# ANNUAL REPORT 2019

# Century Group International Holdings Limited
# 世紀集團國際控股有限公司

*(formerly known as CHerish Holdings Limited) (incorporated in the Cayman Islands with limited liability)*

Stock Code: 2113

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**
Mr. Li Xiangzhong *(Chairman and Chief Executive Officer)*
Mr. Zhang Chengzhou
Mr. Cao Jun

**Non-executive Director**
Mr. Cao Qian

**Independent Non-executive Directors**
Mr. Cheung Wai Lun Jacky
Mr. Lee Chi Ming
Mr. Tang Chi Wai

## AUDIT COMMITTEE

Mr. Tang Chi Wai *(Chairman)*
Mr. Cheung Wai Lun Jacky
Mr. Lee Chi Ming

## NOMINATION COMMITTEE

Mr. Lee Chi Ming *(Chairman)*
Mr. Cheung Wai Lun Jacky
Mr. Tang Chi Wai

## REMUNERATION COMMITTEE

Mr. Cheung Wai Lun Jacky *(Chairman)*
Mr. Lee Chi Ming
Mr. Tang Chi Wai

## COMPANY SECRETARY

Ms. Lee Ka Man

## AUTHORISED REPRESENTATIVES

Mr. Zhang Chengzhou
Ms. Lee Ka Man

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office D, 16/F
Kings Wing Plaza 1
No 3 On Kwan Street
Shek Mun
New Territories
Hong Kong

## REGISTERED OFFICE

The office of Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKS

Shanghai Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

## AUDITOR

SHINEWING (HK) CPA Limited
43rd Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

## LEGAL ADVISER AS TO HONG KONG LAW

LC Lawyers LLP
Suite 3106, 31/F One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

## COMPANY'S WEBSITE

www.cherishholdings.com

## STOCK CODE

2113

| | Year ended March 31 | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **142,852** | 192,341 | 266,167 | 210,046 | 139,367 |
| Cost of sales | **(217,318)** | (168,894) | (216,346) | (167,546) | (104,131) |
| **Gross (loss) profit** | **(74,466)** | 23,447 | 49,821 | 42,500 | 35,236 |
| Other income | **478** | 1,062 | 419 | 515 | 56 |
| Administrative expenses | **(14,167)** | (13,252) | (22,739) | (8,041) | (4,163) |
| Finance costs | **(661)** | (326) | (356) | (375) | (389) |
| **(Loss) profit before taxation** | **(88,816)** | 10,931 | 27,145 | 34,599 | 30,743 |
| Income tax credit (expense) | **1,924** | (2,217) | (7,399) | (6,175) | (5,072) |
| (Loss) profit and total comprehensive (expense) income for the year | **(86,892)** | 8,714 | 19,746 | 28,424 | 25,671 |

| | As at March 31 | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Non-current assets** | | | | | |
| Plant and equipment | **25,493** | 51,166 | 29,958 | 21,910 | 14,734 |
| Financial assets at fair value through other comprehensive income | **–*** | – | – | – | – |
| Deposits paid for purchase of plant and equipment | **–** | – | 1,177 | – | – |
| Restricted bank balances | **15,293** | 7,627 | – | – | – |
| | **40,786** | 58,793 | 31,135 | 21,910 | 14,734 |
| **Current assets** | | | | | |
| Amounts due from customers for contract work | **–** | 75,974 | 43,184 | 19,822 | 763 |
| Trade and other receivables | **16,850** | 37,937 | 24,346 | 32,687 | 10,960 |
| Contract assets | **43,523** | – | – | – | – |
| Tax recoverable | **–** | 4,334 | – | – | – |
| Amounts due from directors | **–** | – | – | 93 | 30,483 |
| Restricted bank balances | **–** | – | 2,571 | – | – |
| Bank balances and cash | **12,997** | 31,089 | 98,165 | 52,220 | 31,124 |
| | **73,370** | 149,334 | 168,266 | 104,822 | 73,330 |
| **Current liabilities** | | | | | |
| Amounts due to customers for contract work | **–** | – | 2,583 | 29,508 | 25,476 |
| Trade and other payables | **32,481** | 29,859 | 25,516 | 31,796 | 11,336 |
| Amount due to a director | **350** | – | – | – | – |
| Amounts due to a related company | **–** | – | – | – | 57 |
| Unsecured bank overdrafts | **–** | – | – | – | 42 |
| Unsecured bank borrowings | **–** | – | – | 248 | 1,828 |
| Obligations under finance leases – due within one year | **–** | 4,361 | 5,170 | 3,391 | 2,629 |
| Tax payable | **–** | – | 2,061 | 10,777 | 5,762 |
| | **32,831** | 34,220 | 35,330 | 75,720 | 47,130 |
| **Net current assets** | **40,539** | 115,114 | 132,936 | 29,102 | 26,200 |
| **Total assets less current liabilities** | **81,325** | 173,907 | 164,071 | 51,012 | 40,934 |
| **Non-current liabilities** | | | | | |
| Obligations under finance leases – due after one year | **–** | 3,766 | 5,101 | 3,547 | 3,053 |
| Deferred tax liability | **3,485** | 5,409 | 2,952 | 2,263 | 1,103 |
| | **3,485** | 9,175 | 8,053 | 5,810 | 4,156 |
| **Net assets** | **77,840** | 164,732 | 156,018 | 45,202 | 36,778 |
| **Capital and reserves** | | | | | |
| Share capital | **7,678** | 7,678 | 7,678 | – | – |
| Reserves | **70,162** | 157,054 | 148,340 | 45,202 | 36,778 |
| **Total equity** | **77,840** | 164,732 | 156,018 | 45,202 | 36,778 |

* Less than HK$1,000

# CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Century Group International Holdings Limited (formerly known as CHerish Holdings Limited) (the "Company"), it gives me great pleasure to present you the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2019 (the "Reporting Period").

**Financial Review**

With more than 17 years of experience as a subcontractor providing site formation works in Hong Kong, the Group always maintains its professional technical standards to undertake site formations works such as general earthworks, tunnel excavation works, foundation works, as well as road and drainage works. It is expected that our group would be aligned with the optimistic development of the industry.

During the year our project works were on the downward trend with a decrease in revenue by approximately HK$49.4 million or 25.7%. The Group's revenue amounted to approximately HK$142.9 million compared with approximately HK$192.3 million in the previous year. The decrease in revenue is mainly due to keen competition during the year and hence less sizeable new projects had been awarded. During the year, the Group was awarded four projects with total contract sum of approximately HK$98.1 million whereas in contrast the Group was awarded one project with contract sum of approximately HK$305.1 million in the last year.

Apart from the substantial decrease in the project revenue, the Group recorded a significant gross loss during the year due to (1) additional work procedures, workers, machines and time being required to deal with the order instructed by the main contractor for the Islands District project; (2) additional labour costs, subcontracting fee and overhead cost due to delay in work progress as a result of changing working schedules as requested by the main contractor for the Shatin District project; and (3) during the second half of the financial year, the Group has experienced slowdown and/or suspension of certification of variation order and claims from one of our main contractor.

**Prospects**

Looking forward to 2019, the Group expects that the operating environment will continue to be full of challenges and competition. Despite there are many opportunities in the construction industry in Hong Kong, competition in the industry is fierce. However, by expanding the capacity of our own machinery and specializing in technical expertise especially in foundation works, the Group will keep on improving the effectiveness and project management skills of our site formation works. We believe that with our outstanding track record in the market, experienced and professional management team, established relationship with the customers and suppliers as well as our commitment to maintaining high safety and working standard, the Group is well-positioned to actively seek potential business opportunities that will broaden the sources of income and enhance value to the shareholders.

In exploring other business opportunities, on 10 January 2019, the Company is in preliminary discussions with McCourt Asia Limited to form of a joint venture company. It is intended that the joint venture company which intended to be engaged in cultural tourism, real estates, finance, and its related businesses, the promotion of the equestrian global champions tour and league, the use of artificial intelligence in equestrian sports and football and the use of big data in sports.

Furthermore, on 15 January 2019, the Company is in preliminary discussions with Jiangsu Xingquan Cultural Broadcasting Limited to form of a joint venture company which intended to be principally engaged in new retail in cultural tourism, new service and development of educational and employment training.

Both of the above potential transactions are still in the negotiation and the Group has not entered into any legally binding agreement with the aforesaid companies. We shall update the shareholders of the Company in due course.

**Appreciation**

Last but not least, I would like to express my sincere gratitude to our valuable shareholders, business partners and customers for their trust and support. And also I would like to extend my heartfelt thanks to our directors, management team and staff for their tireless endeavor and contributions under the fierce market situation, and continue to bring the Group forward to attain better results.

**Li Xiangzhong**
*Chairman of the Board*
Hong Kong, 28 June 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group has over 17 years of experience in providing site formation works as a subcontractor in Hong Kong. The site formations works undertaken by the Group generally include (a) general earthworks (including soil and rock excavation, disposal of construction and demolition materials, backfilling and compaction for forming a new site or achieving designed formation level for later development); (b) tunnel excavation works (including rock excavation works for construction of tunnels through drill and break and/or drill and blast methods as well as construction of associated temporary tunnel support structures); (c) foundation works (including excavation and lateral support works (the "ELS") and associated structural works for construction of pile caps for commercial and residential building projects); and (d) road and drainage works. During the Reporting Period, there has been no significant change in the business operations of the Group.

As at 31 March 2019, there were five projects on hand with total contract sum amounting to approximately HK$408.2 million. Except for one site formation works project in Kwun Tong which is expected to be completed in the year ending 31 March 2021, the remainings are expected to be completed in the forthcoming financial year. During the Reporting Period, the Group was awarded four projects with total contract sum of approximately HK$98.1 million, of which approximately HK$12.1 million was recognised as revenue during the Reporting Period. As at 31 March 2019, five projects with outstanding contract sum of approximately HK$240.1 million were in progress. Two of the projects awarded in previous years with a total contract sum of approximately HK$143.7 million were completed during the Reporting Period.

Below set out a list of projects completed during the Reporting Period and those projects which are still in progress up to date of this report:

| **Site Location** | **Type of Works** | **Status** as at 31 March 2019 | **Status** up to date of this report |
|---|---|---|---|
| Shatin District | Site formation, slope work, road and drainage works | Completed | Completed |
| Islands District | Roadworks, drainage and duct works | Completed | Completed |
| Kwun Tong District | Site formation works | Work in progress | Work in progress |
| Islands District | Airport road diversion and reinstatement and reinstatement of footpath | Work in progress | Work in progress |
| Islands District | Removal of rock material | Work in progress | Work in progress |
| Islands District | Earthworks, ELS and breaking off pile heads | Work in progress | Work in progress |
| Pok Fu Lam District | Site formation, ELS and slope stabilisation works | Yet to commence | Work in progress |

## PROSPECTS

2019 will be full of opportunities and challenges. The planned commitment in the Government's public expenditure on infrastructure will result in more business opportunities being presented to the market. Whilst factors including but not limited to difficult geological conditions, adverse weather conditions, variations to the construction plans instructed by customers and other unforeseen problems or circumstances that occur during project implementation continue being threats that likely affect the Group's profit as a subcontractor.

Looking forward, the Group will continue to focus on developing business of undertaking site formation works in Hong Kong and at the same time carefully evaluate each project and control the Group's overall costs to a reasonable level. Otherwise, the Group will actively seek potential business opportunities that will broaden the sources of income and enhance value to the shareholders.

## FINANCIAL REVIEW

### Revenue

During the Reporting Period, the Group's revenue was amounted to approximately HK$142.9 million (2018: approximately HK$192.3 million), representing a decrease of approximately HK$49.4 million or 25.7% from the previous year. The decrease was mainly attributable to keen competition in the construction industry, resulting in less sizeable new projects had been awarded.

During the Reporting Period, the revenue of the Group for the year was mainly contributed by 6 projects, whereas revenue of the Group for the year ended 31 March 2018 was contributed by 11 projects. During the year, the Group was awarded four projects with total contract sum of approximately HK$98.1 million whereas in contrast the Group was awarded one project with contract sum of approximately HK$305.1 million in the last year.

### Gross (loss) profit

During the year, the Group recorded a significant gross loss of approximately HK$74.5 million (2018: gross profit of approximately HK$23.4 million). The gross loss is mainly due to the following reasons:

1. during the year, total costs of approximately HK$27.6 million was recognised in a roadworks, drainage and duct works project in Islands District including but not limited to the additional work procedures, workers, machines and time being required to deal with the order instructed by the main contractor. The Group is negotiating with the customer of the project to seek compensation for additional time and costs, but such compensation could not be determined at the moment;

2. during the year, the Group recognised total costs of approximately HK$16.2 million in a site formation project in Shatin District including but not limited to labour costs, subcontracting fee and overhead cost due to delay in work progress as a result of changing working schedules as requested by the main contractor; and

3. during the second half of the financial year, the Group has experienced slowdown and/or suspension of certification of variation order and claims from one of our main contractors. Despite the Group's repeated request and/or demands, the Group has been given the understanding that the relevant certification of variation order and claims are still under main contractor's internal circulation and/or in some cases no responses were given. The deteriorated situation has changed overall profitability of the project and the costs recognised of approximately HK$62.6 million in fulfilling these variation orders.

### Administrative expenses

The administrative expenses of the Group for the Reporting Period amounted to approximately HK$14.2 million, representing an increase of approximately 6.8% compared with approximately HK$13.3 million for the year ended 31 March 2018. The increase was mainly attributable to the increase in staff costs and the professional fees for the cash offer during the year.

### (Loss) profit and total comprehensive (expense) income for the year

Loss and total comprehensive expense for the year of the Company amounted to approximately HK$86.9 million (2018: profit and total comprehensive income for the year of approximately HK$8.7 million). The turning of profit to loss was mainly attributable to the decrease in revenue and increase in cost of sales as mentioned above.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds of the share offer received by the Company in relation to the Listing were approximately HK$97.0 million, after deduction of underwriting fees and commissions and expenses. These proceeds are intended to be applied in accordance with the proposed application set out in the paragraph headed "Future plans and use of proceeds" in the prospectus of the Company dated 30 September 2016 (the "Prospectus"). The below table sets out the proposed applications of the net proceeds and usage up to date of this report:

| | Planned use of proceeds | Actual usage up to date of this report |
|---|---|---|
| | HK$'000 | HK$'000 |
| Purchase of machinery and equipment | 57,731 | 57,731 |
| Expansion of workforce | 18,102 | 18,102 |
| Taking out surety bond | 12,231 | 12,231 |
| General working capital | 8,929 | 8,929 |
| | 96,993 | 96,993 |

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 March 2019, the Group had bank balances of approximately HK$13.0 million (2018: approximately HK$31.1 million), which were principally denominated in Hong Kong dollars. The decrease was mainly due to the aggregate net cash used in operation, investing and financing activities of approximately HK$18.1 million. The interest-bearing debts of the Group as at 31 March 2019 was nil (2018: approximately HK$8.1 million).

During the Reporting Period, the Group had an unsecured interest-bearing bank borrowing of HK$9 million denominated in Hong Kong dollars which has been fully settled. As at 31 March 2019, the trade and other payables and amount due to a director were approximately HK$32,481,000 and HK$350,000, respectively, which will be due within the coming twelve months from the end of the Reporting period. For details, please refer to the notes 1 and 9 to the consolidated financial statements in this report.

The gearing ratio is calculated based on the amount of total interest-bearing debts divided by total equity. The gearing ratio of the Group as at 31 March 2019 was nil (2018: approximately 4.9%), as a result of the full settlement of the finance leases during the Reporting Period.

## PLEDGE OF ASSETS

The Group's plant and machinery with an aggregate net book value of nil and approximately HK$2.7 million and motor vehicles with an aggregate net book value of nil and approximately HK$1.8 million as at 31 March 2019 and 2018, respectively, were pledged under finance leases.

## 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 166 staff (2018: 222 staff). Total staff costs including directors' emoluments for the year, amounted to approximately HK$86.2 million (2018: approximately HK$68.1 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 performance of each employee.

During the Reporting Period, 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.

## CAPITAL STRUCTURE

During the Reporting Period, there has been no change in capital structure of the Company. The capital of the Company comprises ordinary shares and capital reserves.

As at 31 March 2019 and as at the date of this report, there are a total of 767,750,000 issued shares of the Company.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not hold any significant investments nor have any material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

## CAPITAL COMMITMENTS

As at 31 March 2019, the Group did not have any capital commitments (2018: Nil).

## CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities (2018: Nil).

## SIGNIFICANT EVENT(S)

### Change of Controlling Shareholder

On 19 October 2018, Waterfront Palm Limited (as vendor) and Mr. Tang Man On, Mr. Kwok Hoi Chiu and Ms. Choi Chun Chi Sandy (as guarantors of Waterfront Palm Limited) entered into an agreement ("Sale and Purchase Agreement") with China Century Holdings Limited (as purchaser), pursuant to which China Century Holdings Limited acquired 397,865,000 shares (representing approximately 51.82% of the issued share capital of the Company at the relevant time) at a consideration of HK$254,999,635.80 in aggregate, equivalent to HK$0.64092 per share.

Following completion of the Sale and Purchase Agreement on 22 October 2018, China Century Holdings Limited made an unconditional mandatory cash offer ("Offer") to acquire all the issued shares of the Company not already owned and/or agreed to be acquired by it or parties acting in concert with it at a price of HK$0.641 per share. Immediately after the close of the Offer on 28 December 2018, China Century Holdings Limited was interested in 560,535,000 shares, representing approximately 73.01% of the issued shares of the Company.

Please also refer to the joint announcement issued by the Company and China Century Holdings Limited dated 24 October 2018, the composite document issued by the Company and China Century Holdings Limited on 7 December 2018, and the joint announcement issued by the Company and China Century Holdings Limited dated 28 December 2018, respectively.

### Change of Directors

(1) With effect from 14 June 2018, Ms. Wong Chi Yan resigned as an executive Director.

(2) With effect from 7 December 2018,

  (a) Mr. Zhang Chengzhou and Mr. Cao Jun have been appointed as executive Directors;

  (b) Mr. Tang Man On resigned from his position as the chairman of the Board; and

  (c) Mr. Zhang Chengzhou has been appointed as the chairman of the Board.

(3) With effect from 10 December 2018, Mr. Li Xiangzhong has been appointed as executive Director; and Mr. Cao Qian has been appointed as the non-executive Director.

(4) Due to a change in control of the Company, after the close of the Offer on 28 December 2018, Mr. Tang Man On, Mr. Kwok Hoi Chiu and Ms. Choi Chun Chi Sandy (the "Resigned Directors") resigned as executive Directors.

  Following the resignation of the Resigned Directors,

  (a) Mr. Li Xiangzhong has been appointed as the chief executive officer of the Company in place of Mr. Kwok Hoi Chiu;

  (b) Mr. Zhang Chengzhou and Ms. Lee Ka Man have been appointed as the authorised representatives of the Company under Rule 3.05 of the Listing Rules in place of Mr. Tang Man On and Mr. Kwok Hoi Chiu; and

  (c) Ms. Lee Ka Man has been appointed as the process agent of the Company under Rule 19.05(2) of the Listing Rules and Part 16 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) in place of Mr. Kwok Hoi Chiu.

Following the appointment of the Mr. Li Xiangzhong and Mr. Cao Qian as Directors on 10 December 2018, the number of independent non-executive Directors in the Company fell below the requirement under Rule 3.10A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") that the Company must appoint independent non-executive Directors representing at least one-third of the Board. The Company has re-complied with the above requirement after the resignation of the Resigned Directors on 28 December 2018.

### Change of Company Name and Stock Short Name

On 31 January 2019, the special resolutions approving the change of the English name of the Company from "CHerish Holdings Limited" to "Century Group International Holdings Limited" and the dual foreign name of the Company from "東盈控股有限公司" to "世紀集團國際控股有限公司" (the "Change of Name") and the consequential amendments to the memorandum and articles of association of the Company regarding the Change of Name were duly passed by the shareholders of the Company at the extraordinary general meeting of the Company held on 31 January 2019.

Accordingly, the English stock short name of the Company has been changed from "CHERISH HLDGS" to "CENTURY GP INTL" and the Chinese stock short name of the Company has been changed from "東盈控股" to "世紀集團國際" for trading in the shares of the Company on the Stock Exchange, with effect from 8 March 2019.

## SUBSEQUENT EVENT(S) AFTER REPORTING PERIOD

### Change of Chairman of the Board

With effect from 16 April 2019, (1) Mr. Zhang Chengzhou resigned as chairman of the Board of the Company; and (2) Mr. Li Xiangzhong, an executive Director and chief executive officer of the Company, has been appointed as a chairman of the Board.

Pursuant to Code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Notwithstanding the deviation from code provision A.2.1, the Board believes that with the support of the management, vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which currently consists of three executive directors, one non-executive director and three independent non-executive directors, the interest of the shareholders of the Company will be adequately and fairly represented.

## EXECUTIVE DIRECTORS

**Mr. LI Xiangzhong** ("**Mr. Li**"), aged 44, was appointed as an executive director of the Company with effect from 10 December 2018 and was subsequently appointed as the chief executive officer of the Company with effect from 28 December 2018 and appointed as the chairman of the Board with effect from 16 April 2019. Mr. Li has also been appointed as the chairman of the board of Chengdu Iris Tourism Group Limited* (成都艾瑞絲旅遊集團有限公司) since 1 December 2017, a company principally engaged in the business of tourism development, hotel management and food and beverages, and the director of International Daily News Inc* (美國國際日報報業集團) since May 2017, a company principally engaged in the sales of newspapers through vendors and vending machines.

**Mr. ZHANG Chengzhou** ("**Mr. Zhang**"), aged 39, was appointed as an executive director of the Company and chairman of the Board with effect from 7 December 2018 and was subsequently ceased as the chairman of the Board on 16 April 2019. He has been appointed as the director of China Century Group Limited (中國世紀集團有限公司) since 15 October 2018, a private company incorporated in Hong Kong principally engaged in securities investment, and executive director of Century Investment Holding Group (Shenzhen) Limited* (世紀投資控股集團（深圳）有限公司) since 27 October 2015, a private company established in the PRC which is principally engaged in the business of investment and corporate management consulting. On 12 March 2015, Mr. Zhang was appointed as a non-executive director of King Force Group Holdings Limited (冠輝集團控股有限公司) (stock code: 8315) and was then re-designated as an executive director on 21 April 2015 until his resignation on 27 November 2015. Mr. Zhang graduated from Beijing Institute of Business (北京工商學院) with a bachelor degree in business administration in July 2006.

**Mr. CAO Jun**, aged 52, was appointed as an executive director of the Company with effect from 7 December 2018. He is currently the co-chair of the Chinese Overseas Artists Association and the co-chairman of the advisory board of the Nassau Museum of Art. Mr. Cao Jun has been appointed as a distinguished professor at the Research Institute of Traditional Chinese Painting of the School of Continuing Education of Renmin University of China (中國人民大學) since June 2017. Mr. Cao Jun graduated from The Shandong Institute of Mining and Technology* (山東礦業學院) with a bachelor's degree in mining engineering in July 1989.

## NON-EXECUTIVE DIRECTOR

**Mr. CAO Qian** ("**Mr. Cao**"), aged 29, was appointed as non-executive director of the Company on 10 December 2018. He has been appointed as the chairman of Shenzhen City Tianyi Qiyuan Cultural Communication Limited* (深圳市天一起源文化傳播有限公司) since 20 February 2016, a company principally engaged in the business of advertisement, corporate management consulting and events management. Mr. Cao obtained a diploma in administrative management from Central South University (中南大學) in January 2013 by way of distant learning.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHEUNG Wai Lun Jacky** ("**Mr. Cheung**"), aged 45, was appointed as independent non-executive Director of the Company on 20 September 2016. He is also the Chairman of the remuneration committee and members of audit committee and nomination committee of the Company. He obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong in November 1995 and June 1996 respectively. He was admitted as a solicitor of the High Court of Hong Kong in November 1998 and is currently a practising solicitor in Hong Kong. He has over 18 years of post-qualification experience in the legal profession. From September 2001 to December 2007 and from November 2008 to September 2012, he worked as a senior associate at Mayer Brown JSM (formerly known as JSM from January 2008 to April 2010 and Johnson Stokes & Master until January 2008), a Hong Kong-based law firm. From June 2013 to March 2015, he served as an associate and was further promoted to a partner in D.S. Cheung & Co., a law firm in Hong Kong. Since April 2015, Mr. Cheung has been a consultant at Loeb & Loeb LLP (formerly known as Pang & Co. in association with Loeb & Loeb LLP), a law firm in Hong Kong.

He has been an independent non-executive director of Kin Pang Holdings Limited (stock code: 1722) since November 2017 and AV Promotions Holdings Limited (stock code: 8419) since December 2017.

**Mr. LEE Chi Ming** ("**Mr. Lee**"), aged 61, was appointed as independent non-executive Director of the Company on 20 September 2016. He is also the Chairman of nomination committee and members of audit committee and remuneration committee of the Company. From August 1983 to July 2012, Mr. Lee served the Water Supplies Department of the Hong Kong Government. Mr. Lee's last position with the Hong Kong Government was Chief Engineer in Water Supplies Department, which principal functions include, among others, designing and constructing waterworks projects and planning and managing water resources and water supply systems.

Mr. Lee obtained a Bachelor of Science in Engineering, Master of Science in Urban Planning and Master of Science in Interdisciplinary Design and Management from The University of Hong Kong in November 1980, November 1987 and December 2006, respectively. He is currently a chartered engineer, a fellow of the Institution of Civil Engineers and a member of the Hong Kong Institution of Engineers.

Mr. Lee is a fellow of the Institution of Civil Engineers. He was the chairman of the Institution of Civil Engineers Hong Kong Association between 2013 and 2015 and was admitted as a member of the Council of the Institution of Civil Engineers (Hong Kong Association) in 2013. He is also a member of the Hong Kong Institution of Engineers since 1985. Since 2015, he has been the chairman of the Board of "Carboncare Innolab", a non-government organisation which is dedicated to the nurturing and development of innovative solutions in response to the climate change challenge. He is also the vice-chairman of Land Watch, a local think tank with the objectives to carry out research and to advocate policies in relation to land, housing, planning and development, conservation and heritage in Hong Kong, since 2012. Mr. Lee was a member of the Council of the Hong Kong Examination and Assessment Authority between 2004 and 2007. During the period, he was appointed the Vice-chairman of the Finance and General Purposes Committee and the Finance and Audit Committee as well as a member of the Appeal Review Committee.

**Mr. TANG Chi Wai** ("**Mr. Tang**"), aged 45, was appointed as independent non-executive Director of the Company on 20 September 2016. He is also the Chairman of audit committee and members of nomination committee and remuneration committee of the Company. Mr. Tang has over 20 years of experience in auditing and accounting. Mr. Tang has been serving as a financial controller, company secretary and authorised representative of Universal Technologies Holdings Limited (stock code: 1026) since June 2008. Mr. Tang has been an independent non-executive director of Xin Point Holdings Limited (stock code: 1571) since June 2017, Noble Engineering Group Holdings Limited (stock code: 8445) since September 2017 and ISP Global Limited (stock code: 8487) since December 2017.

Mr. Tang is a practising Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Internal Auditor of the Institute of Internal Auditors and a holder of the Practitioner's Endorsement from the Hong Kong Institute of Chartered Secretaries. Mr. Tang has also obtained various professional qualifications and memberships including a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators, and a member of the Chinese Institute of Certified Public Accountants.

Note: The above executive directors are the senior management of the Company.

## CORPORATE GOVERNANCE PRACTICES

Century Group International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recognise the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the board of directors of the Company (the "Board") is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

The Group has adopted a corporate governance statement of policy which provides guidance on the application of the corporate governance principles on the Group, with reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors of the Company (the "Director(s)"), the Company has complied with all code provisions as set out in the CG Code during the Reporting Period and, where appropriate, the applicable recommended best practices of the CG Code.

## COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed, upon specific enquiries made by the Company that they have complied with the required standard set out in the Model Code during the Reporting Period. To ensure Directors' dealings in the securities of the Company (the "Securities") are conducted in accordance with the Model Code and securities code of the Company, a Director is required to notify the chairman of the Board (the "Chairman") in writing and obtain a written acknowledgement from the Chairman prior to any dealings in the Securities.

According to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the appointment of Mr. Li Xiangzhong and Mr. Cao Qian as Directors with effect from 10 December 2018, the number of independent non-executive Directors on the Board represents less than one-third of the members of the Board.

Following the resignation of Mr. Tang Man On, Mr. Kwok Hoi Chiu and Ms. Choi Chun Chi Sandy as executive Directors on 28 December 2018, the Board comprises seven Directors with three executive Directors, one non-executive Director and three independent non-executive Directors and accordingly, the Company complies with the requirement under Rule 3.10A of the Listing Rules for having independent non-executive Directors representing at least one-third of the Board.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Composition of the Board

Up to the date of this annual report, the Board consists of seven Directors, which comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board during the Reporting Period and up to the date of this annual report was as follows:

**Executive Directors:**
Mr. Li Xiangzhong *(Chairman and Chief Executive Officer) (appointed on 10 December 2018)*
Mr. Zhang Chengzhou *(appointed on 7 December 2018)*
Mr. Cao Jun *(appointed on 7 December 2018)*
Mr. Tang Man On *(resigned on 28 December 2018)*
Mr. Kwok Hoi Chiu *(resigned on 28 December 2018)*
Ms. Choi Chun Chi Sandy *(resigned on 28 December 2018)*
Ms. Wong Chi Yan *(resigned on 14 June 2018)*

**Non-executive Director:**
Mr. Cao Qian *(appointed on 10 December 2018)*

**Independent Non-executive Directors:**
Mr. Cheung Wai Lun Jacky
Mr. Lee Chi Ming
Mr. Tang Chi Wai

The biographies of the Directors are set out in "Biographical Details of Directors and Senior Management" on pages 11 to 12 of this annual report.

The Directors have given sufficient time and attention to the Group's affairs. The Directors have disclosed to the Company annually the number and the nature of offices held in public companies or organisations and other significant commitments. The Board believes that the balance between executive directors, non-executive director and independent non-executive directors is reasonable and adequate to provide sufficient balances that protect the interests of the shareholders of the Company and the Group.

## FUNCTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for the overall management of the Group, which includes controlling resources allocation of the Company and leading the Company to strive for success. It oversees the Group's businesses, strategic decisions, internal control, risk management and performances. The management team is delegated with the authority and responsibility by the Board for the daily management of the Group. The delegated functions and work tasks are periodically reviewed. Major corporate matters that are specifically delegated by the Board to the management include (1) the preparation of interim and annual reports and announcements for the Board's approval before publishing; (2) implementation of adequate systems of internal controls and risk management procedures; and (3) compliance with relevant statutory and regulatory requirements and rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Directors with various professional qualifications experience and related financial management expertise have contributed to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders. Hence, the Board believes that the current Board composition satisfy with the corporate governance requirements of the Group with regard to the balance of expertise, skills and experience as well as the ongoing development and management of its business activities.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's interim and annual results. During the Reporting Period, four Board meetings were held and the attendance of each Director at the Board meetings is set out in the section headed "Board, Committees Meetings, Annual General Meeting and Extraordinary General Meeting" of this report.

Regular Board meetings for each year are scheduled in advance to facilitate maximum attendance of Directors. All Directors are given an opportunity to include matters for discussion in the agenda. The company secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval.

Pursuant to articles of association of the Company, all Directors appointed to fill a causal vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

The Directors do not have any material financial, business or other relationships with one another.

## DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years. Either party has the right to give not less than six months' written notice to terminate the respective service contract.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years, all of which may also be terminated by either party by giving the other party at least six months' written notice.

In compliance with the code provision A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by the shareholders at the first general meeting after their appointment. By virtue of article 83 of the articles of association of the Company, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In compliance with the code provision in A.4.2 of the CG Code, all Directors are subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 84(1) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

By virtue of article 83(3) of the articles of association of the Company, Mr. Li Xiangzhong, Mr. Zhang Changzhou, Mr. Cao Jun and Mr. Cao Qian shall hold office until the first general meeting after their appointment. Mr. Li Xiangzhong and Mr. Cao Qian will, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr. Zhang Changzhou and Mr. Cao Jun, executive Directors, have indicated that they will not offer themselves for re-election due to their other business commitment, and will retire after the conclusion of the forthcoming annual general meeting.

# CORPORATE GOVERNANCE REPORT

By virtue of articles 84(1) and 84(2) of the articles of association of the Company, Mr. Tang Chi Wai will retire by rotation at the forthcoming annual general meeting and will, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Reporting Period, the Chairman was acted by Mr. Tang Man On (until 28 December 2018) and Mr. Zhang Chengzhou (from 28 December 2018) and the chief executive officer was Mr. Kwok Hoi Chiu (until 28 December 2018) and Mr. Li Xiangzhong (from 28 December 2018).

With effect from 16 April 2019, Mr. Zhang Chengzhou has resigned as chairman of the Board of the Company and Mr. Li Xiangzhong, an executive director and chief executive officer of the Company, has been appointed as a chairman of the Board of the Company.

Pursuant to Code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Notwithstanding the deviation from code provision A.2.1, the Board believes that with the support of the management, vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group’s business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which currently consists of three executive directors, one non-executive director and three independent non-executive directors, the interest of the shareholders of the Company will be adequately and fairly represented.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board consists of three executive Directors, one non-executive Director and three independent non-executive Directors, including one independent non-executive Director who has professional qualification, experience and expertise in accounting, finance or legal field. The names and biographical details of each director are set out in “Biographical Details of Directors and Senior Management” on pages 11 to 12 of this annual report. The Company has received confirmation of independence from all three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules.

The Board has reviewed the independence of all independent non-executive Directors and concluded that all of them are independent within the definition of the Listing Rules. Furthermore, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any of the independent non-executive Directors has been impaired up to the date of this report.

## DIRECTORS’ INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointing a new Director, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire their relevant knowledge and skills. During the Reporting Period, the Company provided training on duties and responsibilities of directors. The Company has also provided reading materials to all Directors to develop and refresh their professional knowledge.

During the Reporting Period and up to the date of this annual report, all Directors have participated in continuous professional training to develop and refresh their knowledge and skills in relation to their contribution to the Board.

## BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Policy") in April 2016 which sets out the basis to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

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

The Board will consider setting measureable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As at the date of this report, the Board comprises seven Directors, amongst them, three are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, regardless in terms of age, professional experience, skills and knowledge.

The nomination committee will review the policy from time to time to ensure its continued effectiveness.

## NOMINATION POLICY

The Company has also adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedure of appointing and re-appointing a Director. The selection criteria used in assessing the suitability of a candidate includes, inter alia, such candidate's academic background and professional qualifications, relevant experience in the industry, character and integrity etc. The procedure of appointing and re-appointing a Director is summarised as follows:

1. The nomination committee of the Company (the "Nomination Committee") reviews the structure, size and composition (including the skills, knowledge and experience) of the Board periodically and make recommendation on any proposed changes to the Board to complement the Company's corporate strategy;

2. When it is necessary to fill a casual vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates as recommended to the Nomination Committee, with or without assistance from external agencies or the Company, pursuant to the criteria set out in the Nomination Policy;

3. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

4. The Nomination Committee makes recommendation to the Board including the terms and conditions of the appointment;

5. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee;

6. In accordance with the Company's articles of association, every director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election at each annual general meeting;

7. The Nomination Committee shall review the overall contribution and service to the Company of the retiring director. The Nomination Committee shall also review the expertise and professional qualifications of the retiring director, who offered himself/herself for re-election at the annual general meeting, to determine whether such director continues to meet the criteria as set out in the Nomination Policy;

8. Based on the review made by Nomination Committee, the Board shall make recommendations to shareholders on candidates standing for re-election at the annual general meeting of the Company, and provide the available biographical information of the retiring director in accordance with the Listing Rules to enable shareholders to make the informed decision on the re-election of such candidates at annual general meeting of the Company; and

9. The shareholders of the Company may propose a person for election as a director in accordance with the articles of association of the Company and applicable law.

## DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") which does not have any pre-determined dividend payout ratio. In considering dividend payment, the Board will take into account factors such as the Group's expected financial performance, business conditions and strategies, expected working capital requirements and future expansion plans, business cycles and other internal or external factors that may affect the Company's business or financial performance and financial position, return and interest of the shareholders and other factors which the Board considers to be relevant. The Board will review the Dividend Policy from time to time and the Dividend Policy does not constitute any commitment or obligation of the Company to declare dividends.

## AUDIT COMMITTEE

An audit committee (the "Audit Committee") has been established by the Board with specific written terms of reference. Pursuant to the Audit Committee's terms of reference, the Audit Committee is authorised to commit Company funds in order to obtain advice from outside legal counsel, accountants, investigatory services or other expert advice. Details of the authority and responsibilities of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Tang Chi Wai, Mr. Cheung Wai Lun Jacky and Mr. Lee Chi Ming. Mr. Tang Chi Wai is the chairman of the Audit Committee.

During the Reporting Period, two Audit Committee meetings were held. The attendance of each member of the Audit Committee is set out in the section headed "Board, Committees Meetings, Annual General Meeting and Extraordinary General Meeting" of this report.

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31 March 2018; the internal control report, risk management and internal control systems and the Group's unaudited consolidated accounts for the six months ended 30 September 2018. The external auditor was invited to attend meeting reviewing 2018 audited financial statements and annual results announcement and 2019 audit planning meeting. During the meetings, the external auditor discussed various accounting issues and finding with the Audit Committee and the audit strategy and plan for 2019 Group results.

## REMUNERATION COMMITTEE

A remuneration committee (the "Remuneration Committee") has been established by the Board with specific written terms of reference and all of the members of the Remuneration Committee are independent non-executive Directors. Pursuant to the Remuneration Committee's terms of reference, the Remuneration Committee is responsible for, amongst other things, reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. Details of the authority and responsibilities of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Cheung Wai Lun Jacky, Mr. Tang Chi Wai and Mr. Lee Chi Ming. Mr. Cheung Wai Lun Jacky is the chairman of the Remuneration Committee.

During the Reporting Period, two Remuneration Committee meetings were held to review and discuss the remuneration policy of the Company, review the salary package of directors and senior management and renew the appointment letters of independent non-executive Directors. The attendance of each member of the Remuneration Committee is set out in the section headed "Board, Committees Meetings, Annual General Meeting and Extraordinary General Meeting" of this report.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the member of the senior management by band for the year ended 31 March 2019 is set out below:

| Number of Personnel | Remuneration (HK$) |
|---|---|
| 3 | Nil to 500,000 |

Further particulars regarding directors' remuneration as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 12 to the financial statements.

## REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

Each of the Directors will receive a fee which is subject to an annual adjustment at a rate to be reviewed by the Remuneration Committee and be determined at the discretion of the Board. The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload and the time devoted to the Group. The Group has adopted incentive bonus schemes and continues to maintain these schemes, seeking to align the financial well-being of the Group with that of the employees, and to retain the Directors and staff of high caliber.

## NOMINATION COMMITTEE

A nomination committee of the Company (the "Nomination Committee") has been established by the Board with specific terms of reference. Pursuant to the Nomination Committee's terms of reference, the Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters. Details of the authority and responsibilities of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee comprises three independent non-executive Directors, namely Mr. Lee Chi Ming, Mr. Cheung Wai Lun Jacky and Mr. Tang Chi Wai. Mr. Lee Chi Ming is the chairman of the Nomination Committee.

During the Reporting Period, two Nomination Committee meetings were held to review the structure, size, composition and diversity of the Board, reviewing the appointment of new executive directors and non-executive director, assessing the independence of independent non-executive directors and other related matters of the Company. The attendance of each member of the Nomination Committee is set out in the section headed "Board, Committees Meetings, Annual General Meeting and Extraordinary General Meeting" of this report.

In considering the appointment of Mr. Li Xiangzhong, Mr. Zhang Chengzhou, Mr. Cao Jun and Mr. Cao Qian as new directors, the nomination committee assessed their incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively, etc. and made recommendation to the Board for approval.

## BOARD, COMMITTEES MEETINGS, ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING

The individual attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee, Annual General Meeting and Extraordinary General Meeting during the Reporting Period are set out below:

| | Attendance/Number of Meetings Held | | | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Board Meeting** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **Annual General Meeting** | **Extraordinary General Meeting** |
| **Executive Directors** | | | | | | |
| Mr. Li Xiangzhong *(appointed on 10 December 2018)* | 1/1 | – | – | – | – | 0/1 |
| Mr. Zhang Chengzhou *(appointed on 7 December 2018)* | 1/1 | – | – | – | – | 1/1 |
| Mr. Cao Jun *(appointed on 7 December 2018)* | 0/1 | – | – | – | – | 0/1 |
| Mr. Tang Man On *(resigned on 28 December 2018)* | 3/3 | – | – | – | 1/1 | – |
| Mr. Kwok Hoi Chiu *(resigned on 28 December 2018)* | 3/3 | – | – | – | 1/1 | – |
| Ms. Choi Chun Chi Sandy *(resigned on 28 December 2018)* | 3/3 | – | – | – | 1/1 | – |
| Ms. Wong Chi Yan *(resigned on 14 June 2018)* | – | – | – | – | – | – |
| **Non-executive Director** | | | | | | |
| Mr. Cao Qian *(appointed on 10 December 2018)* | 1/1 | – | – | – | – | 0/1 |
| **Independent Non-Executive Directors** | | | | | | |
| Mr. Cheung Wai Lun Jacky | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 | 1/1 |
| Mr. Lee Chi Ming | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 | 1/1 |
| Mr. Tang Chi Wai | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 | 1/1 |

## CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board, which include (a) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) review and monitor the training and continuous professional development of directors and senior management of the Company and its subsidiaries; (c) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company and its subsidiaries; (e) review the Company's compliance with the CG Code and disclosures in the corporate governance report of the Company required to be prepared pursuant to the Listing Rules; and (f) consider, review and decide any other topics, as authorised by the Board.

During the Reporting Period, the Board reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of its corporate governance policy.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the Group's and the Company's financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 36 to 37 of this report.

## GOING CONCERN

During the year ended 31 March 2019, the Group had net loss and net cash operating outflow of HK$86,892,000 and HK$26,634,000 respectively. At 31 March 2019, the Group had bank balances and cash of approximately HK$12,997,000 while trade and other payables and amount due to a director of approximately HK$32,481,000 and HK$350,000, respectively, which will be due within the coming twelve months from the end of the Reporting Period, and the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances and after reviewing the Group's cash flow projection, the Directors have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including:

(i) Actively and regularly reviewing its capital structure and sourcing additional capital by issuing bonds or new shares, where appropriate;

(ii) Putting extra efforts on the negotiation with the customers of the projects to seek (a) compensation for additional time and costs incurred and (b) certification of variation orders and claims; and

(iii) the Group is expected to generate adequate cash flows to maintain its operations.

Accordingly, the Directors consider that it has sufficient working capital to meet its financial obligations as they fall due for at least the next twelve months from the end of the Reporting Period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

## VIEW OF AUDIT COMMITTEE

The Audit Committee acknowledged the auditor's basis for disclaimer of opinion on the Group's ability to continue as a going concern and had no objection to the disclaimer opinion of the auditor as disclosed in "Independent Auditor's Report" set out on pages 36 to 37 of this annual report.

The Audit Committee also confirmed that it had reviewed and agreed with the management's position on preparing the consolidated financial statements on a going concern basis due to the reasons specified in note 1 to the consolidated financial statements under the section headed "Basis of preparation" where the management has given consideration to the future liquidity and performance of the Group and taking into account the Group's cash flow projection.

## PROPOSED PLANS TO ADDRESS THE DISCLAIMER OPINION

In view of the disclaimer opinion of the auditor as disclosed in "Independent Auditor's Report" as set out on pages 36 to 37 of this annual report, aside from plans and measures as disclosed in note 1 to the consolidated financial statements under the section headed "Basis of preparation", the Directors is also considering other measures including the followings to resolve the issues giving rise to the disclaimer opinion expressed by the auditors and to prevent the recurrence of same disclaimer opinion in the next financial year:

(i) Obtain other loan financing such as loan from substantial shareholder(s)/director(s) or from other financial institutions; and/or

(ii) Actively seek potential business opportunities that will broaden the sources of income and generate additional cash flow for the Group.

## AUDITOR'S REMUNERATION

During the period under review, the remuneration paid/payable to SHINEWING (HK) CPA Limited is set out as follows:

| **Services rendered** | **Fee paid/payable**<br>HK$'000 |
|---|---|
| Audit services | 820 |
| Non-audit services | |
| – Agreed-upon procedures on the interim financial information for the six months ended 30 September 2018 | 80 |
| – Agreed-upon procedures with respect to the circular issued in connection with the sale and purchase of 397,865,000 issued ordinary shares | 190 |
| – Filing on Hong Kong Profits Tax | 17 |
| Total | 1,107 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for ensuring that the Group has appropriate and effective risk management and internal control systems in order to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems of the Group at least annually. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risks management. Such annual review also considers the adequacy of resources, staff's qualifications and experience and training programmes and budget of the Company's accounting and financial reporting function. The Company has not established an internal audit function and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint an external internal control advisor ("IC advisor") to perform the internal audit function for the Group.

During the year ended 31 March 2019, the management has conducted regular review on the effectiveness of the risk management and internal control systems covering all material controls in area of financial and compliance controls and various functions for risks management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls and risk management for the year ended 31 March 2019. The Audit Committee is satisfied that the risk management and internal control systems maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

**Risk management Framework**

1. Each business unit is responsible for identifying, assessing and managing risks within its scope of operation, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified; and

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal controls — consideration of the recommendations of the IC advisor and the Audit Committee.

Such risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure the maintenance of proper accounting records, to ensure compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the IC advisor.

The Audit Committee also had regular meetings with the external auditor and reviewed the reports by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations of the external auditor to remedy the control issues identified or to further improve the internal control system.

During the year ended 31 March 2019, the Company has engaged an IC advisor to review its internal control procedures and make recommendations to the Board any improvements that can be made to the existing internal control procedures. The review covers the effectiveness of material controls on financial and operational aspects well as risk management functions across the Group. The Board formed its own view on the effectiveness of the systems based on the recommendation of the IC advisor and the Audit Committee. The Board is satisfied that the internal control and risk management systems in place covering all material controls including financial, operational and compliance controls and risk management functions for the year under review and up to the date of issuance of the annual report is reasonably effective and adequate.

## DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

The handling and dissemination of inside information of the Group is strictly controlled and remains confidential including but not limited by the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

2. Reminder to employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party;

4. Inside information is handled and communicated by designated persons to outside third party; and

5. The board and the senior management review the safety measures regularly to ensure inside information is properly handled and disseminated.

## COMPANY SECRETARY

Ms. LEE Ka Man ("Ms. Lee") of Fair Wind Secretarial Services Limited was appointed as the company secretary of the Company since 14 June 2016. Ms. Lee is an associate member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

Ms. Lee is not an employee of the Group and Mr. Chang Ki Sum Clark, financial consultant of the Company, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code.

During the Reporting Period, Ms. Lee has undertaken not less than 15 hours of relevant professional training in accordance with the Listing Rules.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to its shareholders in a timely manner and on a regular basis, through the publication of interim and annual reports and/or dispatching circulars, notices, and other announcements.

The general meetings of the Company provide a forum for communication between the Board and the Company's shareholders. The Chairman of the Board and other members of the respective committees are available to answer questions of the shareholders at the general meeting. The Company recognises the importance of maintaining on-going communications with the shareholders and encourages them to attend general meetings to stay informed of the Group's businesses and convey any concerns they may have to the Directors and senior management.

At the annual general meeting held on 6 September 2018, separate resolutions were proposed by the chairman in respect of each separate issue, including re-election of directors, re-election of auditor etc., and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. All the Directors, including the respective chairman of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee had attended the annual general meeting held in 2018 to ensure effective communication with the shareholders.

An extraordinary general meeting of the Company was held on 31 January 2019 to approve change of company name and amended and restated memorandum of association and articles of association of the Company, and all the resolutions were voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, audit committee, remuneration committee and nomination committee had attended the extraordinary general meeting held in 2019 to ensure effective communication with the shareholders.

The Company maintains a website at http://www.cherishholdings.com where extensive information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by the public investors.

## SHAREHOLDERS' RIGHTS

**Procedures for shareholders to convene an extraordinary general meeting and to put forward proposal at general meetings**

Pursuant to Article 58 of the articles of association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Article 85 of the articles of association of the Company provides that no person other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days. The written notice must state that person's biographical details as required by Rule 13.51B(1) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

**Shareholders' enquires and Proposals**

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders may also make enquiries to the Board at the annual general meetings of the Company.

## INVESTOR RELATIONS

The public are welcomed to give their comments and make enquiries through the Company's website and by means of emails to the investor relations department (email address: info@cherishholdings.com). The management always provides prompt responses to any such enquiries.

## CONSTITUTIONAL DOCUMENTS

The Company has published its amended and restated memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company on 14 February 2019. During the Reporting Period, save as disclosed in the section headed "Significant Event(s)" in the Management Discussion and Analysis section of this annual report, no amendments were made to the constitutional documents of the Company.

## CHANGES OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, change of directors' information of the Company since the date of the 2018 interim report, Mr. Cheung Wai Lun Jacky resigned as independent non-executive director of Geotech Holdings Ltd. (Stock Code: 1707) with effect from 15 January 2019.

# REPORT OF DIRECTORS

The Board has the pleasure of presenting their annual report together with the audited consolidated financial statements of the Group for the year ended 31 March 2019.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in provision of site formation works. There were no significant changes in the nature of the principal activities of the Group during the year.

## BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development and description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement, Management Discussion and Analysis and Report of Directors sections on pages 4 to 35 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 6 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 6 to 10 of this annual report. In addition, discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are set out below.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it engages. The Group strives to minimise its impact on the environment by reducing its use of electricity and water and encouraging recycle of office supplies and other materials. The Group has complied with all relevant laws and regulations regarding environmental protection, health and safety, workplace conditions and employment.

Environmental, social and governance report will be published to respective websites of the Company and the Stock Exchange in the manner as required by Appendix 27 of the Listing Rules in due course.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, our Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of our Group during the Reporting Period.

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

The Group is not aware of any key relationships between itself and its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 38 of this 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.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4 September 2019 to Tuesday, 10 September 2019, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 3 September 2019.

## FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the Reporting Period (2018: Nil).

## KEY RISKS AND UNCERTAINTIES

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

**The amount of revenue received from a project may be higher or lower than the original contract sum due to factors such as variation orders**

The aggregate amount of revenue received from a project may be different from the original contract sum specified in the relevant contract for the project due to factors such as variation orders (including additions, reductions and/or other changes in the scope of the works) placed by customers from time to time during the course of project execution. As such, there is no assurance that revenue received from projects on hand will not be substantially lower than the original contract sum as specified in the relevant contracts and hence, the Group's profitability will be adversely affected.

**Keen competition**

Due to slowdown of Hong Kong economy, the competition of the construction industry has become more intense and as such, there will be a foreseeable reduction of number of construction projects available for our tendering. To increase the chance of success in winning the tender bidding for construction projects, the Group will lower its profit margin, which will affect its profit for the coming year.

**Error or inaccurate estimation of project duration and costs when determining the tender price may result in substantial loss incurred**

Construction contracts and in particular public projects are normally awarded through a competitive tendering process. The Group determine a tender price by estimating the construction costs under the contract duration as specified in the tender invitation documents. There is no assurance that tenders submitted by the Group contain no mistakes and errors. Such mistakes and errors may be in the form of inaccurate estimations, oversight of important tender terms, inadvertent typographical errors, errors in calculations, etc. In case of contracts awarded to the Group with mistakes or errors in the submitted tender, the Group may be bound by the contract to undertake the project at a substantial loss.

Inaccurate estimation on project schedule, project costs and technical difficulties in the tendering process may result in cost overruns when the Group actually execute the awarded project. Many factors affect the time taken and the costs actually involved in completing construction projects undertaken by the Group. Examples of such factors include shortage and cost escalation of labour and materials, difficult geological conditions, adverse weather conditions, variations to the construction plans instructed by customers, stringent technical construction requirements, threatened claims and material disputes with main contractors, subcontractors and suppliers, accidents, and changes in the Government's policies. Other unforeseen problems or circumstances may also occur during project implementation. If any of such factors arises and remains unresolved, completion of construction works may be delayed or the Group may be subject to cost overruns or our customers may even be entitled to unilaterally terminate the contract.

## PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Company and the Group during the Reporting Period are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the Reporting Period in the share capital of the Company are set out in note 27 to the consolidated financial statements.

## CHARITABLE DONATIONS

Charitable and other donations made by the Group during the Reporting Period amounted to HK$1,000 (2018: HK$17,000).

## RESERVES

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity.

As at 31 March 2019, the Company has reserves available of HK$70.2 million (2018: HK$157.1 million).

## DIRECTORS

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

**Executive Directors**

| | |
|---|---|
| Mr. Li Xiangzhong *(Chairman and Chief Executive Officer)* | (appointed on 10 December 2018) |
| Mr. Zhang Chengzhou | (appointed on 7 December 2018) |
| Mr. Cao Jun | (appointed on 7 December 2018) |
| Mr. Tang Man On | (resigned on 28 December 2018) |
| Mr. Kwok Hoi Chiu | (resigned on 28 December 2018) |
| Ms. Choi Chun Chi Sandy | (resigned on 28 December 2018) |
| Ms. Wong Chi Yan | (resigned on 14 June 2018) |

**Non-executive Director**

| | |
|---|---|
| Mr. Cao Qian | (appointed on 10 December 2018) |

**Independent Non-executive Directors**

Mr. Cheung Wai Lun Jacky
Mr. Lee Chi Ming
Mr. Tang Chi Wai

By virtue of articles 83(3), 84(1) and 84(2) of the articles of association of the Company, Mr. Li Xiangzhong, Mr. Zhang Chengzhou, Mr. Cao Jun, Mr. Cao Qian and Mr. Tang Chi Wai will retire at the forthcoming annual general meeting. Mr. Li Xiangzhong, Mr. Cao Qian and Mr. Tang Chi Wai, being eligible, will offer themselves for re-election. Mr. Zhang Changzhou and Mr. Cao Jun, executive Directors, have indicated that they will not offer themselves for re-election due to their other business commitment, and will retire after the conclusion of the forthcoming annual general meeting.

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

Information regarding Directors' emoluments is set out in note 12 to the consolidated financial statements of this 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 director and the Company considers all the independent non-executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years, all of which may also be terminated by either party by giving the other party not less than six months' written notice to terminate the respective service contract.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years, all of which may also be terminated by either party by giving the other party at least six months' written notice.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service contract which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

## PERMITTED INDEMNITY OF DIRECTORS

The Company's articles and association provides that the directors shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by or by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

## CONTROLLING SHAREHOLDERS' INTEREST

No contracts of significance were entered into between the Company or any of its subsidiaries and any controlling shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

## EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of our Group are set out in note 12 and 13 to the consolidated financial statements in this report.

## EMOLUMENT POLICY

The remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to our Group and the performance of our Group. The Directors may also receive options to be granted under the Share Option Scheme.

## RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 31 to the consolidated financial statements.

## COMPETING INTERESTS

The Directors confirm that none of the Controlling Shareholders or the Directors and their respective close associates (as defined in the Listing Rules) is interested in any business apart from the business operated by our Group which competes or is likely to compete, directly or indirectly, with our Group's business during the Reporting Period and up to the date of this report.

## DEED OF NON-COMPETITION

The deed of non-competition dated 20 September 2016 entered into by Waterfront Palm Limited, Mr. Tang Man On, Ms. Choi Chun Chi Sandy and Mr. Kwok Hoi Chiu was expired during the year.

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

As at 31 March 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), notified to the Company and the Stock Exchange were as follows:

**Interests in Share of the Company**

| Name of Director | Capacity/Nature | Number of Shares held/interested | Percentage of interest |
|---|---|---|---|
| Mr. Cao Qian (Note 2) | Interest of a controlled corporation | 560,535,000 (L) (Note 1) | 73.01% |
| Mr. Li Xiangzhong (Note 3) | Interest of a controlled corporation | 560,535,000 (L) (Note 1) | 73.01% |
| Mr. Zhang Chengzhou (Note 4) | Interest of a controlled corporation | 560,535,000 (L) (Note 1) | 73.01% |

Notes:

1. The letter "L" demonstrates long position in such securities.
2. The shares held by China Century Holdings Limited is indirectly owned as to 30% by Mr. Cao Qian through his wholly-owned company, namely World Communication International Holdings Limited.
3. The shares held by China Century Holdings Limited is indirectly owned as to 30% by Mr. Li Xiangzhong through his wholly-owned company, namely Xianghua International Holdings Limited.
4. The shares held by China Century Holdings Limited is indirectly owned as to 40% by Mr. Zhang Chengzhou through his wholly-owned company, namely China Medival Group Limited.

**Interest in associated corporations**

| Name of Director | Name of associated corporation | Capacity/Nature | Number of Shares held/ interested | Percentage of interest |
|---|---|---|---|---|
| Mr. Cao Qian | World Communication International Holdings Limited | Beneficial owner (Notes 1 and 2) | 1 | 100% |
| | China Century Holdings Limited | Interest of a controlled corporation | 39,000 | 30% |
| Mr. Li Xiangzhong | Xianghua International Holdings Limited | Beneficial owner (Notes 1 and 3) | 1 | 100% |
| | China Century Holdings Limited | Interest of a controlled corporation | 39,000 | 30% |
| Mr. Zhang Chengzhou | China Medival Group Limited | Beneficial owner (Notes 1 and 4) | 50,000 | 100% |
| | China Century Holdings Limited | Interest of a controlled corporation | 52,000 | 40% |

Notes:

1. Mr. Cao Qian, Mr. Li Xiangzhong and Mr. Zhang Chengzhou indirectly and beneficially own 30%, 30% and 40%, respectively, of the issued shares of China Century Holdings Limited. China Century Holdings Limited holds 73.01% of the Shares in issue of the Company.
2. The shares held by China Century Holdings Limited is indirectly owned as to 30% by Mr. Cao Qian through his wholly-owned company, namely World Communication International Holdings Limited.
3. The shares held by China Century Holdings Limited is indirectly owned as to 30% by Mr. Li Xiangzhong through his wholly-owned company, namely Xianghua International Holdings Limited.
4. The shares held by China Century Holdings Limited is indirectly owned as to 40% by Mr. Zhang Chengzhou through his wholly-owned company, namely China Medival Group Limited.

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

As at 31 March 2019, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in Shares or underlying Shares which fell to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Shareholder | Capacity/Nature | Number of Shares held/interested | Percentage of interest |
|---|---|---|---|
| China Century Holdings Limited | Beneficial owner | 560,535,000 (L) (Note 1) | 73.01% |
| China Medival Group Limited | Interest of a controlled corporation | 560,535,000 (L) (Notes 1 and 2) | 73.01% |
| World Communication International Holdings Limited | Interest of a controlled corporation | 560,535,000 (L) (Notes 1 and 4) | 73.01% |
| Xianghua International Holdings Limited | Interest of a controlled corporation | 560,535,000 (L) (Notes 1 and 5) | 73.01% |
| Deng Shuting | Interest of a spouse | 560,535,000 (L) (Notes 1 and 3) | 73.01% |
| Zou Jing | Interest of a spouse | 560,535,000 (L) (Notes 1 and 6) | 73.01% |

Notes:

1. The letter "L" demonstrates long position in such securities.
2. The shares held by China Century Holdings Limited is indirectly owned as to 40% by Mr. Zhang Chengzhou through his wholly-owned company, namely China Medival Group Limited.
3. The shares represent the shares held indirectly by Mr. Li Xiangzhong, the spouse of Ms. Deng Shuting.
4. The shares held by China Century Holdings Limited is indirectly owned as at 30% by Mr. Cao Qian through his wholly-owned company, namely World Communication International Holdings Limited.
5. The shares held by China Century Holdings Limited is indirectly owned as to 30% by Mr. Li Xiangzhong through his wholly-owned company, namely Xianghua International Holdings Limited.
6. The shares represent the shares held indirectly by Mr. Zhang Chengzhou, the spouse of Ms. Zou Jing.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance, to which the Company any of its subsidiaries, its parent company, or its parent company's subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly and indirectly, subsisted at the end of 31 March 2019 or at any time during the Reporting Period.

## MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers in aggregate accounted for 6.9% and 26.2% respectively of the Group's total purchases for the year. Revenue attributable to the Group's largest customer and the five largest customers in aggregate accounted for 72.2% and 100.0% respectively of the Group's total revenue for the year.

To the best knowledge of the Directors, none of the Directors or any of their close associates or any shareholders, who own more than 5% of the Company's issued share capital, had any material beneficial interest in the Group's five largest customers and suppliers.

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

During the Reporting Period, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED

During the Reporting Period, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

## EQUITY-LINKED AGREEMENTS

Save for the share option scheme (the "Share Option Scheme") as set out below, no equity-linked agreements were entered into by our Group, or existed during the Reporting Period.

## SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 20 September 2016.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors believe the Share Option Scheme will enable the Group to reward our employees, the Directors and other selected participants for their contributions to the Group.

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, who the Board considers, in its sole discretion, have contributed or will contribute to the Group, to take up options to subscribe for Shares:

(i) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and

(ii) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to the participant's contribution to the development and growth of the Group.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 10% of the aggregate of the shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 74,000,000 Shares, representing 9.64% of the issued Shares as at the date of this report.

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 or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made, upon payment of HK$1 per option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The exercise price is determined by the directors of the Company, and will be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted until 19 September 2026.

No share option of the Company was granted since the adoption of the Share Option Scheme.

## CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 13 to 25 of this report.

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed minimum public float under the Listing Rules during the Reporting Period.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of our Group were entered into or in existence during the Reporting Period.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules. Details of significant related party transactions undertaken in the usual course of business are set out in note 29 to the consolidated financial statement. None of these related party transactions constitute a discloseable connected transaction as defined under the Listing Rules.

## AUDITOR

The consolidated financial statements for the Reporting Period have been audited by SHINEWING (HK) CPA Limited ("SHINEWING"). SHINEWING shall retire in the forthcoming AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There is no change in auditor during the Reporting Period.

On behalf of the Board
Century Group International Holdings Limited

**Li Xiangzhong**
*Chairman*
28 June 2019

# INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

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

**TO THE MEMBERS OF CENTURY GROUP INTERNATIONAL HOLDINGS LIMITED**
**(FORMERLY KNOWN AS CHERISH HOLDINGS LIMITED)**
*(incorporated in the Cayman Islands with limited liability)*

## DISCLAIMER OPINION

We were engaged to audit the consolidated financial statements of Century Group International Holdings Limited (formerly known as CHerish Holdings Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 38 to 86, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR DISCLAIMER OF OPINION

### Uncertainties relating to going concern

As explained in note 1 to the consolidated financial statements, the Group incurred a net loss of approximately HK$86,892,000 and had net cash outflows from operating activities of approximately HK$26,634,000 during the year ended 31 March 2019. As at 31 March 2019, the Group had bank balances and cash of approximately HK$12,997,000, while its trade and other payables and amount due to a director of approximately HK$32,481,000 and HK$350,000 respectively which will be due in the coming twelve months from the end of reporting period. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's plans and measures to mitigate its liquidity pressure and to improve its financial performance as set out in note 1 to the consolidated financial statements. The successful outcomes of the abovementioned plans and measures are subject to multiple uncertainties.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note 1 to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in the consolidated financial statements.

## RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report, 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Wong Hon Kei, Anthony.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
28 June 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

| | Notes | **2019** | 2018 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Revenue | 7 | **142,852** | 192,341 |
| Cost of sales | | **(217,318)** | (168,894) |
| Gross (loss) profit | | **(74,466)** | 23,447 |
| Other income | 8 | **478** | 1,062 |
| Administrative expenses | | **(14,167)** | (13,252) |
| Finance costs | 9 | **(661)** | (326) |
| (Loss) profit before taxation | | **(88,816)** | 10,931 |
| Income tax credit (expense) | 10 | **1,924** | (2,217) |
| (Loss) profit and total comprehensive (expense) income for the year | 11 | **(86,892)** | 8,714 |
| (Loss) earnings per share (HK cents) | | | |
| – Basic and diluted | 15 | **(11.3)** | 1.1 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | 16 | 25,493 | 51,166 |
| Financial assets at fair value through other comprehensive income | 17 | –* | – |
| Restricted bank balances | 21 | 15,293 | 7,627 |
| | | 40,786 | 58,793 |
| **Current assets** | | | |
| Amounts due from customers for contract work | 18 | – | 75,974 |
| Trade and other receivables | 19 | 16,850 | 37,937 |
| Contract assets | 20 | 43,523 | – |
| Tax recoverable | | – | 4,334 |
| Bank balances and cash | 22 | 12,997 | 31,089 |
| | | 73,370 | 149,334 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 32,481 | 29,859 |
| Amount due to a director | 24 | 350 | – |
| Obligations under finance leases | 25 | – | 4,361 |
| | | 32,831 | 34,220 |
| **Net current assets** | | 40,539 | 115,114 |
| **Total assets less current liabilities** | | 81,325 | 173,907 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 25 | – | 3,766 |
| Deferred tax liability | 26 | 3,485 | 5,409 |
| | | 3,485 | 9,175 |
| **Net assets** | | 77,840 | 164,732 |
| **Capital and reserves** | | | |
| Share capital | 27 | 7,678 | 7,678 |
| Reserves | | 70,162 | 157,054 |
| **Total equity** | | 77,840 | 164,732 |

* Less than HK$1,000

The consolidated financial statements on pages 38 to 86 were approved and authorised for issue by the board of directors on 28 June 2019 and are signed on its behalf by:

**Li Xiangzhong**
*Director*

**Cao Qian**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

| | Share capital HK$'000 | Share premium HK$'000 (note a) | Merger reserve HK$'000 (note b) | Retained profits (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | 7,678 | 102,392 | – | 45,948 | 156,018 |
| Profit and total comprehensive income for the year | – | – | – | 8,714 | 8,714 |
| At 31 March 2018 and 1 April 2018 | 7,678 | 102,392 | – | 54,662 | 164,732 |
| Loss and total comprehensive expense for the year | – | – | – | (86,892) | (86,892) |
| At 31 March 2019 | **7,678** | **102,392** | **–** | **(32,230)** | **77,840** |

Notes:

a. Under the Company Law (as revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be paid, the Company shall be able to pay its debts as they full due in the ordinary course of business.

b. Merger reserve represents the difference between the nominal value of the issued capital of subsidiaries acquired pursuant to a group reorganisation over the consideration paid for acquiring these subsidiaries.

# 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 | (88,816) | 10,931 |
| Adjustments for: | | |
| Bank interest income | (110) | (301) |
| Finance costs | 661 | 326 |
| Impairment losses for contract assets | 546 | – |
| Impairment losses for plant and equipment | 1,233 | – |
| Loss (gain) on disposals of plant and equipment | 518 | (626) |
| Depreciation of plant and equipment | 19,052 | 17,784 |
| Operating cash flows before movements in working capital | (66,916) | 28,114 |
| Increase in amounts due from customers for contract work | – | (32,790) |
| Decrease in amounts due to customers for contract work | – | (2,583) |
| Increase in trade and other receivables | (687) | (13,591) |
| Decrease in contract assets | 53,679 | – |
| Increase in restricted bank balances for operating use | (7,666) | (5,056) |
| (Decrease) increase in trade and other payables | (9,378) | 4,343 |
| Cash used in operations | (30,968) | (21,563) |
| Income tax refunded (paid) | 4,334 | (6,155) |
| **NET CASH USED IN OPERATING ACTIVITIES** | (26,634) | (27,718) |
| **INVESTING ACTIVITIES** | | |
| Proceeds from disposals of plant and equipment | 8,590 | 5,736 |
| Interest received | 110 | 301 |
| Purchase of plant and equipment | (3,720) | (37,709) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | 4,980 | (31,672) |
| **FINANCING ACTIVITIES** | | |
| Advance from ex-directors (grouped under trade and other payables) | 12,000 | – |
| New bank borrowings raised | 9,000 | – |
| Advance from a director | 350 | – |
| Repayment of bank borrowing | (9,000) | – |
| Repayment of obligations under finance leases | (8,127) | (7,360) |
| Interest paid | (661) | (326) |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | 3,562 | (7,686) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (18,092) | (67,076) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | 31,089 | 98,165 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash** | 12,997 | 31,089 |

## 1. GENERAL AND BASIS OF PREPARATION

Century Group International Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 31 March 2016 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 October 2016. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company and the principal activities of its subsidiaries (together with the Company, referred to as the "Group") are set out in note 34.

On 7 December 2018 and 28 December 2018, 162,670,000 and 397,865,000 shares of the Company were acquired by China Century Holdings Limited ("China Century"), a company incorporated in the British Virgin Islands (the "BVI"), respectively, amounted to 73.01% of the issued share capital of the Company. Immediately after the acquisition of shares, China Century becomes the immediate holding company of the Company. China Century is owned by World Communication International Holdings Limited, Xianghua International Holdings Limited and China Medival Group Limited, companies incorporated in the BVI, which are ultimately owned by Mr. Cao Qian, Mr. Li Xiangzhong, and Mr. Zhang Chengzhou respectively.

Pursuant to a special resolution passed at the extraordinary general meeting held on 31 January 2019, the English name of the Company was changed from "CHerish Holdings Limited" to "Century Group International Holdings Limited" and the Chinese name of the Company was changed from "東盈控股有限公司" to "世紀集團國際控股有限公司".

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

### Basis of preparation

During the year ended 31 March 2019, the Group had net loss and net cash operating outflow of HK$86,892,000 and HK$26,634,000 respectively. As at 31 March 2019, the Group had bank balances and cash of approximately HK$12,997,000 while trade and other payables and amount due to a director of approximately HK$32,481,000 and HK$350,000, respectively, which will be due within the coming twelve months from the end of the reporting period, and the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances and after reviewing the Group's cash flow projection, the directors of the Company have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including:

(i) actively and regularly reviewing its capital structure and sourcing additional capital by issuing bonds or new shares, where appropriate;

(ii) putting extra efforts on the negotiation with the customers of the projects to seek (a) compensation for additional time and costs incurred and (b) certification of variation orders and claims; and

(iii) the Group is expected to generate adequate cash flows to maintain its operations.

Accordingly, the directors of the Company consider that it has sufficient working capital to meet its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their net realisable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and related Amendments |
| HK (IFRIC)-Int 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 | As part of 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 amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 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 profits and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 11 *Construction Contracts*.

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 profits at 1 April 2018.

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.

| | Notes | **Carrying amounts previously reported as at 31 March 2018** HK$'000 | **Impact on adoption of HKFRS 15 — Reclassification** HK$'000 | **Carrying amounts as restated as at 1 April 2018** HK$'000 |
|---|---|---|---|---|
| Current assets | | | | |
| Amounts due from customers for contract work | (a) | 75,974 | (75,974) | – |
| Trade and other receivables | (b) | 37,937 | (21,774) | 16,163 |
| Contract assets | (a) & (b) | – | 97,748 | 97,748 |

Notes:

(a) At the date of initial application, unbilled revenue of approximately HK$75,974,000 arising from the construction contracts are conditional on the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers, and such balance was reclassified from amounts due from customers for contract work to contract assets.

(b) At the date of initial application, retention receivables of approximately HK$21,774,000 arising from the construction contracts are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

### HKFRS 15 Revenue from Contracts with Customers (continued)

**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 table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position at 31 March 2019, by comparing the amounts reported under HKAS 11 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 consolidated statement of profit or loss and other comprehensive income, operating, investing and financing cash flows.

| | As reported in accordance with HKFRS 15* | Reclassification | Amount without application of HKFRS 15 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Current assets | | | |
| Amounts due from customers for contract work | – | 17,553 | 17,553 |
| Trade and other receivables | 16,850 | 26,516 | 43,366 |
| Contract assets | 44,069 | (44,069) | – |

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

### HKFRS 9 Financial instruments

HKFRS 9 replaces 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 profits 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.

**Classification and measurement of financial instruments**

The directors of the Company reviewed and assessed the Group's existing financial assets and financial liabilities as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 continue to be measured at amortised cost as were previously measured under HKAS 39.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

### HKFRS 9 Financial instruments (continued)

**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 ECL approach. As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

It is concluded that, as at 1 April 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model were not significantly different from the impairment losses previously recognised under HKAS 39.

**New and amendments to 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)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| 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[5] |
| 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 Associates and Joint Ventures[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 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.
5 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that, except as described below, the application of other new and amendments to 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.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

### HKFRS 16 Leases (continued)

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.

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 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 to contracts that are entered into on or after the date of initial application.

As disclosed in note 28, as at 31 March 2019 the Group's future minimum lease payments under non-cancellable operating leases amounted to approximately HK$42,000 for its office premises and car parks, all of which is payable within one year after the reporting date. The Group plans to elect the practical expedient for not applying the new accounting model to these leases where the remaining lease term is 12 months or less. Furthermore, the Group intends to elect to use the modified retrospective approach for the application of HKFRS 16 and not to restate the comparative information. As such, the Group expects that the transaction adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

## 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for 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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below.

### 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 Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement 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 and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company.

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

### Revenue recognition

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

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

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

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.

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 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 and enhances an asset that the customer controls as the asset is created and 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 goods or services.

The contract assets on construction contracts represent the Group's right to consideration for work completed which is conditional on the Group's future performance in satisfying the respective performance obligations. 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.

The contract liabilities on construction contracts represent the Group's obligation to transfer project works to customers for which the Group has received consideration from the customers.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

*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 output method. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

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

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

### Variable consideration

For contracts that contain variable consideration (variation order of construction work and claims), 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.

### Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its construction contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

**Policy applicable 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.

The Group's policy for recognition of revenue from construction services is described in the accounting policy headed "Construction contracts" below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

**Policy applicable to the year ended 31 March 2018 (continued)**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

### Construction contracts

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, as measured by reference to the percentage of surveys of work performed for individual contract up to the reporting date. 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 other 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 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 statement 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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Borrowing costs

Borrowing costs directly attributable to the acquisition or construction 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 (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid as and when employees rendered related service.

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

### 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 “(loss) profit before taxation” as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 the 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (continued)

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 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.

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 the 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 taxes are recognised in profit or loss.

### Plant and equipment

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

Depreciation is recognised so as to allocate the cost of assets over their estimated useful lives, using the straight-line method. 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 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 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.

### Cash and cash equivalents

Cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

### Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment losses 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 basis 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 the 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to other assets of that unit. 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 immediately in profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**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. 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. The Group's financial assets are classified at financial assets at amortised cost and fair value through other comprehensive income ("FVTOCI").

## 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)

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.

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 ECL, 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.

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. 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.

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

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained profits.

## 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 costs and contract assets. 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 and contract assets. The ECL 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.

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, e.g. significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## 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)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'.

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; or
- 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 debtor;
- a breach of contract, such as a default or past due event;
- it is becoming probable that the debtor will undergo bankruptcy or other financial restructuring; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 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 counterparty 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. 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 subsequent recoveries 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 for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date 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.

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.

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.

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. 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 investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

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

*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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination; (ii) held-for-trading; or (iii) designated as at fair value through profit or loss, are subsequently measured at amortised cost using the 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 (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) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**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.

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 and points 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

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

*Financial assets (continued)*

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 other receivables, restricted bank balances and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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 loans and receivables, 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.

For certain categories of financial assets, such as trade 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 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 other receivables are considered uncollectible, they are 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 the 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

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

*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 Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities representing trade and other payables are subsequently measured at amortised cost, using the effective interest method.

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 (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) 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.

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 is recognised in profit or loss.

The Group derecognises financial liabilities 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.

### Fair value measurement

When measuring fair value except for the Group's leasing transactions and value in use of plant and equipment for the purpose of impairment assessment, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND 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 amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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.

### Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Going concern and liquidity

The assessment of the going concern assumptions involves making judgement by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Please refer to note 1 in relation to the going concern assumptions adopted by the directors of the Company.

### Key sources of estimation uncertainty

The following 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 resulting in a material adjustment to the carrying amounts of assets within the next financial year.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty (continued)

**Construction contracts revenue recognition**

The Group recognises contract revenue over time using an output method. The revenue and profit recognition on construction projects is dependent on estimating the total outcome of the contract, as well as the work done to date which is established by reference to the construction works certified by the customers. Therefore, it involves significant management judgement and estimation in forecasting the costs to complete a contract, valuing contract variations and claims, together with any provisions for expected contract losses, in determining the amount of profit or loss recognised from contracts to date and in each reporting period. Variation orders and claims are included in revenue only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future, by considering the correspondence with customers and historical outcome for similar contracts. Budgeted costs are prepared by management on the basis of quotations from time to time provided by the major subcontractors, suppliers or vendors involved based on the requests and working schedules agreed with the customers. Because of the nature of the activities undertaken in the construction business, the Group reviews and revises the estimates of contract revenue, contract costs, variation orders and claims to the budget prepared for each construction contract as the contract progresses. The actual outcome of the contracts in terms of its total revenue earned and costs incurred may be higher or lower than the estimates and this will affect the revenue and profit or loss recognised from contracts to date and in each reporting period.

**Estimated impairment of trade receivables and contract assets**

Starting from 1 April 2018, the impairment provisions for trade 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, bases 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 profit or loss. As at 31 March 2019, the carrying amounts of trade receivables and contract assets were approximately HK$12,171,000 and HK$43,523,000, net of accumulated impairment loss of approximately HK$546,000, respectively. No impairment loss for trade receivables and impairment loss for contract assets of approximately HK$546,000 were recognised for the current year.

**Depreciation of plant and equipment**

The Group depreciates the plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives reflect the Company's directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and equipment. The management periodically reviews the estimated useful lives of the plant and equipment. Any change in depreciable lives will affect the depreciation charges in each reporting period.

**Estimated impairment of plant and equipment**

The management of the Group determines whether the plant and equipment are impaired, when there is an indication that these assets may suffer an impairment loss. An impairment loss of plant and equipment is recognised when the carrying amount exceeds the recoverable amount, in accordance with the Group's accounting policy. The recoverable amount of plant and equipment is determined based on the higher of value in use and fair value less costs of disposal. The value-in-use calculation requires the use of estimates such as the future revenue and discount rate. As at 31 March 2019, the carrying amount of plant and equipment was approximately HK$25,493,000 (2018: HK$51,166,000), an impairment loss of approximately HK$1,233,000 was recognised for the year ended 31 March 2019 after performing impairment assessment (2018: nil).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in 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 amounts due to ex-directors disclosed in note 23, amount due to a director disclosed in note 24 and obligations under finance leases disclosed in note 25, net of cash and cash equivalents disclosed in note 22, and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and risks associated thereto. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues and the issue and repayment of new debts.

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets | | |
| At amortised cost/loans and receivables (including bank balances) | **71,298** | 76,011 |
| Financial assets at FVTOCI | | |
| Equity instruments designated at FVTOCI | **–*** | N/A |
| Other financial liabilities | | |
| At amortised cost | **32,831** | 29,859 |

* Less than HK$1,000.

### Financial risk management objectives and policies

The Group's major financial assets and financial liabilities include trade and other receivables, restricted bank balances, bank balances and cash, trade and other payables, amount due to a director 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 of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

As at 31 March 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Individual credit evaluations are performed on all customers before deciding whether to submit tender proposals on construction contracts. These evaluation focuses including but not limited to the payment history of the customer and the current ability to pay, and take into account information specific to the customer. In order to minimise the credit risk, the management of the Group has delegated a team responsible for performing monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on trade balances collectively. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (continued)

**Credit risk (continued)**

As at 31 March 2019, the Group has concentration of credit risk as 34% of the total trade receivables are due from the Group's largest customer (2018: 0%) while 100% (2018: 100%) of the total trade receivables is due from the Group's five largest customers. The Group's concentration of credit risk by geographical locations is all in Hong Kong, which accounted for 100% (2018: 100%) of the total trade receivables as at 31 March 2019.

Management considered other receivables to be low credit risk and thus the allowance for impairment recognised during the year was limited to 12-month ECL. As at 31 March 2019, the identified impairment loss was immaterial.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

*The Group's exposure to credit risk*

In order to minimise credit risk, the Group has tasked a team to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The management 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 |

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (continued)

**Credit risk (continued)**

*The Group's exposure to credit risk (continued)*

The table below details 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 | Notes | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount HK$'000 | Loss allowance HK$'000 | Net carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | | | | | | |
| Trade receivables | 19 | Note | Lifetime ECL (not credit-impaired) | 12,171 | – | 12,171 |
| Other receivables | 19 | Performing | 12-month ECL | 4,649 | – | 4,649 |
| | | | | 16,820 | – | 16,820 |
| Other item | | | | | | |
| Contract assets | 20 | Note | Lifetime ECL (not credit-impaired) | 44,069 | (546) | 43,523 |
| | | | | 44,069 | (546) | 43,523 |

Note:

For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items collectively by using a provision matrix, estimated based on historical credit loss experience and the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Note 19 includes further details on the loss allowance for these assets.

None of the Group's financial assets are secured by collateral or other credit enhancements.

**Interest rate risk**

As at 31 March 2018, the Group was exposed to fair value interest rate risk in relation to its fixed-rate obligations under finance leases (see note 25) (2019: nil). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

As at 31 March 2018, the Group was also exposed to cash flow interest rate risk in relation to its variable-rate restricted bank balances (see note 21), variable-rate bank balances (see note 22) and variable-rate obligations under finance leases (see note 25) (2019: variable-rate restricted bank balances and variable-rate bank balances). 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 management of the Group considered that a reasonably possible change in interest rate would not have a material impact to the Group's result.

## 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.

The Group is exposed to liquidity risk as at 31 March 2019 as the Group had loss and net cash operating outflow for the year of approximately HK$86,892,000 and HK$26,634,000 respectively. The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations and the details of which are set out in note 1.

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.

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

| | On demand or within one year HK$'000 | 1–2 years HK$'000 | Total contractual cash flow column/carrying amount HK$'000 |
|---|---|---|---|
| **At 31 March 2019** | | | |
| Trade and other payables | 31,513 | 968 | 32,481 |
| Amount due to a director | 350 | – | 350 |
| | 31,863 | 968 | 32,831 |

| | On demand or within 1 year HK$'000 | 1–2 years HK$'000 | 2–5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Total contractual cash flow column/ carrying amount HK$'000 |
|---|---|---|---|---|---|
| **At 31 March 2018** | | | | | |
| Trade and other payables | 27,709 | 2,150 | – | 29,859 | 29,859 |
| Obligations under finance leases | 4,523 | 2,924 | 896 | 8,343 | 8,127 |
| | 32,232 | 5,074 | 896 | 38,202 | 37,986 |

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value measurement

Except as set out below, the directors of the Company consider that the fair values of financial assets and financial liabilities as at 31 March 2019 and 2018 recorded at amortised cost in the consolidated financial statements approximate to their corresponding carrying amounts due to short-term maturities.

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of reporting period. The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

| Financial asset | Fair value as at 31 March 2019 HK$'000 | Fair value hierarchy | Valuation technique and key inputs | Significant unobservable inputs | Relationship of key inputs and significant unobservable inputs to fair value |
|---|---|---|---|---|---|
| Financial assets at FVTOCI — Unlisted equity | –* | Level 3 | Income approach by reference to the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate | Revenue growth rate taking into account management's experience and knowledge of market conditions | The higher the revenue growth rate, the higher the fair value |

* Less than HK$1,000.

### Valuation process

The appropriate valuation techniques and inputs for the fair value measurements of financial assets of FVTOCI are determined by the directors of the Company.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the directors of the Company establish the appropriate valuation techniques and inputs to the model. The directors of the Company will review the cause of fluctuations in fair value of the assets annually.

## 7. REVENUE AND SEGMENT INFORMATION

### (a) Revenue

Revenue represents revenue arising on the construction and site formation services rendered for both years.

| | 2019<br>HK$'000 | 2018*<br>HK$'000 |
|---|---|---|
| **Disaggregation of revenue** | | |
| **Revenue from contracts with customers within the scope of HKFRS 15 for the year ended 31 March 2019** | | |
| Disaggregation by major service line | | |
| — Revenue from construction contracts from private sector | 137,178 | 148,179 |
| — Revenue from construction contracts from public sector | 5,674 | 44,162 |
| | 142,852 | 192,341 |

* The amount for the year ended 31 March 2018 was recognised under HKAS 11.

**Timing of revenue recognition**

| | Year ended<br>31/3/2019<br>HK$'000 |
|---|---|
| Over time | 142,852 |

**Transaction price allocated to the remaining performance obligation for contracts with customers**

The transaction price allocated to the remaining performance obligations as at 31 March 2019 amounting to approximately HK$240,125,000. The directors of the Company expect that all the remaining performance obligations will be recognised as revenue over the next 2 years from the end of the reporting period.

## 7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### (b) Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (the directors of the Company) in order to allocate resources to segments and to assess their performance.

The Group's operating activities are attributable to a single operating segment focusing on the provision of construction and site formation services. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that is regularly reviewed by the CODM. The CODM monitors the revenue from provision of construction and site formation services for the purpose of making decisions about resources allocation and performance assessment. The CODM reviews the operating results for the year of the Group as a whole for performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

#### (i) Geographical information

The Group's revenue from external customers by location of the operations is derived solely in Hong Kong (country of domicile). Non-current assets of the Group by location of the assets are all located in Hong Kong. As a result, geographical information has not been presented.

#### (ii) Information about major customers

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Customer A | **31,667** | 82,071 |
| Customer B | **102,967** | 62,433 |
| Customer C | **N/A*** | 41,094 |

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

## 8. OTHER INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank interest income | 110 | 301 |
| Gain on disposals of plant and equipment | – | 626 |
| Refund of contributions from MPF Scheme | 359 | 80 |
| Others | 9 | 55 |
| | 478 | 1,062 |

## 9. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| – unsecured bank overdrafts and unsecured bank borrowing (note) | 55 | – |
| – obligations under finance leases | 606 | 326 |
| | 661 | 326 |

Note: During the year ended 31 March 2019, the Group has raised a bank borrowing of HK$9,000,000 which has been fully settled.

## 10. INCOME TAX (CREDIT) EXPENSE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Over provision in prior years | | |
| Hong Kong Profits Tax | – | (240) |
| Deferred taxation (note 26) | (1,924) | 2,457 |
| | (1,924) | 2,217 |

Pursuant to the laws 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 as there is no income tax imposed in such jurisdiction.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. No provision for Hong Kong Profits Tax has been made as there was no assessable profits generated for the years ended 31 March 2019 and 2018.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No provision for PRC Enterprise Income Tax has been provided for the year ended 31 March 2019 as the Group did not have any assessable profits generated.

## 10. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| (Loss) profit before taxation | **(88,816)** | 10,931 |
| Tax calculated at the domestic income tax rate | **(14,655)** | 1,804 |
| Tax effect of expenses not deductible | **429** | 703 |
| Tax effect of income not taxable | **(18)** | (50) |
| Tax effect of tax losses not recognised | **12,320** | – |
| Over provision in prior years | **–** | (240) |
| Income tax (credit) expense for the year | **(1,924)** | 2,217 |

## 11. (LOSS) PROFIT FOR THE YEAR

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Staff costs | | |
| – Salaries, wages, allowances and other benefits | **79,530** | 60,648 |
| – Redundancy costs | **–** | 442 |
| – Contributions to retirement benefits scheme | **3,021** | 1,896 |
| Total staff costs (excluding directors' and chief executive's emoluments (note 12)) | **82,551** | 62,986 |
| Auditor's remuneration | **820** | 800 |
| Loss on disposals of plant and equipment | **518** | – |
| Depreciation of plant and equipment | **19,052** | 17,784 |
| Impairment losses for contract assets (included in administrative expenses) | **546** | – |
| Impairment losses for plant and equipment (included in cost of sales) | **1,233** | – |
| Minimum lease payments paid under operating lease in respect of office premises and car parks | **449** | 439 |

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

The emoluments paid or payable to each of the directors and the chief executive ("CE") of the Company were as follows:

**For the year ended 31 March 2019**

| | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking: | | | | |
| **Executive directors:** | | | | |
| Ms. Choi Chun Chi Sandy ("Ms. Choi") (note i) | – | 1,066 | 14 | 1,080 |
| Mr. Tang Man On (note i) | – | 1,066 | 14 | 1,080 |
| Mr. Kwok Hoi Chiu ("Mr. Kwok") (note i) | – | 1,066 | 14 | 1,080 |
| Ms. Wong Chi Yan (note ii) | – | 79 | 1 | 80 |
| Mr. Zhang Chengzhou (notes iii and v) | – | – | – | – |
| Mr. Li Xiangzhong (notes iv and v) | – | – | – | – |
| Mr. Cao Jun (notes iii and v) | – | – | – | – |
| **Non-executive director:** | | | | |
| Mr. Cao Qian (notes iv and v) | – | – | – | – |
| **Independent non-executive directors:** | | | | |
| Mr. Cheung Wai Lun Jacky | 100 | – | – | 100 |
| Mr. Lee Chi Ming | 150 | – | – | 150 |
| Mr. Tang Chi Wai | 100 | – | – | 100 |
| Total | 350 | 3,277 | 43 | 3,670 |

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

**For the year ended 31 March 2018**

| | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking: | | | | |
| **Executive directors:** | | | | |
| Ms. Choi | – | 1,422 | 18 | 1,440 |
| Mr. Tang Man On | – | 1,422 | 18 | 1,440 |
| Mr. Kwok | – | 1,422 | 18 | 1,440 |
| Ms. Wong Chi Yan (note ii) | – | 450 | 8 | 458 |
| **Independent non-executive directors:** | | | | |
| Mr. Cheung Wai Lun Jacky | 100 | – | – | 100 |
| Mr. Lee Chi Ming | 150 | – | – | 100 |
| Mr. Tang Chi Wai | 100 | – | – | 100 |
| Total | 350 | 4,716 | 62 | 5,128 |

Notes:

(i) Resigned on 28 December 2018.

(ii) Appointed on 13 October 2017 and resigned on 14 June 2018.

(iii) Appointed on 7 December 2018.

(iv) Appointed on 10 December 2018.

(v) The directors agreed to waive their emoluments for the year ended 31 March 2019.

Mr. Kwok acted as CE of the Company until 28 December 2018. With effect from 28 December 2018, Mr. Li Xiangzhong is appointed as CE of the Company. Their emoluments disclosed above include those for services rendered by them as the CE.

No emoluments were paid by the Group to any directors and CE of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 March 2019 and 2018.

## 13. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2018: three) of them were directors, including CE, of the Company, whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2018: two) individuals of the Group were as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **1,703** | 1,822 |
| Contributions to retirement benefits scheme | **–** | 18 |
| | **1,703** | 1,840 |

The emolument of each of the above employees was also below HK$1,000,000.

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

## 14. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 March 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

## 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 (for the year attributable to the owners of the Company) | **(86,892)** | 8,714 |

| | **2019 '000** | 2018 '000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share | **767,750** | 767,750 |

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

## 16. PLANT AND EQUIPMENT

| | Plant and machinery HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 April 2017 | 51,308 | 674 | 13,664 | 79 | 65,725 |
| Additions | 38,068 | 15 | 4,785 | 1,234 | 44,102 |
| Disposals | (11,068) | – | (1,200) | – | (12,268) |
| At 31 March 2018 and 1 April 2018 | 78,308 | 689 | 17,249 | 1,313 | 97,559 |
| Additions | – | – | 3,720 | – | 3,720 |
| Disposals | (17,380) | – | – | – | (17,380) |
| At 31 March 2019 | 60,928 | 689 | 20,969 | 1,313 | 83,899 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | |
| At 1 April 2017 | 29,013 | 579 | 6,100 | 75 | 35,767 |
| Charge for the year | 14,113 | 35 | 3,016 | 620 | 17,784 |
| Eliminated on disposals | (6,633) | – | (525) | – | (7,158) |
| At 31 March 2018 and 1 April 2018 | 36,493 | 614 | 8,591 | 695 | 46,393 |
| Charge for the year | 14,388 | 37 | 4,009 | 618 | 19,052 |
| Impairment loss recognised for the year | 1,233 | – | – | – | 1,233 |
| Eliminated on disposals | (8,272) | – | – | – | (8,272) |
| At 31 March 2019 | 43,842 | 651 | 12,600 | 1,313 | 58,406 |
| **CARRYING VALUES** | | | | | |
| At 31 March 2019 | 17,086 | 38 | 8,369 | – | 25,493 |
| At 31 March 2018 | 41,815 | 75 | 8,658 | 618 | 51,166 |

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

In view of the operating loss during the year ended 31 March 2019, the directors of the Company have performed an impairment assessment on the Group's plant and equipment as at 31 March 2019. The recoverable amount of the plant and equipment is determined based on value-in-use calculation using cash flow projection provided by the management of the Company. The pre-tax discount rate applied in measuring the amount of value-in-use is 9.7%. Accordingly, an impairment loss of approximately HK$1,233,000 had been recognised in respect of the plant and equipment during the year ended 31 March 2019 (2018: nil).

## 16. PLANT AND EQUIPMENT (CONTINUED)

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Plant and machinery | **–** | 2,693 |
| Motor vehicles | **–** | 1,763 |
| | **–** | 4,456 |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2019** **HK$'000** |
|---|---|
| **Unlisted equity investments** | **–*** |

* Less than HK$1,000.

The fair value measurement of these investments is disclosed in note 6.

During the year ended 31 March 2019, the Group acquired 10% equity interest of private entities established in the PRC and Hong Kong which are dormant as at 31 March 2019. The investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate the investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair values in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

## 18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | 2018 HK$'000 |
|---|---|
| **Contracts in progress at the end of each reporting period:** | |
| Contract costs incurred plus recognised profits less recognised losses | 607,968 |
| Less: progress billings | (531,994) |
| | 75,974 |
| Analysed for reporting purposes as: | |
| Amounts due from customers for contract work | 75,974 |

Upon application of HKFRS 15, amounts due from customers for contract work are classified as contract assets and disclosed in note 20.

## 19. TRADE AND OTHER RECEIVABLES

| | **As at 31/3/2019 HK$'000** | As at 1/4/2018 HK$'000 | As at 31/3/2018 HK$'000 |
|---|---|---|---|
| Receivables within the scope of HKFRS 15 at amortised cost comprise: | | | |
| Trade receivables | **12,171** | 15,435 | 15,435 |
| Retention receivables (note) | **–** | – | 21,774 |
| Prepayments, deposits and other receivables | **4,679** | 728 | 728 |
| | **16,850** | 16,163 | 37,937 |

Note: The amount was expected to be recovered within one year from the end of the reporting period. Upon application of HKFRS 15, the amount is classified as contract assets and disclosed in note 20.

The Group does not hold any collateral over these balances.

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 following is an aged analysis of trade receivables, presented based on the date of the certified report which approximates revenue recognition date and invoice date at the end of the reporting period:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| 0 to 30 days | **12,063** | 14,704 |
| 31 to 60 days | **108** | – |
| 61 to 365 days | **–** | – |
| Over 1 year | **–** | 731 |
| | **12,171** | 15,435 |

As at 31 March 2019, the Group measures the loss allowance for trade receivables and contract assets at an amount equal to lifetime ECL. The ECL on trade receivables and contract assets are estimated using a provision matrix by reference to past default experience of the debtors 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.

The Group recognised lifetime ECL for trade receivables and contract assets based on the ageing of customers collectively as follows:

| | **Gross carrying amount HK$'000** | **Loss allowance HK$'000** | **Net carrying amount HK$'000** |
|---|---|---|---|
| Current (not past due) | 56,240 | (546) | 55,694 |

## 19. TRADE AND OTHER RECEIVABLES (CONTINUED)

Expected loss rates are based on actual loss experience of comparable companies over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

As at 31 March 2018, the Group's trade receivables neither past due nor impaired amounted to approximately HK$14,704,000 for which the Group had not provided for impairment loss as there had not been a significant change in credit quality and the amount was still considered recoverable.

The aged analysis of trade receivables which were past due but not impaired is set out below:

| | 2018<br>HK$'000 |
|---|---|
| Over 1 year | 731 |

Movements in the loss allowance for impairment of trade receivables and contract assets.

| | **Trade receivables<br>HK$'000** | **Contract assets<br>HK$'000** | **Total<br>HK$'000** |
|---|---|---|---|
| At 1 April 2017, 31 March 2018 and 1 April 2018* | – | N/A | – |
| Impairment losses recognised | – | 546 | 546 |
| At 31 March 2019 | – | 546 | 546 |

* On transition to HKFRS 9, no impairment loss was recognised as at 1 April 2018 as the expected credit loss rates for trade receivables and contract assets based on ageing of customers were closed to zero.

## 20. CONTRACT ASSETS

| | **As at<br>31/3/2019<br>HK$'000** | As at<br>1/4/2018*<br>HK$'000 |
|---|---|---|
| Unbilled revenue of construction contracts | **17,335** | 75,974 |
| Retention receivables of construction contracts | **26,188** | 21,774 |
| | **43,523** | 97,748 |

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The Group's construction contracts normally include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The Group also typically agrees to one to two years retention period for 5% to 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

## 20. CONTRACT ASSETS (CONTINUED)

The contract assets also include the Group's rights to consideration for work completed but not yet billed at the year end date. The significant decrease in contract assets in 2019 was primarily related to the reduction in total contract sum for those construction contracts in progress. The contract assets are transferred to trade receivables when the rights become unconditional.

The amount of contract assets that is expected to be recovered after more than one year is approximately HK$17,643,000 (2018: HK$14,898,000) all of which related to retentions.

During the year ended 31 March 2019, approximately HK$546,000 was recognised as provision for ECL on contract assets (see note 19 for details of impairment).

## 21. RESTRICTED BANK BALANCES

Restricted bank balances represent cash set aside by the Group in banks designated as surety bonds in favour of a customer for due performance of the Group's obligations under a construction contract which is expected to be completed after one year but within two years (2018: after one year but within two years). The balances are therefore classified as non-current assets (2018: non-current assets). The restricted bank balances carried at prevailing market rate 0.08% per annum (2018: 0.08% per annum) during the year ended 31 March 2019 and will be released upon completion of the contract.

## 22. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates of approximately 0.01% per annum (2018: 0.01% per annum) during the year.

## 23. TRADE AND OTHER PAYABLES

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Trade payables | **11,530** | 16,860 |
| Retention payables (note) | **2,402** | 4,548 |
| Amounts due to ex-directors | **12,000** | – |
| Accrued expenses and other payables | **6,549** | 8,451 |
| | **32,481** | 29,859 |

Note: As at 31 March 2019, the amount of the Group's retention payables expected to be due after more than twelve months was approximately HK$968,000 (2018: HK$2,150,000).

## 23. TRADE AND OTHER PAYABLES (CONTINUED)

Trade payables represented payables to suppliers and subcontractors. The credit terms granted by subcontractors were stipulated in the relevant contracts and the payables were usually due for settlement within 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| 0 to 30 days | **4,223** | 8,160 |
| 31 to 60 days | **4,326** | 4,699 |
| 61 to 90 days | **2,164** | 2,768 |
| 91 to 365 days | **817** | 1,233 |
| | **11,530** | 16,860 |

Amounts due to ex-directors are non-trade nature, unsecured, interest-free and repayable on demand.

## 24. AMOUNT DUE TO A DIRECTOR

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

## 25. OBLIGATIONS UNDER FINANCE LEASES

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | **–** | 4,361 |
| Non-current liabilities | **–** | 3,766 |
| | **–** | 8,127 |

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term ranged from 2 to 5 years for the year.

The ranges of interest rates on the Group's obligations under finance leases are as follows:

| | **2019** | 2018 |
|---|---|---|
| Fixed-rate obligations under finance leases | **N/A** | 3.8% p.a. to 4.5% p.a. |
| Variable-rate obligations under finance leases | **N/A** | 4.5% p.a. to 5.0% p.a. |

## 25. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

| | Minimum lease payments at 31 March | | Present value of minimum lease payments at 31 March | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance leases | | | | |
| Within one year | **–** | 4,523 | **–** | 4,361 |
| After one year but within two years | **–** | 2,924 | **–** | 2,875 |
| After two years but within five years | **–** | 896 | **–** | 891 |
| | **–** | 8,343 | **–** | 8,127 |
| Less: future finance charges | **–** | (216) | **N/A** | N/A |
| Present value of obligations under finance leases | **–** | 8,127 | | |
| Less: amount due for settlement within 12 months (shown under current liabilities) | | | **–** | (4,361) |
| Amount due for settlement after 12 months | | | **–** | 3,766 |

As at 31 March 2018, the Group's obligations under finance leases are secured by the lessors' charge over the leased assets (note 16). As at 31 March 2018, the Group's obligations under finance leases were secured by corporate guarantee given by the Company.

## 26. DEFERRED TAX LIABILITY

Deferred tax liability arising from accelerated tax depreciation recognised by the Group and movements thereon during the current and prior years are as follows:

| | HK$'000 |
|---|---|
| At 1 April 2017 | 2,952 |
| Charged to profit or loss (note 10) | 2,457 |
| At 31 March 2018 and 1 April 2018 | 5,409 |
| Charged to profit or loss (note 10) | (1,924) |
| At 31 March 2019 | 3,485 |

As at 31 March 2019, a subsidiary of the Group had aggregate unused tax losses of approximately HK$74,667,000 (2018: nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

## 27. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | | | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| **Authorised** | | | | |
| At the beginning and at the end of the year | **2,000,000,000** | 2,000,000,000 | **20,000** | 20,000 |
| **Issued and fully paid** | | | | |
| At the beginning and at the end of the year | **767,750,000** | 767,750,000 | **7,678** | 7,678 |

## 28. OPERATING LEASE COMMITMENTS

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **42** | 385 |
| In the second to fifth year inclusive | **–** | 30 |
| | **42** | 415 |

Operating lease payments represents rentals payable by the Group for its office premises and car parks. Leases are negotiated and rentals are fixed for average terms ranging from 1 year to 2 years (2018: 1 year to 2 years).

## 29. RELATED PARTY TRANSACTIONS

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

| Related party | Nature of transaction | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| Ms. Choi | Office rental paid (note) | **368** | 330 |

The above transaction was conducted at terms determined on a basis mutually agreed between the Group and the related party.

Note:

The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

**(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 employee benefits | **6,234** | 7,103 |
| Post-employment benefits | **90** | 105 |
| | **6,324** | 7,208 |

The remuneration of the directors of the Company and key executives is determined by the remuneration committee having regard to the performance of the individuals and market trends.

## 30. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to the written resolutions of the shareholders of the Company on 20 September 2016, the Company adopted a share option scheme (the "Scheme") to attract and retain the best available personnel, to provide additional incentive to employees (full-time or part-time), directors, consultants or advisors, 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 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 or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

## 30. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Options granted must be taken up within five days inclusive of the day on which such offer were made, upon payment of HK$1 per option. Options may be exercised at any time during a period as the directors of the Company may determine which shall not exceed ten years from the date of grant. The exercise price is determined by the directors of the Company, and will be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme will remain in force for a period of ten years commencing on the date on the adoption date (i.e. 20 September 2016) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the shareholders in general meeting.

No share options were granted since the adoption of the Scheme and there are no outstanding share options at the end of the both reporting periods. A summary of the principal terms and conditions of the Scheme is set out in Appendix IV to the prospectus of the Company dated 30 September 2016.

## 31. RETIREMENT BENEFITS PLANS

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2018: 5%) of relevant payroll costs to the MPF Scheme, in which the contribution is matched by employees and subject to a cap of HK$1,500 per month.

During the year ended 31 March 2019, the total expense recognised in the consolidated statement of profit or loss and other comprehensive income is approximately HK$3,064,000 (2018: HK$1,958,000), which represent contributions payable to the MPF scheme by the Group at rates specified in the rules of the scheme.

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | **As at 1 April 2018** HK$'000 | **Financing cash flows** HK$'000 | **As at 31 March 2019** HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| Amount due to a director | – | 350 | 350 |
| Amounts due to ex-directors (reported under trade and other payables) | – | 12,000 | 12,000 |
| Obligations under finance leases | 8,127 | (8,127) | – |
| | 8,127 | 4,223 | 12,350 |

| | **As at 1 April 2017** HK$'000 | **Financing cash flows** HK$'000 | **Non-cash item – acquisition of plant and equipment** HK$'000 | **As at 31 March 2018** HK$'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Obligations under finance leases | 10,271 | (7,360) | 5,216 | 8,127 |

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

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investments in subsidiaries | | 47,824 | 47,876 |
| **Current assets** | | | |
| Amount due from a subsidiary | (a) | 31,366 | 73,494 |
| Bank balances | | 21 | 17,087 |
| | | 31,387 | 90,581 |
| **Current liabilities** | | | |
| Amount due to a director | 24 | 350 | – |
| Amounts due to subsidiaries | | – | 52 |
| Other payables | | 1,021 | 815 |
| | | 1,371 | 867 |
| **Net current assets** | | 30,016 | 89,714 |
| **Net assets** | | 77,840 | 137,590 |
| **Capital and reserves** | | | |
| Share capital | | 7,678 | 7,678 |
| Reserves | (b) | 70,162 | 129,912 |
| **Total equity** | | 77,840 | 137,590 |

Notes:

(a) The amount is unsecured, interest-free and expected to be recovered within one year from the end of the reporting period. During the year ended 31 March 2019, the directors of the Company have performed an impairment assessment based on the expected credit loss model. As at 31 March 2019, the carrying amount of amount due from a subsidiary was approximately HK$31,366,000 (2018: HK$73,494,000), net of accumulated impairment loss of approximately HK$55,311,000 (2018: nil).

(b) The movement of reserves is shown as follows:

| | Share premium HK$'000 | Other reserve HK$'000 (note) | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2017 | 102,392 | 47,823 | (16,279) | 133,936 |
| Loss and total comprehensive expense for the year | – | – | (4,024) | (4,024) |
| At 31 March 2018 and 1 April 2018 | 102,392 | 47,823 | (20,303) | 129,912 |
| Loss and total comprehensive expense for the year | – | – | (59,750) | (59,750) |
| At 31 March 2019 | 102,392 | 47,823 | (80,053) | 70,162 |

Note: Other reserve represents the difference between the nominal value of the shares issued for the acquisition of C&H Engineering Company Limited ("C&H") and the contributed net asset value at the date of acquisition.

## 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 March 2019 and 2018 are as follow:

| Name of company | Place of incorporation/ operation | Class of shares held | Issued and fully paid share capital | Percentage of equity interest/voting power attributable to the Group 2019 | 2018 | Principal activity |
|---|---|---|---|---|---|---|
| Directly held: | | | | | | |
| Honestly Luck | The BVI | Ordinary | US$1 | **100%** | 100% | Investment holding |
| Indirectly held: | | | | | | |
| C&H | Hong Kong | Ordinary | HK$10 | **100%** | 100% | Provision of site formation works |

None of the subsidiaries had issued any debt securities during both years and at the end of both years.

## 35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2018, the Group entered into finance lease arrangements in respect of plant and machinery and motor vehicles with a total capital value at the inception of the leases approximately of HK$5,216,000 (2019: nil).