Weighted average expected loss rate** % | **Gross carrying amount** HK$'000 | **Loss allowance** HK$'000 |
|---|---|---|---|
| Performing | 0.3% | 37,229 | 97 |
| | | 37,229 | 97 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 19. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

### (a) *Contract assets* (Continued)

The movement in the loss allowance for contract assets is set out below:

| | HK$'000 |
|---|---|
| At 1 April 2017 and 1 April 2018 | – |
| Impairment loss recognised on contract assets | 97 |
| At 31 March 2019 | 97 |

### (b) *Contract liabilities*

| | **31 March 2019 HK$'000** | 1 April 2018 HK$'000 |
|---|---|---|
| Construction contracts | **–** | 264 |

Revenue recognised during the year ended 31 March 2019 that was included in the contract liabilities as at 1 April 2018 is approximately HK$264,000. There was no revenue recognised during the year ended 31 March 2019 that related to performance obligations that were satisfied prior to 1 April 2018.

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

| | 31 March 2018 HK$'000 |
|---|---|
| **Contracts in progress at the end of each reporting period:** | |
| Contract costs incurred plus recognised profits less recognised losses | 433,052 |
| Less: progress billings | (416,243) |
| | 16,809 |
| **Analysed for reporting purpose as:** | |
| Amounts due from customers for contract work | 17,073 |
| Amounts due to customers for contract work | (264) |
| | 16,809 |

At 31 March 2018, retentions held by customers for contract work amounted to approximately HK$24,217,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Deposits | **147** | 235 |
| Prepayments | **6,589** | 3,027 |
| Staff advance (note i) | **320** | 369 |
| Insurance prepayment | **9,846** | 9,623 |
| Other receivables (note i) | **17** | 1,109 |
| | **16,919** | 14,363 |

Note:

i) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables. As at 31 March 2019, the directors of the Company estimates the 12-month ECL on other receivables was insignificant.

## 22. PLEDGED DEPOSITS, BANK BALANCES AND CASH

### *Pledged deposits*

As at 31 March 2019, pledged deposits represented the deposits have been pledged to secure the other borrowings which to be matured in March 2022 and therefore classified as non-current assets.

### *Bank balances and cash*

Bank balances earned interest at floating rates based on daily bank deposit rates which range from 0.01% to 0.05% per annum (2018: 0.01% to 0.05% per annum).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 23. TRADE AND OTHER PAYABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade payables | **14,911** | 25,221 |
| Receipt in advance | **584** | 79 |
| Other payables | **10,081** | 10,292 |
| Accruals | **9,643** | 10,871 |
| | **35,219** | 46,463 |

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within 30 days | **3,097** | 14,635 |
| 31 to 60 days | **4,334** | 3,148 |
| 61 to 90 days | **2,120** | 777 |
| 91 to 365 days | **4,416** | 5,838 |
| Over 365 days | **944** | 823 |
| | **14,911** | 25,221 |

The average credit period granted is 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

## 24. AMOUNT DUE TO A RELATED COMPANY

The detail of amount due to a related company is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Luen Yau Company | **–** | 86 |

The amount was unsecured, non-interest bearing and fully repayable during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 25. BANK AND OTHER BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank loans | **31,688** | 45,452 |
| Other borrowing | **16,478** | – |
| | **48,166** | 45,452 |

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within one year | **30,003** | 30,923 |
| After one year but within two years | **8,504** | 7,726 |
| After two year but within five years | **8,511** | 4,812 |
| Over five years | **1,148** | 1,991 |
| | **48,166** | 45,452 |
| Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | **6,810** | 14,529 |
| Carrying amount repayable beyond one year | **11,353** | – |
| Carrying amount repayable within one year | **30,003** | 30,923 |
| | **48,166** | 45,452 |
| Amount shown under current liabilities | **(36,813)** | (45,452) |
| Amount shown under non-current liabilities | **11,353** | – |

## 25. BANK AND OTHER BORROWINGS (Continued)

(a) The bank borrowings were denominated in HK$ for both years ended 31 March 2019 and 2018.

(b) At 31 March 2019, bank loans carried interest at floating rates ranging from 2.125% to 5.875% per annum (2018: 2.0% to 5.75% per annum).

(c) During the year, a subsidiary of the Group entered into a sale-leaseback arrangement with an independent financial institution to sell and leaseback their twelve machines. Based on the substance of the sale-leaseback arrangement, the leaseback arrangement was finance leases, whereby the lessor provided finance to the subsidiary, with the machines and pledged deposits as securities to the borrowings.

The sale-leaseback principal of the finance lease was approximately of HK$20,007,000 bearing effective interest at a rate of 5% per annum. Pursuant to the terms of the sale-leaseback arrangements, the borrowings are repayable in March 2022. At the end of the lease term, the lessor is obliged to transfer the ownership of the machines to the Company.

As at 31 March 2019, the carrying amounts of the secured machinery and pledged deposits were approximately HK$19,459,000 and HK$2,157,000 respectively (2018: nil).

(d) The amounts of banking facilities and the utilisation at the end of the reporting period are set out as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Facility amount | **63,233** | 90,876 |
| Utilisations<br>– Bank borrowings | **31,688** | 45,452 |
| Unutilised facility amount | **31,545** | 45,424 |

As at 31 March 2018 and 2019, all banking facilities were secured by guarantees of the Company.

As at 31 March 2019, one of the banking facilities was secured by guarantees provided by subsidiaries. One of the guarantees is supported by a mortgage charged over a property which is owned by a subsidiary.

As at 31 March 2019, one of the banking facilities was secured by buildings with carrying amounts of approximately HK$8,847,000 (2018: HK$9,234,000).

As at 31 March 2019, certain banking facilities were secured by insurance prepayments with carrying amounts of approximately HK$9,846,000 (2018: HK$9,623,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 26. OBLIGATIONS UNDER FINANCE LEASES

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | **30,078** | 38,027 |
| Non-current liabilities | **26,563** | 51,820 |
| | **56,641** | 89,847 |

It is the Group's policy to lease certain of its motor vehicles and machinery under finance lease. The average lease term is 4 years.

As at 31 March 2019, the Group has variable-rate finance leases of approximately HK$5,454,000 (2018: HK$19,267,000) which carried interest in ranging from 5.64% to 9.45% per annum (2018: 5.64% to 9.45% per annum). The remaining balance was fixed-rate finance leases which carried interest in ranging from 3.81% to 7.35% per annum (2018: 3.81% to 7.35% per annum).

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2019 HK$'000** | 2018 HK$'000 | **2019 HK$'000** | 2018 HK$'000 |
| Amounts payable under finance leases | | | | |
| Within one year | **32,152** | 41,559 | **30,078** | 38,027 |
| More than one year but less than two years | **27,543** | 28,284 | **26,563** | 26,349 |
| More than two years but less than five years | **–** | 26,406 | **–** | 25,471 |
| | **59,695** | 96,249 | **56,641** | 89,847 |
| Less: future finance charges | **(3,054)** | (6,402) | **N/A** | N/A |
| Present value of obligations under finance lease | **56,641** | 89,847 | **56,641** | 89,847 |
| Less: amounts due for settlement within 1 year (shown under current liabilities) | | | **(30,078)** | (38,027) |
| Amounts due for settlement after 1 year | | | **26,563** | 51,820 |

As at 31 March 2019, the finance leases are secured by certain property, plant and equipment with carrying amounts of approximately HK$40,888,000 (2018: HK$57,839,000) of subsidiaries and guarantee provided by the subsidiary.

## 27. DEFERRED TAX LIABILITIES

The following is the analysis of the deferred tax liabilities, before set off certain deferred tax assets against deferred liabilities of the same taxable entity, for the financial reporting purposes:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Deferred tax assets | **3,061** | 1,163 |
| Deferred tax liabilities | **(10,454)** | (8,437) |
| | **(7,393)** | (7,274) |

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

| | **Allowances** HK$'000 | **Accelerated tax depreciation** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 April 2017 | 1,017 | (11,124) | (10,107) |
| Credit to profit or loss | 146 | 2,687 | 2,833 |
| At 31 March 2018 | 1,163 | (8,437) | (7,274) |
| Effect of change in accounting policy (note 2) | 614 | – | 614 |
| At 1 April 2018 | 1,777 | (8,437) | (6,660) |
| Credit (charge) to profit or loss | 1,284 | (2,017) | (733) |
| At 31 March 2019 | 3,061 | (10,454) | (7,393) |

As at 31 March 2019, no deferred tax asset has been recognised in respect of unused tax losses of approximately HK$45,642,000 (2018: HK$244,000) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

As at 31 March 2019, the Group has deductible temporary difference of approximately HK$180,000 (2018: HK$180,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 28. SHARE CAPITAL

| | Number of shares | Share capital HK$'000 |
|---|---|---|
| Ordinary share of HK$0.01 each | | |
| *Authorised:* | | |
| At 1 April 2017, 31 March 2018 and 31 March 2019 | 10,000,000,000 | 100,000 |
| Issued and fully paid | | |
| At 1 April 2017, 31 March 2018 and 31 March 2019 | 1,037,500,000 | 10,375 |

## 29. COMMITMENTS

### *Operating lease commitment*

**The Group as lessee**

The Group leases its office properties and storage area under operating lease arrangement. Lease is negotiated for an original term of two years. At the end of each reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Within one year | 1,270 | 150 |
| In the second to fifth years inclusive | 200 | – |
| | 1,470 | 150 |

## 30. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged the following assets to banks and finance lease companies to secure the banking facilities, other borrowings and finance leases granted to the Group:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Property, plant and equipment | 69,194 | 67,073 |
| Insurance prepayment | 9,846 | 9,623 |
| Pledged deposits | 2,157 | – |
| | 81,197 | 76,696 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 31. CONTINGENT LIABILITIES

A subsidiary has been named as defendant in two (2018: four) High Court actions in respect of claims for compensation of personal injury for an amount of approximately HK$7,699,000 (2018: HK$6,766,000) in aggregate. Directors of the Company considered the claims are covered by the relevant insurance policies. No provision for potential liability has been made in the consolidated financial statements.

## 32. SHARE-BASED PAYMENT TRANSACTIONS

### *Equity-settled share option scheme of the Company*

The Company's share option scheme (the "Scheme"), was adopted pursuant to written resolution of the Company passed on 15 November 2016 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 7 December 2026. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up on the date of grant, upon payment of HK$1.00. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the nominal value of the Company's share; (ii) the closing price of the Company's shares on the date of grant; and (iii) the average closing price of the shares for the five business days immediately preceding the date of grant.

No share options have been granted since the adoption of the scheme and during the years ended 31 March 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 33. RELATED PARTY TRANSACTIONS

**(a)** Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following transactions with related party as follows:

| Name of company | Nature of transactions | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|---|
| Honrich Limited | Rental expenses for staff quarters | (i) & (ii) | 350 | – |

Notes:

(i) The transaction was carried out at terms determined and agreed by the Company and the relevant party.

(ii) The director of the Company, Mr. Wu Wing Hang, has direct or indirect interest in the above mentioned relevant party.

### (b) *Compensation of key management personnel*

The remuneration of directors of the Company and other members of key management personnel during the year was as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Short-term benefits | 8,195 | 6,965 |
| Post-employment benefits | 90 | 79 |
| | 8,285 | 7,044 |

## 34. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

During the year ended 31 March 2019, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately HK$3,085,000 (2018: HK$3,302,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Accrued interest** HK$'000 | **Amount due to a related company** HK$'000 (note 24) | **Bank and other borrowings** HK$'000 (note 25) | **Obligation under finance leases** HK$'000 (note 26) | **Total** HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | – | 5,354 | 41,659 | 100,803 | 147,816 |
| Financing cash flows: | | | | | |
| – Addition | – | – | 55,229 | – | 55,229 |
| – Repayment | (6,533) | (5,268) | (51,436) | (28,743) | (91,980) |
| Non-cash changes: | | | | | |
| – Interest recognised | 6,533 | – | – | – | 6,533 |
| – Addition | – | – | – | 17,787 | 17,787 |
| At 31 March 2018 | – | 86 | 45,452 | 89,847 | 135,385 |
| Financing cash flows: | | | | | |
| – Addition | – | – | 94,908 | – | 94,908 |
| – Repayment | (5,265) | (86) | (92,194) | (41,307) | (138,852) |
| Non-cash changes: | | | | | |
| – Interest recognised | 5,265 | – | – | – | 5,265 |
| – Addition | – | – | – | 8,101 | 8,101 |
| At 31 March 2019 | – | – | 48,166 | 56,641 | 104,807 |

## 36. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 March 2019, the Group entered into finance lease arrangements in respect of motor vehicles and machinery with a total capital value at the inception of the leases of approximately HK$8,101,000 (2018: HK$17,787,000).

(b) During the year ended 31 March 2019, the Group transferred machinery with an amount of approximately HK$849,000 from inventories to property, plant and equipment (2018: HK$5,556,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 37. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | | **106,532** | 106,532 |
| Current assets | | | |
| Deposits, prepayment and other receivables | | **174** | 174 |
| Amounts due from subsidiaries | (a) | **78,748** | 31,701 |
| Bank balances and cash | | **20,235** | 71,680 |
| | | **99,157** | 103,555 |
| Current liabilities | | | |
| Other payables | | **1,947** | 2,389 |
| Amounts due to subsidiaries | (a) | **3,797** | 3,803 |
| | | **5,744** | 6,192 |
| Net current assets | | **93,413** | 97,363 |
| Total assets less current liabilities | | **199,945** | 203,895 |
| Capital and reserves | | | |
| Share capital | | **10,375** | 10,375 |
| Reserves | (b) | **189,570** | 193,520 |
| | | **199,945** | 203,895 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 37. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note (a): The amounts are unsecured, non-interest bearing and repayable on demand.

Note (b): **Movements in reserves**

| | **Share premium** HK$'000 | **Other reserve** HK$'000 (Note) | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2017 | 109,078 | 106,532 | (16,364) | 199,246 |
| Loss and total comprehensive expense for the year | – | – | (5,726) | (5,726) |
| At 31 March 2018 | 109,078 | 106,532 | (22,090) | 193,520 |
| Loss and total comprehensive expense for the year | – | – | (3,950) | (3,950) |
| At 31 March 2019 | 109,078 | 106,532 | (26,040) | 189,570 |

Note: Other reserve represents the difference between the nominal value of the shares issued and the net asset value of the subsidiaries of the Company at the date of acquisition.

## 38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 March 2019 and 2018 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid ordinary share capital | Percentage of equity interest and voting power attributable to the Company Direct | | Indirect | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2019 | 2018 | 2019 | 2018 | |
| Neotime Global | BVI | United States dollar ("USD") 1 | 100% | 100% | – | – | Investment holding |
| Lufa Global | BVI | USD1 | 100% | 100% | – | – | Investment holding |
| Luen Yau Holdings | BVI | USD100 | 100% | 100% | – | – | Investment holding |
| Luen Yau Construction | Hong Kong | HK$1 | – | – | 100% | 100% | Construction works, construction machinery rental service and trading of construction machinery |
| Luen Yau Machinery Construction Company Limited | Hong Kong | HK$1 | – | – | 100% | 100% | Construction machinery rental service |
| Luen Yau Management Services Limited | Hong Kong | HK$1 | – | – | 100% | 100% | Investment holding |
| Luen Yau Management Company Limited | BVI | USD1 | – | – | 100% | 100% | Investment holding |

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

# FINANCIAL SUMMARY

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Revenue and Profit** | | | | | |
| Revenue | **221,338** | 381,816 | 484,479 | 409,349 | 366,729 |
| Cost of sales | **(240,653)** | (345,198) | (416,736) | (342,995) | (314,539) |
| Gross (loss) profit | **(19,315)** | 36,618 | 67,743 | 66,354 | 52,190 |
| Other income | **7,769** | 8,176 | 5,954 | 3,101 | 2,974 |
| Administrative expenses | **(27,914)** | (30,300) | (34,763) | (16,878) | (6,817) |
| Finance costs | **(5,265)** | (6,533) | (7,163) | (7,571) | (5,384) |
| (Loss) profit before taxation | **(44,725)** | 7,961 | 31,771 | 45,006 | 42,963 |
| Income tax expenses | **(774)** | (2,248) | (7,841) | (8,258) | (7,100) |
| (Loss) profit and total comprehensive (expense) income for the year attributable to the owners of the Company | **(45,499)** | 5,713 | 23,930 | 36,748 | 35,863 |
| (Loss) earnings per share (HK$) | | | | | |
| Basic and diluted | **(4.39 cents)** | 0.55 cents | 4.45 cents | 4.35 cents | 3.54 cents |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and Liabilities** | | | | | |
| Current assets | **237,708** | 327,925 | 347,358 | 198,566 | 124,916 |
| Non-current assets | **113,566** | 113,923 | 150,811 | 137,734 | 166,413 |
| Current liabilities | **(102,110)** | (130,292) | (179,628) | (144,980) | (116,819) |
| Non-current liabilities | **(45,309)** | (59,094) | (71,792) | (58,954) | (78,892) |
| Total equity | **203,855** | 252,462 | 246,749 | 132,366 | 95,618 |