Anchorstone Holdings Limited

基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1592

ANNUAL REPORT 2019

CONTENT

CORPORATE INFORMATION

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

http://www.anchorstone.com.hk

COMPANY EMAIL

info@anchorstone.com.hk

STOCK CODE

1592

BOARD OF DIRECTORS

Mr. Lui Yue Yun Gary *(Executive Director, Chairman, Chief Executive Officer)*
Mr. Fung Wai Hang *(Executive Director, Company Secretary, Chief Financial Officer)*
Ms. Lui Po Kwan Joyce *(Executive Director)*
Mr. Lui Edwin Wing Yiu *(Executive Director)*
Mr. Ko Tsz Kin *(Independent Non-executive Director)*
Mr. Choi Hok Ya *(Independent Non-executive Director)*
Mr. Ng Yau Wah Daniel *(Independent Non-executive Director)*
Mr. Siu Chi Fung Stephen *(retired as Executive Director and Chief Financial Officer on 11 January 2019)*
Mr. Leung Lai Sang Ellis *(retired as Non-executive Director on 11 January 2019)*

BOARD COMMITTEE

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Mr. Fung Wai Hang

AUTHORISED REPRESENTATIVES

Mr. Lui Yue Yun Gary
Mr. Fung Wai Hang

COMPLIANCE ADVISOR

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F Prince's Building, Central, Hong Kong

PRINCIPAL BANKS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Chong Hing Bank Limited
Bank of China (Hong Kong) Limited

SHAREHOLDER INFORMATION

The shares of the Company are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")

SHARE REGISTRAR

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

INVESTOR RELATIONSHIP

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

FINANCIAL CALENDAR

For ascertaining shareholders' entitlement to attend and vote at Annual General Meeting, the closure dates of register of members will be on Wednesday, 24 June 2020 to Monday, 29 June 2020 (both days inclusive), during which period no transfer of shares in the Company will be effected.

In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:30 p.m. on Tuesday, 23 June 2020.

The Annual General Meeting will be held on Monday, 29 June 2020 at 3:00 p.m., at 7/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong.

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present the annual results and other matters of the Group for the year ended 31 December 2019.

The shares of the Company were listed on the Stock Exchange on 4 July 2018. This was an important milestone in the development of the Group, which has had the combined impact of enabling the Group to strengthen its corporate values, becoming better known publicly, and gaining access to the capital markets. In 2019, the Group remains focused on creating value for Shareholders. Besides making effort in our core business, the Group continues to explore alternative business opportunities although it was a tough and difficult time last year.

THE GROUP'S PERFORMANCE

The Board has resolved to announce the annual consolidated results for the year ended 31 December 2019 on 31 March 2020. It recorded a revenue of approximately HK$324.3 million (2018: HK$299.1 million) for the year ended 31 December 2019, representing an increase of 8.4% compared with that for the year ended 31 December 2018. Although the Group recorded a healthy revenue growth during the year, its gross profit and the profit attributable to the equity holders for the year recorded a significant decrease as compared with last year. The Group's profit attributable to the equity holders for the year was approximately HK$2.1 million, representing a decrease of 89.8% compared with that for the year ended 31 December 2018.

The Group has performed well in the first half of the year with a stable growth in revenue and profit compared to the same period of 2018. However, the Group's performance in the second half of the year was not satisfactory. One major reason for the decrease in profit and total comprehensive income for the year ended 31 December 2019 was due to the decrease in gross profit margin. The Group's overall gross profit margin has declined from around 23.3% in 2018 to around 13.4% in 2019, mainly due to the Group having taken up a significant supply and installation project during the year with a relatively low profit margin. There were also a significant number of variation orders which arose from certain supply and installation projects, which reduced the gross profit margin of the Group.

Together with the one-off expenses spent on the legal and professional services related to a potential major transaction (which has been terminated on 26 March 2020), and the increase in share based payment expenses for the share options granted during the year, the Group's profit attributable to the equity holders for the year decreased significantly compared with that for the year ended 31 December 2018.

Having foreseen the decline of our performance since the second half of the year, the Group actively developed our supply and installation business and our stone sales business. In the last quarter of 2019, the Group conducted two significant stone sales projects and made significant payment for these new projects. However, the quality inspection exercise for those stone sales projects could not be completed within 2019, the relevant revenue recognition has therefore been postponed to 2020.

BUSINESS ENVIRONMENT

Since the second half of the year, the overall business environment has started to deteriorate. On the one hand, the increasing political risk in Hong Kong and the risk of economic downturn in Hong Kong has posted negative impact in the construction industry. These made certain large-scale public works projects have yet to receive funding from the Finance Committee of the Legislative Council of the Hong Kong SAR Government, and certain tendering activities and construction projects' commencement, including both private and public work projects, had been delayed. On the other hand, the increasing building materials costs and construction labour costs posted negative impact on the overall performance of the construction and engineering industry in Hong Kong.

Amidst the volatilities of the global and local economic conditions, the demand for high quality marble and granite products still exist. The Directors of the Company is optimistic to the outlook of the Group.

EFFECT ON THE GROUP OF THE GLOBAL UNCERTAINTY DURING THE YEAR

Although the Group's main operation is in Hong Kong, it started to develop its stone and marble trading business to new markets, including the USA. However, the trade conflicts between China and the USA has affected our marble sales business to the USA. The trade conflict and the potential for a disorderly Brexit may affect our development plan of other overseas markets. Nevertheless, the Group is actively developing different markets all over the world.

EFFECT ON THE GROUP OF THE OUTBREAK OF CORONAVIRUS DISEASE 2019

After the outbreak of Coronavirus Disease 2019 in early 2020, a series of precautionary and control measures have been implemented across Mainland China and extended to different countries.

As a result of the certain control policies, including the travel restrictions and other public health measures imposed by the Hong Kong SAR Government, the government of Mainland China and Macau SAR, there have been certain negative impacts on the patronage of the Group's construction progress since early 2020. In particular, a significant number of our subcontractors suspended their operations after the Chinese New Year (February 2020) due to the control policy in relation to the spread of the novel coronavirus. Delays were noted in certain projects on hand due to the suspension of the operation of our subcontractors in China. Besides, settlements of certain accounts receivables in 2019 may be delayed as the overall delay in the work status of the Group's projects.

As at the date of this letter, we are pleased to report that the work progress of most of our existing projects have substantially resumed since early March 2020. We are pleased to say that after our assessment, there was no significant impact on the financial position of the Group at the moment. As a responsible enterprise, the Group will continue to access the risk and potential impact on the Group of the novel coronavirus and will co-operate with the Hong Kong SAR Government for the anti-epidemic measures when necessary.

PROPOSED MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN A TARGET COMPANY AND ITS TERMINATION

The Group intends to expand its scope of business to create value to the shareholders. During the year, the Board of the Directors has proposed a potential major acquisition in a hope to extend our business scope. The Group expected that the acquisition would create strategic synergies within the Group's existing business and strengthen the Company's customer base in the industry which would enable the Group to access to additional income and cash flow stream to the Group.

However, since late January 2020, travel restrictions and other public health measures including the extension of Chinese New Year holidays and quarantine requirements of travelers were imposed in various areas in China in an attempt to contain the novel coronavirus epidemic, had made the carrying out of the due diligence on the target company and its subsidiaries impossible. As a responsible Board, the Board terminated this proposed acquisition formally on 26 March 2020 in order to eliminate the uncertainty to shareholders and potential investors.

FUTURE BUSINESS DEVELOPMENT

In the past 24 years, the Group undertook a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong, including well-known international hotel's renovation and development projects, commercial plazas and office towers, together with a number of well-known residential properties. These experiences allow us to stay in the leading position in the industry.

However, the rising competition from our competitors, the increasing costs of the building materials and construction labour, and the tightened control on the use of foreign workers have caused the profit margin to fall. As in an opening ceremony at the Central Party School of CPC Central Committee presided by President Xi Jinping in 2019, "we must be alert to Black Swan and Gary Rhino", the Board is aware of the competitive environment and has established a risk management system to monitor, assess and manage the risks in the Group's business activities.

Facing this situation, the Board has actively sought for enlarging our scope of work over all the supply and installation projects in Hong Kong. We will also continue to expand the stone supply business in different markets over the world.

Since the rise of the concept of Guangdong-Hong Kong-Macao Greater Bay Area, it is expected that Hong Kong will become more connected with the surrounding cities. Despite the uncertainty in the global market, there will still be strong demand for the high quality marble and granite products as the property markets in China, Hong Kong and Macau are expected to have a steady and growing momentum in the future. Moreover, the Hong Kong Government continued to set the increase in land and housing supply as its target. It is expected the economy and property market would became active again after the novel coronavirus is over. We believe the Group will have a bright prospect and will grasp further development opportunities, and our Board will continue to monitor the financial position and business prospects of the Group.

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

As a responsible corporation, the Group is committed to promoting social enhancement while developing its business. The Group has allocated resources to environmental protection measures and committed to protect the interests of our employees, customers and suppliers. An Environment, Social and Governance report is being prepared with reference to the Appendix 27 Environment, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange and included in this annual report. At the same time, the Group committed to maintain a high standard of corporate governance.

CONCLUSION AND APPRECIATION

Facing the uncertainty of social and economic environment in the year 2020, in particular the social movement in Hong Kong and the extent of impact of the novel coronavirus to the global economy, the management will continue to make the best effort to support the Group's business development. The Group will maintain the good relationship with our customers, suppliers, subcontractors, principal bankers and employees for its long-term growth and development. At the same time, the Group will continue to follow Lo Ban, a symbolic idol of Chinese craftsmanship in ancient China, for his spirits of perfection and perseverance on our construction works.

Above all, I remain focused in continuing to create value for you and our stakeholders. I would like to express my deepest appreciation to the full trust and dedicated support from our stakeholders. I would also like to extend my gratitude to all my fellow directors and senior management team for their strong leadership and all our staff for their dedication, contribution and cordial support over the year.

Lui Yue Yun Gary
Chairman
Hong Kong, 31 March 2020

BUSINESS REVIEW, MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group recorded a revenue of approximately HK$324.3 million (2018: HK$299.1 million) for the year ended 31 December 2019, representing an increase of 8.4% compared with that for the year ended 31 December 2018. However, the Group's overall gross profit margin has declined from around 23.3% in 2018 to around 13.4% in 2019, mainly due to the Group taking up a significant supply and installation project during the year with a relatively low profit margin, and the emergence of a significant number of variation orders which arose from certain stone supply and installation services projects.

The Group's performance was not satisfactory in 2019. It recorded a decrease of gross profit for the year ended 31 December 2019 by approximately HK$26.5 million or 37.9% from approximately HK$69.8 million in 2018 to approximately HK$43.3 million in 2019. At the same time, the Group recorded a decrease of profit and total comprehensive income for the year ended 31 December 2019 by approximately HK$18.4 million or 89.8% from approximately HK$20.5 million to approximately HK$2.1 million.

Although the Group's performance in 2019 did not demonstrate a sanguine outlook, the trend in building grand and luxurious housing estates and hotels in Hong Kong has a growing demand for high quality marble and other building materials. Also, in considering the continuous demand in the housing supply in Hong Kong, the Group is actively developing its business in stone sales and enlarging its project scope to include other building materials. As one of the leading marble subcontractors in Hong Kong, the Group has the ability to grasp the future development opportunities, and the Board is confident in the future prospects of the Group.

BUSINESS REVIEW

In 2019, the Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. The Group also developed its business in stone sales projects.

The Group's profit attributable to equity holders for the first six months ended 30 June 2019 was approximately HK$10.3 million. However, the Group recorded a loss attributable to equity holders for the second half of the year. As a result, the profit and total comprehensive income for the year ended 31 December 2019 decreased significantly when compared with last year.

The overall performance of the industry in the second half of the year was not satisfactory. It was mainly due to the increasing political risk in Hong Kong, the weaker local economy, the uncertainty of the local property market and the risk of economic downturn globally which posted negative impact on the construction industry, resulting in a delay in the work in progress of different construction projects in Hong Kong. For the Group, besides the decrease of gross profit margin and the delaying of construction projects as mentioned above, two significant stone sales projects which commenced in the last quarter of 2019 could not able to have the quality inspection exercise completed by the customers by the end of the year, causing their revenue of approximately HK$74.4 million has to be deferred to be recognised in 2020. In addition, the increasing cost of building materials and construction labour costs posted negative impact on the gross profit margin for the Group for the year. Further, the trade conflicts between China and the USA has also affected our stone sales business to the USA and our development plan of other overseas markets.

Together with other reasons mentioned below, the Group's profit attributable to the equity holders for the year ended 31 December 2019 declined by approximately HK$18.4 million or 89.8% when compared with last year.

BUSINESS REVIEW *(Continued)*

In 2020, a significant number of our subcontractors suspended their operations after the Chinese New Year (February 2020) due to the control policy to stop the spread of the novel coronavirus. Although most of them have resumed work since early March 2020, this has still affected the settlement of receivables in 2019 due to delay in the overall work status of the Group's projects.

Nevertheless, the trend in building grand and luxurious housing estates and hotels in Hong Kong has a growing demand for high quality marble and other building materials. The Group is still confident in the future business growth in Hong Kong. Moreover, the Group has long history and experience in the industry. When the global economic activities become active again, the Group would be able to grasp the growth opportunities.

ENHANCE OUR KEY BUSINESS VALUE

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

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

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

RELATIONSHIPS WITH KEY CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

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

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

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

— arranging fabrications of marble and granite into customised sizes;

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

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

RELATIONSHIPS WITH EMPLOYEES

The Group has positioned itself to attract and retain talented people and provided our employees with a fair and inclusive working environment. We will maintain good relationship with our employees At the same time, we will continue to enhance our competitiveness by building on the capabilities of its employees. The Group will maintain support to the development of employees with training and encourage them to engage in lifelong learning.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

For example, the control policy in relation to the spread of the novel coronavirus has affected our project status, and thus collection of certain receivables have been unexpectedly prolonged as the overall work status of the Group's projects were delayed.

IMPACT OF CORONAVIRUS DISEASE 2019

The control policies, including the travel restriction and other public health measures imposed by the Hong Kong SAR Government, the government of Mainland China and Macau SAR had adverse impact on the progress of the Group's projects on hand since early 2020. In particular, a significant number of our subcontractors suspended their operations after the Chinese New Year (February 2020) due to certain control policies in relation to the controlling of the spread of the novel coronavirus. This affected the status of our existing projects on hand. However, it did not have significant negative impact on the Group's financial situation.

The Group will continue to closely monitor the status of our projects on hand and assess its impact on the economy and the construction activities in Hong Kong.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Environment, Social and Governance Report of the Company for the year ended 31 December 2019 contained the information required under Appendix 27 to the Listing Rules is set out in pages 20 to 42 of this report.

EMPLOYEES AND REMUNERATION POLICY

We outsourced the stone processing to our fabricators who were responsible for fabricating the stones to meet the specifications as requested by our customers and delivering the processed stones to the construction sites. We also rely on installation subcontractors in Hong Kong to install the cut-to-size panels. As at 31 December 2019, the Group had 29 full-time employees who were directly employed by the Group.

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

Total staff costs including directors' emoluments for the year ended 31 December 2019, amounted to approximately HK$14.4 million (2018: approximately HK$14.4 million). The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee. During the year ended 31 December 2019, there has not been any incident of strike or labour shortage which adversely affected the Group's operations. In addition, the Group has not experienced any significant problem with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

TREASURY POLICY

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

(i) Outbreak of Coronavirus Disease 2019

After the outbreak of Coronavirus Disease 2019 in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group has assessed and preliminary concluded that there was no significant impact on the financial position of the Group.

(ii) Termination of potential major transaction

Reference is made to the announcements of the Company dated 21 November 2019 and 27 December 2019 in relation to the acquisition of the entire interest in the target company ("**Target Company**") involving issue of conversion shares upon conversion of convertible bonds under specific mandate and the announcement of the Company dated 26 March 2020 in relation to the termination of the transaction. Because of the travel restrictions and the public health measures imposed in various areas in mainland China to contain and stop the spreading of the novel coronavirus epidemic, due diligence on the Target Group could not be carried out. On 26 March 2020, Stable Wealthy Holdings Limited, a wholly-owned subsidiary of the Company, has signed a deed of termination with New Chain Limited whereby the parties agreed not to proceed with the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement).

(iii) Placing of bonds

To strengthen the working capital of the Group, on 27 March 2020, the Company entered into a placing agreement to place for a 18-month bonds in the principal amount of up to HK$16,000,000, at a 12% coupon interest rate per annum. On 30 March 2020, all conditions precedent to completion as set out in the placing agreement have been fulfilled and the bonds with maturity date of 18 months on 29 September 2020 were issued in full on the same day.

USE OF PROCEEDS FROM SHARE OFFER

On 4 July 2018, the Company issued a total of 300,000,000 shares by way of public offering and placing at a price of HK$0.4 per share, and successfully listed its share on the Hong Kong Stock Exchange Limited. The net proceeds of the share offer received by the Company in relation to the listing of its share were approximately HK$73.2 million, after deduction of underwriting fee, commissions and all related expenses. The table below sets out the proposed application of the net proceeds and its utilisation status as at 31 December 2019.

	Percentage of net proceeds %	Net proceeds HK$'million	Amount utilised HK$'million	Amount remaining HK$'million
Financing the start-up costs for awarded or potential projects submitted	79.5	58.2	(58.2)	–
Strengthening project management team	3.6	2.6	(1.3)	1.3
Enhancing services and increasing sales and marketing efforts	4.1	4.4	–	4.4
Implementing a computerised ERP system and recruiting additional technology staff to support the ERP system	3.0	2.2	(0.2)	2.0
Repaying outstanding trust receipt loan	8.0	5.8	(5.8)	–
Total	**100.0**	**73.2**	**(65.5)**	**7.7**

As at the report date, the Directors consider that these proceeds have been applied in accordance with the proposed application set out in the Prospectus dated 20 June 2018. The unutilised amount of the net proceeds have been deposited in the bank accounts of the Company and its subsidiaries.

OUTLOOK AND PROSPECTS

Although the Group's performance in 2019 did not demonstrate a sanguine outlook, the directors believe the future business prospects will be satisfactory. The Group undertook a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong and Macau in the past. We have a lot of marble sourcing and installation experience, supplier and subcontractor's connections and an experienced management team.

With the trend in building grand and luxurious housing estates and hotels in Hong Kong, the continuous demand in the housing supply in Hong Kong and the future development in Hong Kong, Mainland China and Macau, the Board is confident in the future prospects of the Group, in particular when the global economic environment becomes stable and active again when Coronavirus Disease 2019 being overcome.

FINANCIAL REVIEW

OPERATING RESULTS

The Group is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. Having accumulated over 24 years of experience in the industry, the Group has undertaken various sizeable stone supply projects and stone supply and installation projects in Hong Kong and Macau.

The Group's overall performance in 2019 did not demonstrate a sanguine outlook. The Group recorded a revenue of approximately HK$324.3 million (2018: HK$299.1 million) for the year ended 31 December 2019, representing an increase of 8.4% compared with that for the year ended 31 December 2018. Its overall gross profit margin has declined from around 23.3% in 2018 to around 13.4% in 2019.

The Group recorded a decrease of gross profit for the year ended 31 December 2019 by approximately HK$26.5 million or 37.9% from approximately HK$69.8 million in 2018 to approximately HK$43.3 million in 2019. At the same time, the Group recorded a decrease of profit and total comprehensive income for the year ended 31 December 2019 by approximately HK$18.4 million or 89.8% from approximately HK$20.5 million to approximately HK$2.1 million.

Both its gross profit and net profit for the year had declined when compared with last year. The decline in overall performance was mainly due to: (i) the decrease in gross profit margin caused by the Group taking up a new significant supply and installation project during the year with a relatively low profit margin compared with the existing projects, and the emergence of a significant number of variation orders in some of the stone supply and installation services projects; (ii) the quality inspection exercise for two stone sales projects not being able to be completed within 2019 and therefore the relevant revenue recognition has been postponed to 2020; (iii) the increase in legal and professional fee and non-audit services charges, which were mainly related to a potential major transaction regarding the acquisition of the entire interest in a target company involving issue of conversion shares upon conversion of convertible bonds under specific mandate (which has been terminated on 26 March 2020); and (iv) the increase in share based payment expenses for the share options granted during the year.

Except for the decrease in gross profit margin, the other reasons which affected the Group's performance for the year ended 31 December 2019 mentioned above were not directly related to the operation of the Group. Further, the relevant revenue and profit which arises from the two stone sales projects would not be recognised until 2020 when the relevant accounting policies of the Group is fulfilled.

REVENUE

The Group generated revenue from the foundation projects it undertook. The Group recorded a revenue of approximately HK$324.3 million for the year ended 31 December 2019, representing an increase of approximately 8.4% when compared with 2018. This was due to the increase of revenue generated from the supply and installation services and stone sales.

Hong Kong

The Group provided both supply and installation services and stone sales to customers in Hong Kong. Revenue in Hong Kong increased by approximately HK$61.4 million or 31.3% in 2019, as most supply and installation projects (including variation orders) undertaken by the Group were completed or had achieved significant progress during the year ended 31 December 2019.

Macau

Same as previous financial years, the Group focuses primarily on hotel development projects in Macau. Revenue in Macau decreased by approximately HK$7.7 million or 10.3% in 2019.

The USA

In 2019, the scheduled stone sales project in the USA has been postponed by the property developer and therefore no revenue was generated in the USA during the year ended 31 December 2019.

GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales mainly includes the cost of raw materials, fabrication expenses, transportation and subcontracting costs. The Group's overall gross profit margin has declined from around 23.3% in 2018 to around 13.4% in 2019, mainly due to a significant supply and installation project during the year with a relatively low profit margin was undertaken and the emergence of a significant number of variation orders compared with last year.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Group in 2019 amounted to approximately HK$31.3 million, representing a decrease of approximately HK$7.0 million, or 18.2% as compared to approximately HK$38.3 million in 2018. The decrease was mainly due to: (i) the decrease in non-recurring listing-related expenses by approximately HK$13.5 million; and (ii) the decrease in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK$2.2 millions, which is mainly due to the resignation of an Executive Director in January 2019 and the decrease in overall headcount.

However, such decrease has been partially off-set by: (i) the increase in legal and professional fee by approximately HK$5.7 million and non-audit service charge by approximately HK$0.7 million, concerning predominantly a potential major transaction in the acquisition of the entire interest in a target company (which has been terminated on 26 March 2020); and (ii) the increase in share-based payment expenses by approximately HK$2.2 million for the share options granted to Executive Directors of the Company and an external consultant during the year.

FINANCE COSTS

The increase in finance costs was due to the increase in bank borrowings which related to the running of projects on hand.

INCOME TAX EXPENSE

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

The Group's income tax expense decreased by approximately HK$4.1 million, from approximately HK$6.7 million for the year ended 31 December 2018 to approximately HK$2.6 million for the year ended 31 December 2019 due to the decrease in profit before income tax.

The effective tax rate for the year ended 31 December 2019 was approximately 55.4% while it was approximately 24.5% for the year ended 31 December 2018. The significant increase was due to the increase of the portion of expenses not deductible for tax purposes, for example, professional fees incurred and share based payment expense, as compared with last year.

No provision for deferred taxation has been made in 2019 since no significant deferred taxation liability was expected to crystallise.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit attributable to equity holders of the Company was approximately HK$2.1 million for the year ended 31 December 2019, as compared to approximately HK$20.5 million for the year ended 31 December 2018.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The Group has issued share option during the year, which is a dilutive element to the calculation of earnings per share.

The basic earnings per share was approximately 0.17 HK cents (2018: 1.96 HK cents). The decrease is due to the decrease in profit and total comprehensive income attributable to equity holders of the Company. As the impact of dilutive element was not significant, the diluted earnings per share was also approximately 0.17 HK cents (2018: 1.96 HK cents).

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK 1 cent per ordinary share, totaling HK$12,000,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded the liquidity and capital requirements primarily through its retained profits and borrowings. As at 31 December 2019, the capital structure of the Group consisted of equity of approximately HK$152.1 million (31 December 2018: HK$159.2 million) and bank borrowing of approximately HK$146.4 million (31 December 2018: HK$124.1 million). For details, please refer to the paragraph headed "Bank borrowings" below.

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

CASH POSITION AND FUND AVAILABLE

The Group maintained a healthy liquidity position by managing its gearing ratio and its current ratio. As at 31 December 2019, the current ratio of the Group was approximately 1.8 times (31 December 2018: 2.1 times) and its gearing ratio was 41% (31 December 2018: 33%). Although the current ratio decreased and the gearing ratio increased in 2019, the range of change is within the control of the management.

The Group's current ratio was calculated as the current assets divided by the current liabilities as at the end of the respective years while the gearing ratio was calculated as the net debts (bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%.

As at 31 December 2019, the Group's cash and cash equivalents were approximately HK$2.9 million (31 December 2018: HK$9.8 million). At the same time, the Group has pledged bank deposits of approximately HK$37.4 million (31 December 2018: HK$34.2 million) to secure the Group's banking facilities. The drop in cash and cash equivalents was mainly due to: (i) the increase in pledged bank deposits for obtaining additional banking facilities; and (ii) the increase in inventories for two significant stone sales projects undertaken in the last quarter of 2019, which are expected to be realised into cash subsequent to the financial year ended 31 December 2019 after the quality inspection is completed in 2020.

BANK BORROWINGS

As at 31 December 2019, the Group had total bank borrowings of approximately HK$146.4 million (31 December 2018: HK$124.1 million). As at 31 December 2019, the Group had an aggregate banking facilities of approximately HK$174.9 million (2018: HK$164.6 million), of which approximately HK$28.5 million (2018: HK$40.5 million) was unutilised.

GEARING RATIO

The gearing ratio was calculated as the net debts (bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%. The gearing ratio of 2019 was 41% (31 December 2018: 33%).

NET CURRENT ASSETS

As at 31 December 2019, the Group had net current assets of approximately HK$148.9 million (31 December 2018: HK$157.7 million). The slight decrease in net current assets position was mainly attributable to the increase in bank borrowings which is related to the expansion of the volume of the project during the year.

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

PLEDGE OF ASSETS

As at 31 December 2019, except for the pledged bank deposits stated in the paragraph headed "Cash position and fund available" above, certain trade and retention receivables and contract assets set out in Note 22 to the consolidated financial statements, the Group has no other pledged assets.

BANK BORROWINGS COVENANTS

As at 31 December 2019, the Group had complied with all the financial covenants. Details of the bank borrowings are set out in Note 22 to the consolidated financial statements.

CASH FLOWS

The Group's cash flows has been presented in the consolidated statement of cash flows and Note 27 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2019.

FOREIGN EXCHANGE RISK

The Group mainly operates in Hong Kong and Macau. Most of its operating transactions and financial activities, 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 when they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group has issued performance bonds in respect of construction contracts through banks which amounted to approximately HK$1.5 million and HK$3.0 million respectively. These performance bonds were secured by bank facilities.

During the year ended 31 December 2019, there were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of this report, two cases had developed to legal proceedings while the other two cases were still at their initial stage. The amount being claim for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained with reliability.

In addition, a previous subcontractor of the Group initiated a claim for payment for services rendered in the sum of HK$6.5 million. The Group actively defended against the claim and the liability of the Group cannot be ascertained with reliability as at the date of this report. The Directors consider the likelihood of the plaintiff succeeding in the claim to be remote based on the current available information and legal advise from lawyer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group is one of the leading and well-established subcontractors in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. We are committed and conscientious to the operation, management and development in strict compliance with the applicable laws and regulation. At the same time, we believe sustainability is a key to achieve continuous success and we have integrated it into our business strategies. The Board also considers the environment, social and governance activities be an important elements for the Group's success.

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

The ESG Governance Structure

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

SCOPE OF REPORTING

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

REPORTING FRAMEWORK

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

For the Group's corporate governance practices, please refer to pages 43 to 59 for the section "Corporate Governance Report" contained in the 2019 Annual Report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2019.

CONFIRMATION AND APPROVAL

Information disclosed in this report is sourced from internal documents and statistical data of the Group. This report has been confirmed and approved by the Board in March 2020.

STAKEHOLDER ENGAGEMENT

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

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

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

MATERIALITY ASSESSMENT

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

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

The ESG Reporting Guide	Material ESG aspects of the Group	
A. Environment		
A1. Emissions	Exhaust Gas and Greenhouse Gas ("**GHG**") Emissions	P.23
	Waste Management	P.26
A2. Use of Resources	Electricity and Energy Consumption	P.28
A3. The Environment and Natural Resources	Environmentally Friendly Installation Methods	P.30

MATERIALITY ASSESSMENT *(Continued)*

The ESG Reporting Guide	Material ESG aspects of the Group	
B. Social		
B1. Employment	Recruitment, Remuneration, Promotion and Dismissal	P.31
	Communication Channels	P.31
	Diversity, Equal Opportunities and Anti-discrimination	P.32
B2. Health and Safety	Safety Plans and Trainings	P.33
B3. Development and Training	Training and Development Management	P.33
B4. Labour	Prevention of Child and Forced Labour	P.34
B5. Supply Chain Management	Supply Chain Management Structure	P.34
	Environmental and Social Responsibilities of Suppliers	P.35
	Fair and Open Procurement	P.35
B6. Product Responsibility	Quality Control of Projects	P.36
	Customer Privacy Protection	P.37
	Customer Services	P.37
	Protection of Intellectual Property ("**IP**") Rights	P.38
B7. Anti-corruption	Anti-corruption	P.38
B8. Community Investment	Community Participation	P.39

As at the year ended 31 December 2019, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

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

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and KPIs

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

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

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

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

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

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions

Exhaust Gas Emission

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

GHG Emissions

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

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

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

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

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

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions *(Continued)*

GHG Emissions (Continued)

The summary of GHG emissions performances:

Indicator[1]	Total emissions (calculated in tCO_2e)	Intensity[2] (tCO_2e/employee)
For the year ended 31 December 2018		
Direct GHG emissions (Scope 1) — Gasoline	28.02	0.88
Indirect GHG emissions (Scope 2) — Electricity	26.67	0.83
Total GHG emissions (Scope 1 and Scope 2)	54.69	1.71
For the year ended 31 December 2019		
Direct GHG emissions (Scope 1) — Gasoline	24.26	0.84
Indirect GHG emissions (Scope 2) — Electricity	26.21	0.90
Total GHG emissions (Scope 1 and Scope 2)	50.47	1.74

Notes:

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

2. As at 31 December 2019, the Group had 29 full-time employees in total (2018: 32). The data is also used for calculating other intensity data.

Both direct and indirect GHG emissions recorded decrease for the year ended 31 December 2019 compared with that of 2018. This is mainly due to the Board encouraged staff to conduct video/phone meetings with customers instead of physical meetings. The total GHG emissions intensity increased slightly due to the decrease in full-time employees as compared with last year.

Sewage Discharge

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

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management

Hazardous Waste Handling Method

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

Non-hazardous Waste Handling Method

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

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

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

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

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management *(Continued)*

Non-hazardous waste handling method (Continued)

The summary of major non-hazardous wastes discharge performance:

Category of waste	Total discharge (pieces)	Intensity (pieces/employee)
For the year ended 31 December 2018		
Paper[3]	354,551	11,080
For the year ended 31 December 2019		
Paper[3]	345,155	11,901

Note:

3. Equivalent to approximately 1.51 tonnes for the year ended 31 December 2019 (2018: 1.55 tonnes).

The total number pieces of paper discharged as well as its intensity are of similar level as last year.

A2. Use of Resources

General Disclosure and KPIs

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

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Electricity and Energy Consumption

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

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

- Selects energy-efficient equipment and electrical appliances for production, office and domestic electricity use;
- Forbids the use of large-power electrical appliances such as heaters, kettles, refrigerators, etc., to avoid electricity overload. Employees should turn off all electrical appliances used by them when they leave office;
- Turns off all unnecessary lights, air conditioners, computers and other office equipment in office areas, conference rooms and corridors when they are not in use to avoid waste of electricity;
- Uses LED lamps instead of traditional lamps;
- Regulates the use of air conditioners strictly to prevent waste of electricity;
- Turns off computers (host or monitor) when employees go out for a long time, and switches computers to standby or sleep mode when employees go out for lunch; and
- Enhances the maintenance and overhaul of equipment, maintain the best condition of all electronic equipment for effective use of electricity.

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

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Electricity and Energy Consumption *(Continued)*

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

Type of energy	Energy consumption (unit)	Intensity (unit/employee)
For the year ended 31 December 2018		
Gasoline[4]	10,533 litres	329.16 litres/employee
Electricity	33,754 kWh	1,054.81 kWh/employee
For the year ended 31 December 2019		
Gasoline[4]	8,959 litres	308.93 litres/employee
Electricity	33,182 kWh	1,144.21 kWh/employee

Note:

4. In reference to the conversion provided on U.S. Energy Information Administration Energy Conversion Calculators, gasoline consumption equivalent to approximately 83,550.33 kWh for the year ended 31 December 2019 (2018: 98,229.23 kWh).

We recorded lower total energy consumption this year as we consumed less gasoline, which was mainly due to the encouragement of less physical customer meetings and thus lower the frequency of travelling. The electricity consumption was relatively stable for both years, while its intensity increased due to the slight decrease in headcount.

Water Consumption

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

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

Use of Packaging Material

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

A. ENVIRONMENTAL *(Continued)*

A3. The Environment and Natural Resources

General Disclosure and KPIs

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

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

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

Environmentally Friendly Installation Methods

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

B. SOCIAL

B1. Employment

General Disclosure

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

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

Recruitment, Remuneration, Promotion and Dismissal

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

Communication Channels

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

B. SOCIAL *(Continued)*

B1. Employment *(Continued)*

General Disclosure *(Continued)*

Diversity, Equal Opportunities and Anti-discrimination

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

B2. Health and Safety

General Disclosure

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

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

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

B. SOCIAL *(Continued)*

B2. Health and Safety *(Continued)*

General Disclosure *(Continued)*

Safety Plans and Trainings

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

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

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

B3. Development and Training

General Disclosure

Training and Development Management

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

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

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

B. SOCIAL *(Continued)*

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

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

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

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

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

B5. Supply Chain Management

General Disclosure

Supply Chain Management Structure

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

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

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

B. SOCIAL *(Continued)*

B5. Supply Chain Management *(Continued)*

General Disclosure *(Continued)*

Supply Chain Management Structure *(Continued)*

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

While the Group is responsible for:

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

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

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

Environmental and Social Responsibilities of Suppliers

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

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

Fair and Open Procurement

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

B. SOCIAL *(Continued)*

B6. Product Responsibility

General Disclosure

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

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

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

Quality Control of Projects

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

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

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

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

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Quality Control of Projects *(Continued)*

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

Customer Privacy Protection

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

Customer Services

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

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Protection of IP Rights

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

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

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

B7. Anti-corruption

General Disclosure

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

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

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

Anti-corruption

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

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

B. SOCIAL *(Continued)*

B7. Anti-corruption *(Continued)*

General Disclosure *(Continued)*

Whistle-blowing System

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

B8. Community Investment

General Disclosure

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

Community Participation

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

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

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

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

(Continued)

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

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

(Continued)

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

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year 2019, the Group has applied the principles and complied with all code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the HKEX, except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the roles of the Chairman and Chief Executive Officer of the Company and the Group have not been segregated as required by the code provision A.2.1 of the CG Code.

Mr. Lui Yue Yun Gary is the Chairman of the Company and the founder of the Group. The Board considers that vesting the roles of both Chairman and Chief Executive Officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is adequately ensured by the Board which comprise experienced and high caliber individuals with a sufficient number of them being independent non-executive directors of the Company ("**Independent Non-Executive Directors**" or "**INEDs**"). Therefore the Board has a strong independent element in its composition. Beside, all directors (including INEDs) are subject to retirement by rotation in accordance with the Company's Articles of Association.

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

BOARD OF DIRECTORS

Overall Accountability

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

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

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

Board Composition

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

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

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

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

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

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

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

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

Board Diversity Policy

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

During the year ended 31 December 2019 and as at the date of this report, the Board compromises seven directors, one of whom is female. The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy *(Continued)*

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

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

	Professional experience and knowledge			
Name of directors	**Business and management**	**Construction and subcontracting**	**Accounting and finance**	**Other professional(s)**
Executive Directors:				
Mr. Lui Yue Yun Gary	✓	✓		
Mr. Fung Wai Hang			✓	✓
Ms. Lui Po Kwan Joyce	✓			
Mr. Lui Edwin Wing Yiu		✓		
INEDs:				
Mr. Ko Tsz Kin			✓	
Mr. Choi Hok Ya	✓			
Mr. Ng Yau Wah Daniel	✓			

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

BOARD OF DIRECTORS *(Continued)*

Directors' Training

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

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

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

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

Board Responsibilities and Delegations

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

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

BOARD MEETING AND ATTENDANCE

The Board meets regularly at least four times a year to review financial and operating performance of the Group and to discuss future strategy and development. During the year ended 31 December 2019, eight Board meetings were held in 2019. At the Board meetings, the Board reviewed significant matters including the financial information, annual budget, results announcement, proposals for dividends, annual report and interim report. Besides, the Board also held different meetings to pass the appointment and resignation of directors during the year, the granting of share options and the matters in relation to the potential major transaction.

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

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

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

Name of directors	Number of attendance
Mr. Lui Yue Yun Gary	8/8
Mr. Fung Wai Hang	8/8
Ms. Lui Po Kwan Joyce	7/8
Mr. Lui Edwin Wing Yiu	8/8
Mr. Ko Tsz Kin	8/8
Mr. Choi Hok Ya	6/8
Mr. Ng Yau Wah Daniel	8/8

Code Provision A.2.7 stipulates that the Chairman should at least annually hold meetings with the INEDs without the presence of other directors. During the year ended 31 December 2019, the Chairman held one meeting with all INEDs without the presence of other Executive Directors.

GENERAL MEETING

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

In 2019, one general meeting (the 2018 Annual General Meeting) was held at 7/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong on Tuesday, 28 May 2019 at 3:00 p.m.

AUDIT COMMITTEE

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

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

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

For the year ended 31 December 2019, the Audit Committee held two meetings:

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

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

The Group's consolidated financial statements for the year ended 31 December 2019 were audited by PricewaterhouseCoopers whose term of office will expire upon the conclusion of the forthcoming annual general meeting of the Company. The Audit Committee has recommended to the Board that PricewaterhouseCoopers be re-appointed as the auditors of the Company at the forthcoming Annual General Meeting.

REMUNERATION COMMITTEE

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

For the year ended 31 December 2019, the Remuneration Committee held two meetings:

Name of directors	Number of attendance
Mr. Ng Yau Wah Daniel	2/2
Mr. Ko Tsz Kin	2/2
Mr. Lui Yue Yun Gary	1/2

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

Senior Management's Remuneration

The remuneration of every senior management for the year ended 31 December 2019 is set out below:

Name of senior management	HK$'000
Mr. Lui Yue Yun Gary	3,789
Mr. Fung Wai Hang	1,707
Ms. Lui Po Kwan Joyce	1,456
Mr. Lui Edwin Wing Yiu	1,611
Mr. Kan Shu Kai Raie	962

NOMINATION COMMITTEE

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

For the year ended 31 December 2019, the Nomination Committee held one meeting:

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

Nomination Policy and Directors Selection Criteria

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

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

(1) reputation for integrity;

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

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

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

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

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

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

NOMINATION COMMITTEE *(Continued)*

Nomination Policy and Directors Selection Criteria *(Continued)*

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

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

Director Nomination Procedures

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

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

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the remuneration paid/payable to the Company's auditor are set out below:

	HK$'000
Audit services	1,550
Non-audit services	700

COMPANY SECRETARY

The Company has appointed Mr. Fung Wai Hang, who is an employee of the Company, as its Company Secretary since October 2017. Mr. Fung Wai Hang is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Institute of Chartered Secretaries and a member of the Institute of Chartered Secretaries and Administrators. He confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2019. The biography of Mr. Fung Wai Hang is set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by directors of Listed Issues ("**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code throughout the year. The interests held by individual directors in the Company's securities as at 31 December 2019 are set out in the section headed "Disclosure of interests — directors' and chief executive's interests" in the Report of the Directors.

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

SHAREHOLDERS' RIGHTS

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

Shareholders to Convene an EGM

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

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

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

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

Putting Enquiries by Shareholders to the Board

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

SHAREHOLDERS' RIGHTS *(Continued)*

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

If a shareholder of the Company wishes to propose a person other than a director of the Company for election as a director, the shareholder must deposit a written notice (the "**Notice**") to the principal place of business of the Company in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong, or the share registrar of the Company at Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, for the attention of the Company Secretary.

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

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

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

Procedures for Shareholders to Put Forward Proposals at General Meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "**Proposal**") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's share registrar in Hong Kong at their respective address and contact details set out on page 2 of this annual report.

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

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

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

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

VOTING BY POLL

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

INVESTOR RELATIONS

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

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

— Delivery of annual and interim reports to all shareholders;

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2019, the Board has selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

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

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

DIVIDEND POLICY

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

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

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

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

(4) the Group's liquidity position;

(5) interest of the shareholders;

(6) taxation consideration, if applicable;

(7) potential effect on creditworthiness;

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Risk Management

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

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

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

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

Internal Control Measures

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Internal Audit Function

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

For the year ended 31 December 2019, the review covered key processes of revenue and sales, payment processing and the payroll compliance of the Group. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of the Company for the year ended 31 December 2019 were effective and adequate.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Lui Yue Yun Gary ("Mr. Lui")

Mr. Lui, aged 64, an Executive Director, the Chairman and the Chief Executive Officer. Mr. Lui is one of the co-founder of the Group and is the substantial shareholder and controlling shareholder of the Company.

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

Mr. Lui obtained a Bachelor's degree in Civil Engineering from University of Toronto, Canada. He has over 37 years of experience in marble and granite outfitting works and has been involved in numerous projects throughout the years. Mr. Lui had experience in leading certain stone supply and installation projects in Hong Kong and China, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plaza and office towers; and (iii) residential properties. With extensive experience in the stone supply and installation business, Mr. Lui has established a strong rapport with different main contractors and architects for various types of projects and brings in extensive knowledge of marble and granite selection and project management to the Group.

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

Mr. Fung Wai Hang ("Mr. Fung")

Mr. Fung, aged 34, an Executive Director, the Company Secretary and the Chief Financial Officer. He is mainly responsible for overseeing the finance, accounting, administration and compliance functions and the company secretarial duties. Mr. Fung is also a director of certain subsidiaries of the Group.

Mr. Fung obtained a Bachelor's degree in business administration from The Chinese University of Hong Kong. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Institute of Chartered Secretaries, a member of the Institute of Chartered Secretaries and Administrators, a chartered global management accountant of the Chartered Institute of Management Accountants, a certified internal auditor of the Association of Chinese Internal Auditors, a member of the Hong Kong Securities and Investment Institute, an accredited mediator (general) of the Hong Kong Mediation Accreditation Association, a panel member of the Hong Kong Mediation Centre and a certified workplace mediator of the International Dispute Resolution and Risk Management Institute.

Mr. Fung joined the Group as the Financial Controller in August 2017 and was appointed as Company Secretary in October 2017. He has promoted to the existing position since January 2019. Prior to joining the Group, Mr. Fung worked for PricewaterhouseCoopers and he was mainly responsible for auditing and assurance works. Mr. Fung has over 11 years of experience in accounting, auditing and financial management.

Mr. Fung was appointed as a member of the Panel of Advisers (Film Censorship) by the Film Censorship Authority of the Government of the Hong Kong Special Administrative Region from 1 April 2020 to 31 March 2021. He was elected as a council member of the Council for the Promotion of Guangdong-Hongkong-Macao Cooperation (the 4th cabinet) in December 2018. He does not have other current or past directorship in any listed company in the last three years.

EXECUTIVE DIRECTORS *(Continued)*

Ms. Lui Po Kwan Joyce ("Ms. Lui")

Ms. Lui, aged 34, an Executive Director and the head of marketing department. Ms. Lui is responsible for the marketing and business strategies of the Group, and the relationship management with key clients and partners. Ms. Lui is also a director of certain subsidiaries of the Group.

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

Ms. Lui is the daughter of Mr. Lui and cousin of Mr. Lui Edwin Wing Yiu, both are the executive directors of the Company.

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

Mr. Lui Edwin Wing Yiu ("Mr. Edwin Lui")

Mr. Edwin Lui, aged 33, an Executive Director and the head of business development department. He is mainly responsible for the business development work of the Group. Mr. Edwin Lui is also a director of certain subsidiaries of the Group.

Mr. Edwin Lui obtained a Bachelor's degree in computer science from Worcester Polytechnic Institute. Prior to joining the Group, Mr. Edwin Lui worked for Cheong Wah Metal Company Limited and Multi-trade Industries Limited. He has approximately 9 years of experience in business development and general management.

Mr. Edwin Lui is the nephew of Mr. Lui and the cousin of Ms. Lui respectively.

Mr. Lui Edwin Wing Yiu was elected as a committee member of the Hong Kong Marble & Granite Merchants Association (2019–2021) in July 2019. He does not have other current or past directorship in other listed company in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ko Tsz Kin ("Mr. Ko")

Mr. Ko, aged 50, Independent Non-executive Director of the Company. Mr. Ko is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee and is responsible for providing independent judgement on strategy, policy, performance, accountability, internal control and corporate governance.

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

Mr. Ko has over 27 years of experience in auditing and accounting. From 1992 to 2015, he joined Robert Chui & Co., Certified Public Accountants, and his last position was the principal of the audit department responsible for the audit and assurance engagements carried out by the firm. Since 2015, Mr. Ko has been practising as a Certified Public Accountant under his own name.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Choi Hok Ya ("Mr. Choi")

Mr. Choi, aged 65, Independent Non-executive Director of the Company. Mr. Choi is also a member of Audit Committee and is responsible for providing independent judgement on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Choi obtained a Bachelor's degree in Arts from University of Toronto, Canada and has over 33 years of experience in manufacturing and management. Upon his graduation, Mr. Choi joined International Carpet Company Limited, responsible for the manufacturing and marketing of the company. Since 1986, Mr. Choi has taken over the company as the managing director.

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

Mr. Ng Yau Wah Daniel ("Mr. Ng")

Mr. Ng, aged 64, an Independent Non-executive Director of the Company. Mr. Ng is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee and is responsible for providing independent judgement on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ng obtained a Bachelor's degree in Economics from York University, Canada and has over 31 years of experience in business operation and general management. In 1989, Mr. Ng was appointed as the executive director of Charter York Real Estate Management Limited, responsible for the daily management of the company. Also in 1989, Mr. Ng was appointed as the executive director of International Carpet Company Limited, responsible for the sales and business development. Since 2008, Mr. Ng has been appointed as the executive director of Gayloy Limited, responsible for managing the company's business. Since 2010, Mr. Ng has been appointed the director of Smart Result Limited, responsible for managing the company's business.

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

SENIOR MANAGEMENT

Chief Executive Officer

Mr. Lui is the Chief Executive Officer of the Group. For further details of Mr. Lui, please refer to the paragraph headed "Executive Directors" of this section.

Chief Financial Officer and Company Secretary

Mr. Fung is the Company Secretary and the Chief Financial Officer of the Group. For further details of Mr. Fung, please refer to the paragraph headed "Executive Directors" of this section.

Project Director

Mr. Kan Shu Kai Raie ("**Mr. Kan**"), aged 56, the Project Director of the Group. He is responsible for the overall project management of the Group.

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

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

REPORT OF THE DIRECTORS

The directors of the Company submit their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

REGISTERED OFFICE OF THE COMPANY AND PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A detailed review of the business of the Group is set out in the "Business Review, Management Discussion and Analysis" from pages 8 to 13 of this 2019 Annual Report. The discussions thereof form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income in page 82.

DONATIONS

There were no charitable and other donations made by the Group during the year (2018: Nil).

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2019, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$34.0 million (2018: HK$43.9 million).

PROPOSED FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK 1 cent per ordinary share, totaling HK$12,000,000).

CLOSURE OF REGISTERS OF MEMBERS

For ascertaining shareholders' entitlement to attend and vote at Annual general meeting, the closure dates of register of members will be on Wednesday 24 June 2020 to Monday, 29 June 2020 (both days inclusive), during which period no transfer of shares in the Company will be effected.

In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:30 p.m. on Tuesday, 23 June 2020.

USE OF PROCEEDS FROM THE COMPANY'S SHARE OFFER

The aggregate net proceeds from the Share Offer (after deducting listing related expenses borne by the Company) amounted to approximately HK$73.2 million. The proposed application of net proceeds as stated in the Prospectus has been adjusted according to the principles and proposed percentage of utilisation as specified in the section headed "Future plans and use of proceeds" of the Prospectus. The use of proceeds from the Listing Date to 31 December 2019 is included in the "Business Review, Management Discussion and Analysis" on page 13.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 23 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Notes 24 and 31 to the consolidated financial statements.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

The events occurring after the reporting period of the Group are set out in Note 32 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

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

Biographical details of the directors are set out in pages 60 to 62 of this Annual Report.

Pursuant to the Articles of Association, at each Annual General Meeting, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to the retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

Accordingly, Mr. Ko Tsz Kin, Mr. Choi Hok Ya and Mr. Ng Yau Wah Daniel shall retire from office by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

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

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

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

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") pursuant to resolutions passed by the sole Shareholder on 11 June 2018 and 14 June 2018 (the "**Adoption Date**"). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the Share Option Scheme.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide eligible participants with an opportunity to have a personal stake in the Company and to motivate, attract and retain the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Share Option Scheme

The Board is entitled to determine and make an offer of grant of an option to any person including any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), advisor, consultant of the Company or any of its subsidiaries, suppliers, customers, shareholders, service providers or business partners who contributed or may contribute to the development and growth of the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of shares which may be allotted and issued under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the total issued shares of the Company as at the Listing Date unless the Company obtains an approval from the shareholders. Therefore, the Company may grant options of up to 120,000,000 shares (or such number of Shares as result from a subdivision or a consolidation of such 120,000,000 shares from time to time) to the participants under the Share Option Scheme.

As at the date of this report, a total of 47,200,000 share options had been granted and 72,800,000 shares, representing approximately 7% of the total issued shares of the Company, are available for issue under the Share Option Scheme.

SHARE OPTION SCHEME *(Continued)*

4. Maximum entitlement of shares of each eligible participant

The total number of shares issued and to be issued upon the exercise of all the share options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the total number of Shares in issue.

5. The period within which the shares must be taken up under an option

Offer of a share option may be accepted by the grantee within the date as specified in the offer letter issued by the Company, being a date not later than 21 days from the date upon which the letter is made, by which the grantee must accept the offer or be deemed to have declined it, provided that the period from such date shall not be more than ten years after the Adoption Date of the Share Option Scheme or after the termination of the Share Option Scheme.

6. The minimum period for which an option must be held before it can be exercised

The share option granted may be exercised in whole or in part by the grantee at any time before the expiry of the period to be determined and notified by the Board to the grantee, which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as prescribed in the Share Option Scheme.

7. The amount payable on acceptance of an option and the period within which payments shall be made

A consideration of HK$1.00 is payable on acceptance of the offer of grant of a share option. Such consideration shall in no circumstances be refundable.

8. The basis of determining the exercise price and the fair value of options granted

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be at such price as determined by our Board and notified to an eligible person, and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date, which must be a trading day, on which our Board passes a resolution approving the making of an offer of grant of an option to an eligible participant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the share option; and (iii) the nominal value of a Share on the date of grant of the share option.

The fair value at grant date of options granted during the year was approximately HK$0.06 per option. The fair value at grant date is independently determined using Binomial Option Price Model which includes a binomial lattice model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of underlying share, the expected dividend yield, the risk free interest rate and the correlations and volatilities of the peer group companies.

SHARE OPTION SCHEME *(Continued)*

9. The remaining life of the Share Option Scheme

Subject to earlier termination of the Share Option Scheme by the Company in general meeting or by the Board, the Share Option Scheme will remain valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further share options shall be granted. All share options granted prior to the expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

On 8 July 2019, the Company granted share options to certain eligible participants (the "**Grantees**") to subscribe for a total of 47,200,000 ordinary shares of HK$0.01 each in the share capital of the Company at an exercise price of HK$0.249 per share pursuant to the Share Option Scheme adopted by the Company on 11 June 2018. Among the share options granted, a total of 37,200,000 share options were granted to the Executive Directors, including Mr. Lui, Ms. Lui, Mr. Edwin Lui and Mr. Fung. All Grantees accepted the share options granted to them.

The following shows the outstanding position as at 31 December 2019 with respect to their share options granted under the Share Option Scheme:

				Number of Share Options				
	Date of grant	Exercise price per share (HK$)	Exercise period	Balance as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Cancelled/ lapsed during the year ended 31 December 2019	Balance as at 31 December 2019
Name of directors								
Mr. Lui Yue Yun Gary	8 July 2019	0.249	8 July 2019 to 7 July 2021	–	1,200,000	–	–	1,200,000
Mr. Fung Wai Hang	8 July 2019	0.249	8 July 2019 to 7 July 2021	–	12,000,000	–	–	12,000,000
Ms. Lui Po Kwan Joyce	8 July 2019	0.249	8 July 2019 to 7 July 2021	–	12,000,000	–	–	12,000,000
Mr. Lui Edwin Wing Yiu	8 July 2019	0.249	8 July 2019 to 7 July 2021	–	12,000,000	–	–	12,000,000
Suppliers of goods or services								
In aggregate	8 July 2019	0.249	8 September 2019 to 7 July 2021	–	10,000,000	–	–	10,000,000

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

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

A. Directors' and Chief Executive Interests in Shares and Share Options

On 18 January 2019, PMG Investments Limited, the controlled corporation of the Company, has disposed of 60,000,000 shares of the Company to an external investor at a price of HK$0.23 per share at a total consideration of HK$13,800,000. Immediately before such disposal, PMG Investments Limited held 900,000,000 shares, representing 75% of the issued share capital of the Company. During the year, PMG Investments Limited acquired, in aggregation, 5,135,000 shares from the market.

As at the date of this report, the interests or short positions of the Company's directors and the chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange under the Model Code are as follows:

Long position in shares and underlying shares of the Company:

Name of director and the chief executive	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation	845,135,000 shares	70.42%

Interests in share options of the Company:

Name of directors and the chief executive	Total number of share option(s) held
Mr. Lui Yue Yun Gary	1,200,000
Mr. Fung Wai Hang	12,000,000
Ms. Lui Po Kwan Joyce	12,000,000
Mr. Lui Edwin Wing Yiu	12,000,000

Save as disclosed above, as at the date of this report, none of the Directors or chief executives has any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company or Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which he was taken or deemed to have under provision of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

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

B. Substantial Shareholder's Interests in Shares and Share Options

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

Long position in shares and underlying shares of the Company:

Name of substantial shareholder	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation	845,135,000 shares	70.42%
PMG Investments Limited	Beneficial owner	845,135,000 shares	70.42%

Interest in share option of the Company:

Name of substantial shareholder	Total number of share option(s) held
Mr. Lui Yue Yun Gary	1,200,000

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

C. Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2019 or at any time during the year.

D. Purchase, Sales and Redemption of Shares

Save for Reorganisation as disclosed in Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or their respective close associates is or was interested in any business apart from the Group's business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2019 and up to the date of this report.

Each of the Controlling Shareholders has provided a written confirmation (the "**Confirmation**") to the Company confirming that he/it has fully complied with the Deed of Non-competition for the year ended 31 December 2019. Based on the Confirmation, the Independent non-executive Directors have reviewed the Controlling Shareholders' compliance with the Deed of Non-competition and are satisfied that for the year ended 31 December 2019, the Controlling Shareholders have fully complied with the terms of the Deed of Non-Competition and no new competing business was reported by the Controlling Shareholders throughout the year ended 31 December 2019.

The Company is not aware of any other matter concerning the compliance of the undertakings in the Deed of Non-competition and there has not been any change in the terms of the Deed of Non-Competition during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

No other equity-linked agreement was entered into by the Group, or existed during the year ended 31 December 2019.

SUBSIDIARIES

Details of subsidiaries of the Company as at 31 December 2019 are set out in Note 14 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in Note 26 to the consolidated financial statements. The Directors consider that those related party transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2019.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the subsidiaries by reason of their holding of the Company's shares.

MAJOR SUPPLIERS AND CUSTOMERS

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

Sales	Percentage
The largest customer:	25.1%
Five largest customers combined:	76.1%

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

Purchases	Percentage
The largest supplier:	83.8%
Five largest suppliers combined:	99.3%

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

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles of Associations of the Company or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

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

GROUP FINANCIAL SUMMARY

A summary of the results and key financial information of the Group for the last five years is set out in page 146 of this report.

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Lui Yue Yun Gary
Chairman
Hong Kong, 31 March 2020

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Anchorstone Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 82 to 145, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for construction contracts — recognition of revenue and contract assets	
Refer to note 4 in the summary of significant accounting policies and note 5 to the consolidated financial statements. For the year ended 31 December 2019, the Group's revenue derived from construction contracts was HK$308,834,000. Revenue from construction contracts is recognised over the period of the contract by measuring the progress towards complete satisfaction of the performance obligation on the basis of the actual costs incurred by the Group up to the end of the reporting period as a percentage of total estimated costs for each contract. Contract assets represent the Group's right to consideration for work completed less progress billings as at the reporting date. As at 31 December 2019, the carrying amount of contract assets amounted to HK$161,329,000, accounted for approximately 48.4% of the Group's total assets.	Our procedures to assess management's recognition of revenue and contract assets included: — We inspected material construction contracts of the Group entered into during the year for agreed contract sums. — We tested, on a sample basis, actual costs incurred to supporting documents including, but not limited to, suppliers' and subcontractors' invoices and labour cost allocation schedules. — On management's estimated costs of the projects: • We assessed and tested the key controls over their budgetary process on construction costs. • We examined the total budgeted cost of material construction contracts prepared by the project managers by comparing the budgeted component costs to supporting documents including, but not limited to, price quotations and rates of labour costs.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for construction contracts — recognition of revenue and contract assets *(Continued)*	
Revenue and contract assets recognised from construction contracts require significant judgement in (a) measuring the progress with reference to the actual costs incurred as a percentage of total estimated costs for each contract; (b) estimating total budgeted costs and profit margin for each contract; and (c) estimating the expected recovery of costs arising from additional work performed throughout the contract periods. We focus on this area as the recognition of revenue and contract assets require significant estimation and management's judgement, and given the magnitude of the amounts, the audit of this area requires significant audit effort and resources.	— We checked the calculations for the progress towards complete satisfaction of the performance obligation; and recomputed the revenue recognised based on the project completion progress. — For projects with change in scope of work and variation orders, we tested these changes by checking to relevant supporting documents, such as architect instructions. — We tested progress billings to all projects by checking to invoices issued to customers; and re-computed the contract assets balances for each project by comparing the progress billings against revenue recognised which represented the Group's rights to consideration for work completed. — For projects with material contract assets balance as at 31 December 2019, we obtained independent quantity surveyor reports from management for selected material projects and compared the stage of completion as of 31 December 2019 with that accounted for by management. We found the judgement and estimates adopted by management in recognising revenue and contract assets are supported by available evidence.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 HK$'000
Revenue from contracts with customers	5	**324,256**	299,045
Cost of sales	7	**(280,944)**	(229,280)
Gross profit		**43,312**	69,765
Other gains, net	6	**150**	35
Administrative expenses	7	**(31,298)**	(38,276)
Operating profit		**12,164**	31,524
Finance income	10	**189**	521
Finance costs	10	**(7,662)**	(4,828)
Finance costs, net		**(7,473)**	(4,307)
Profit before income tax		**4,691**	27,217
Income tax expense	11	**(2,601)**	(6,677)
Profit and total comprehensive income for the year		**2,090**	20,540
Profit and total comprehensive income attributable to equity holders of the Company		**2,090**	20,540

		2019 **HK cents**	2018 HK cents
Earnings per share attributed to equity holders of the Company			
Basic earnings per share	12	**0.17**	1.96
Diluted earnings per share	12	**0.17**	1.96

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Assets			
Non-current assets			
Property and equipment	13(a)	**925**	1,499
Right-of-use assets	13(b)	**4,611**	–
Total non-current assets		**5,536**	1,499
Current assets			
Trade and retention receivables	16	**58,776**	54,815
Deposits, prepayments and other receivables	17	**3,805**	1,483
Inventories	18	**62,661**	984
Contract assets	5	**161,329**	202,125
Income tax recoverable		**1,022**	4,450
Pledged bank deposits	19	**37,385**	34,196
Cash and cash equivalents	19	**2,922**	9,778
Total current assets		**327,900**	307,831
Total assets		**333,436**	309,330
Equity			
Share capital	23	**12,000**	12,000
Reserves		**140,116**	147,195
Total equity		**152,116**	159,195

CONSOLIDATED
BALANCE SHEET (CONTINUED)

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Liabilities			
Non-current liability			
Lease liabilities	13(b)	**2,275**	–
Total non-current liability		**2,275**	–
Current liabilities			
Trade and retention payables	20	**20,586**	16,230
Accruals and other payables	21	**7,696**	4,971
Contract liabilities	5	**488**	4,798
Lease liabilities	13(b)	**2,376**	–
Bank borrowings	22	**146,405**	124,136
Income tax payables		**1,494**	–
Total current liabilities		**179,045**	150,135
Total liabilities		**181,320**	150,135
Total equity and liabilities		**333,436**	309,330

The financial statements on pages 82 to 145 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Lui Yue Yun Gary
Director

Fung Wai Hang
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity holders of the Company			
	Share capital HK$'000 (Note 23)	**Reserves** HK$'000 (Note 24)	**Retained earnings** HK$'000	**Total** HK$'000
At 1 January 2018	–	14,000	23,391	37,391
Profit and total comprehensive income for the year	–	–	20,540	20,540
Transactions with equity holders in their capacity as equity holders:				
Shares issued pursuant to the capitalisation	9,000	(9,000)	–	–
Shares issued pursuant to the listing	3,000	117,000	–	120,000
Listing expenses charged to share premium	–	(18,736)	–	(18,736)
At 31 December 2018	12,000	103,264	43,931	159,195
At 1 January 2019	**12,000**	**103,264**	**43,931**	**159,195**
Profit and total comprehensive income for the year	**–**	**–**	**2,090**	**2,090**
Transactions with equity holders in their capacity as equity holders:				
Recognition of share option expenses (Note 28)	**–**	**2,831**	**–**	**2,831**
Dividend paid relating to the year ended 31 December 2018 (Note 25)	**–**	**–**	**(12,000)**	**(12,000)**
At 31 December 2019	**12,000**	**106,095**	**34,021**	**152,116**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Net cash used in operations	27(a)	**(4,502)**	(84,525)
Interest received		**189**	521
Income tax refund/(paid)		**2,321**	(12,315)
Net cash used in operating activities		**(1,992)**	(96,319)
Cash flows from investing activities			
Proceeds from disposal of property and equipment	27(b)	**–**	10
Purchase of plant and equipment		**(16)**	(1,007)
Deposits paid for potential acquisition of subsidiaries	17	**(2,000)**	–
Placement of pledged bank deposits		**(3,189)**	(15,116)
Cash advanced to a related party		**–**	(16,054)
Repayment from a related party		**–**	15,663
Net cash used in investing activities		**(5,205)**	(16,504)
Cash flows from financing activities			
Interest paid		**(7,323)**	(4,828)
Proceeds from shares issued pursuant to the listing	23(d)	**–**	120,000
Proceeds from bank borrowings	27(c)	**276,466**	181,496
Repayments of bank borrowings	27(c)	**(256,385)**	(152,327)
Payment of listing expenses to be capitalised into equity		**–**	(13,451)
Principal element of lease payments (2018: principal element of finance lease payments)	27(c)	**(2,605)**	(873)
Dividends paid		**(12,000)**	–
Net cash (used in)/generated from financing activities		**(1,847)**	130,017
Net (decrease)/increase in cash and cash equivalents		**(9,044)**	17,194
Cash and cash equivalents at beginning of year		**9,778**	(7,416)
Cash and cash equivalents at end of year		**734**	9,778
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	19	**2,922**	9,778
Bank overdrafts	22	**(2,188)**	–
		734	9,778

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) Going concern basis

The Group had net cash used in operations of HK$4,502,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's bank borrowings amounted to HK$146,405,000 while its cash and bank balance was HK$2,922,000.

The recent outbreak of Coronavirus Disease in early 2020 ("**the COVID-19 outbreak**") may potentially cause slow down of property development and construction industries in Hong Kong. It may therefore adversely affect the progress of ongoing project orders as well as future customers' demand of the Group's products and services and thereby affecting the Group's ability to generate adequate cash from its operation to meet its bank borrowings repayment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern basis *(Continued)*

In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity requirements and operating performance of the Group and its available sources of financing to assess whether the Group will have sufficient financial resources to fulfill its financial obligations to continue as a going concern. The Group has taken the following measures to improve the Group's financial position and alleviate its liquidity pressure, which include, but not limited to, the following:

(i) The Group has issued a bond with a principal amount of HK$16,000,000 to an independent third party investor on 30 March 2020. The bond bears interest at 12% per annum and it matures on 29 September 2021. The Group may, at any point in time before 29 September 2021 redeem the bond in whole or in part, together with the payment of interests accrued up to the date of such redemption by serving written notice to the holder of the bond;

(ii) The directors are closely monitoring the impact of the COVID-19 outbreak on the business of its customers. Based on the latest communication with the Group's customers, the directors are not aware of any significant delay in the progress of ongoing projects and are confident that outstanding receivables will be collected according to the agreed terms in the expected timeframe; and

(iii) The Group had available bank facilities of HK$174,860,000 as at 31 December 2019 and the directors of the Company believe that the bank borrowings will be repaid in accordance with the scheduled dates as set out in the relevant facilities agreements. Given the good track records and relationships the Group has with the banks and based on its latest communication with the banks, the directors are of the opinion that the Group will be able to renew the banking facilities with the banks upon its expiry in its annual review.

Notwithstanding the above, whether management is able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions, and consequently be able to generate adequate financing and operating cash flows to continue as a going concern would depend upon, among other things, the successful collection of trade receivables and completion of ongoing projects to generate operating cash inflow and the continuous availability of the Group's banking facilities. The directors of the Company have reviewed the Group's cash flow projections which cover a period of not less than twelve months from 31 December 2019 and have considered the possible downward changes in its operating performance. They are of the opinion that the Group will have sufficient financial resources to satisfy its future working capital requirements and to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2019. Accordingly, the directors of the Company consider that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New and amended standards adopted by the Group

The following new and amended standards and interpretations to standards are mandatory for the Group's financial year beginning on 1 January 2019 and have been adopted by the Group:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as the result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) New and amended standards and interpretations not yet adopted

The following new and amended standards and interpretations to standards have been issued but are not effective for the financial year beginning on or after 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
Conceptual Framework For Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture	To be determined

None of these HKFRS is expected to have a significant effect on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

This Note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's consolidated financial statements.

As indicated in Note 2.1(b) above, the Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. Such new accounting policies are disclosed in Note 2.23.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.9%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and Interpretation 4 "Determining Whether an Arrangement Contains a Lease".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(ii) Measurement of lease liabilities

	2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	**7,595**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**(678)**
Lease liability recognised as at 1 January 2019	**6,917**
Of which are:	
Current lease liabilities	**2,265**
Non-current lease liabilities	**4,652**
	6,917

(iii) Measurement of right-of-use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(iv) Impact on the consolidated financial statements

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

Consolidated balance sheet (extract)	31 December 2018 (As originally presented) HK$'000	HKFRS 16 HK$'000	1 January 2019 (Restated) HK$'000
Non-current assets			
Right-of-use assets	–	6,917	6,917
Non-current liabilities			
Lease liabilities	–	4,652	4,652
Current liabilities			
Lease liabilities	–	2,265	2,265

2.3 Principles of consolidation

2.3.1 Subsidiaries

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation *(Continued)*

2.3.2 Business combinations

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation *(Continued)*

2.3.3 Separate financial statements

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.7 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets

(a) Classification

The Group classifies its financial assets to be measured at amortised cost.

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

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

(b) Recognition and derecognition

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

(c) Measurement

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

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

Debt instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 16 for further details.

2.9 Offsetting financial instruments

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

2.10 Trade and retention receivables, deposits and other receivables

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

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

2.11 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

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

2.13 Share capital

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

2.14 Trade and retention payables

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

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

2.15 Bank borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Borrowings costs

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

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

2.17 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

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

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

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

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

2.18 Employee benefits

(a) Employee leave entitlements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(b) Retirement benefit obligations

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

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

(c) Bonus plans

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

(d) Long service payments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share-based payments

Share-based compensation benefits are provided to directors and consultant via the Anchorstone Holdings Limited's Share Option Scheme. Information relating to these schemes is set out in Note 28.

The fair value of options granted under the Anchorstone Holdings Limited's Share Option Scheme is recognised as employee benefits expenses and consultancy expenses with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions (for example the entity's share price);

— excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

— including the impact of any non-vesting conditions (for example the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.20 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

(a) Stone sales

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

(b) Supply and installation service

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

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

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

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

2.22 Interest income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Leases *(Continued)*

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of property and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipments.

2.24 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Interest rate risk

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

As at 31 December 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings of HK$538,000 (2018: HK$452,000). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

(b) Foreign currency risk

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

(c) Credit risk

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk *(Continued)*

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

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

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

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

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

The Group overall considers the shared credit risk characteristic and the days past due of the trade receivables to measure the expected credit loss. During the year, expected loss rate of trade receivables is assessed to be closed to zero. The loss allowance provision for these balances was not material during the year ended 31 December 2019 (2018: same).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

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

As at 31 December 2019, the Group's total available banking facilities amounted to HK$174,860,000 (2018: HK$164,630,000), of which HK$146,405,000 (2018: HK$124,136,000) has been utilised.

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

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

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Total HK$'000
As at 31 December 2019				
Trade and retention payables	–	**20,586**	–	**20,586**
Accruals and other payables	–	**4,670**	–	**4,670**
Bank borrowings	**153,445**	–	–	**153,445**
Lease liabilities	–	**2,604**	**2,387**	**4,991**
	153,445	**27,860**	**2,387**	**183,692**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

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

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

	Within 1 year HK$'000
As at 31 December 2019	**153,445**
As at 31 December 2018	128,626

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

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

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

The gearing ratios were as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Bank borrowings (Note 22)	**146,405**	124,136
Less: cash and cash equivalents (Note 19)	**(2,922)**	(9,778)
Less: pledged bank deposits (Note 19)	**(37,385)**	(34,196)
Net debt	**106,098**	80,162
Total equity	**152,116**	159,195
Total capital	**258,214**	239,357
Gearing ratio	**41%**	33%

3.3 Fair value estimation

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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

(a) Revenue recognition for construction contract

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

(b) Impairment of financial assets

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

(c) Income tax

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

(d) Contingent liabilities

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

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

(a) Revenue from contracts with customers

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

	2019 HK$'000	2018 HK$'000
Supply and installation service	**308,834**	265,791
Stone sales	**15,422**	33,254
	324,256	299,045
Timing of revenue recognition:		
Over time	**308,834**	265,791
At a point of time	**15,422**	33,254
	324,256	299,045

(b) Segment information

The Executive Directors are the Group's chief operating decision-makers. The Executive Directors consider the segment from a business perspective and the only component in internal reporting to the Executive Directors is the Group's stone sales and supply and installation service. Hence, management considers there to be only one operating segment under the requirements of HKFRS 8 "Operating Segment". The Executive Directors assess the performance of the operating segment based on revenue generated. The Group does not report a measure of profit or total assets for the operating segment as the Executive Directors do not use this information to allocate resources to or evaluate the performance of the operating segment.

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

(b) Segment information *(Continued)*

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

	2019 **HK$'000**	2018 HK$'000
Hong Kong	**257,523**	196,078
Macau	**66,733**	74,413
The USA	**–**	28,554
	324,256	299,045

(c) Information about major customers

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

	2019 **HK$'000**	2018 HK$'000
Customer A (Note (i))	**81,516**	99,993
Customer B (Note (ii))	**66,733**	74,413
Customer C (Note (i))	**61,607**	N/A
Customer D (Note (i))	**N/A**	43,632
Customer E (Note (i))	**36,986**	N/A

Notes:

(i) The revenue was generated from the supply and installation service in Hong Kong.

(ii) The revenue was generated from the supply and installation service in Macau.

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

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

(d) Assets and liabilities related to contracts with customers

	2019 **HK$'000**	2018 HK$'000
Contract costs incurred plus recognised profits less recognised losses	**506,421**	320,017
Less: progress billings	**(345,580)**	(122,690)
Balance at end of year	**160,841**	197,327
Analysed for reporting purposes as:		
Contract assets (Note (i))	**161,329**	202,125
Contract liabilities (Note (ii))	**(488)**	(4,798)
	160,841	197,327

Notes:

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

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

As at 31 December 2019, contract assets amounted to HK$59,609,000 (2018: HK$27,812,000) have been pledged to secure the bank facilities as set out in Note 22.

6 OTHER GAINS, NET

	2019 **HK$'000**	2018 HK$'000
Exchange gains, net	**150**	35

7 EXPENSES BY NATURE

	2019 HK$'000	2018 HK$'000
Cost of inventories	**11,594**	22,189
Construction cost recognised in cost of sales	**269,350**	207,091
Auditor's remuneration		
— Audit services	**1,550**	1,500
— Non-audit services	**700**	–
Depreciation — plant and equipment (Note 13(a))	**464**	368
Depreciation — right-of-use assets (Note 13(b))	**2,306**	–
Operating lease payments	**–**	2,863
Oversea travelling expenses	**381**	463
Employee benefit expenses (including directors' emoluments) (Note 8)	**14,398**	14,417
Motor vehicle expenses	**567**	723
Listing related expenses	**–**	13,545
Legal and professional fees	**6,224**	555
Loss on disposal of property and equipment	**126**	3
Consultancy expenses		
— fee	**420**	2,000
— share options	**606**	–
Others	**3,556**	1,839
Total cost of sales and administrative expenses	**312,242**	267,556

8 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses

	2019 HK$'000	2018 HK$'000
Wages, salaries and bonuses	**17,418**	20,956
Retirement benefit costs — defined contribution plans	**447**	463
Share option granted to directors	**2,225**	–
Less: amount included in construction contracts	**(5,692)**	(7,002)
	14,398	14,417

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

(b) Five highest paid individuals

For the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group include four (2018: two) whose emolument is reflected in the analysis in Note 9. During the year ended 31 December 2019, the emolument paid/payable to the remaining one individual (2018: three individuals) is as follows:

	2019 HK$'000	2018 HK$'000
Wages, salaries and benefits in kind	**864**	2,364
Bonuses	**80**	958
Retirement benefit costs — defined contribution plans	**18**	54
	962	3,376

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

	Number of individuals	
	2019	2018
Emolument band		
Nil to HK1,000,000	**1**	–
HK$1,000,000 to HK$2,000,000	**–**	3

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2019:

	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Mr. Lui Yue Yun Gary	120	3,280	300	71	18	3,789
Mr. Siu Chi Fung Stephen (Note i)	–	–	–	–	–	–
Mr. Fung Wai Hang (Note ii)	55	840	76	718	18	1,707
Ms. Lui Po Kwan Joyce	120	600	–	718	18	1,456
Mr. Lui Edwin Wing Yiu (Note ii)	55	720	100	718	18	1,611
	350	5,440	476	2,225	72	8,563
Non-executive Director						
Mr. Leung Lai Sang Ellis (Note i)	–	–	–	–	–	–
Independent Non-executive Directors						
Mr. Ko Tsz Kin	240	–	–	–	–	240
Mr. Choi Hok Ya	240	–	–	–	–	240
Mr. Ng Yau Wah Daniel	240	–	–	–	–	240
	720	–	–	–	–	720
Total	1,070	5,440	476	2,225	72	9,283

Note:s

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

(ii) Mr. Fung Wai Hang and Mr. Lui Edwin Wing Yiu were appointed as Executive Directors of the Company respectively on 11 January 2019.

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2018:

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

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

The retirement benefits paid to Mr. Siu Chi Fung Stephen during the year ended 31 December 2019 in respect of his services as a director of the Company and certain subsidiaries is HK$500,000 (2018: Nil). No other retirement benefits were paid to Mr. Siu Chi Fung Stephen in respect of his other services in connection with the management of the affairs of the Company or its subsidiaries undertaking (2018: Nil).

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year ended 31 December 2019 (2018: Nil).

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

The Group did not pay consideration to any third parties for making available directors' services during the year ended 31 December 2019 (2018: Nil).

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

There are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors during the year ended 31 December 2019 (2018: Nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019 (2018: Nil).

10 FINANCE INCOME AND COSTS

	2019 HK$'000	2018 HK$'000
Finance income		
Interests from:		
— Bank deposits	**189**	521
	189	521
Finance costs		
Interests from:		
— Bank overdrafts	**(471)**	(503)
— Trust receipt loans interest	**(6,520)**	(3,671)
— Bank loans	**(332)**	(628)
— Finance lease interest	**–**	(26)
— Interest expense on lease liabilities (Note 13(b)(ii))	**(339)**	–
	(7,662)	(4,828)
Finance costs, net	**(7,473)**	(4,307)

11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the years ended 31 December 2019.

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

	2019 HK$'000	2018 HK$'000
Hong Kong profit tax		
— Current tax for the year	**2,446**	6,677
— Adjustments for current tax of prior periods	**155**	–
Income tax expense	**2,601**	6,677

11 INCOME TAX EXPENSE *(Continued)*

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

	2019 **HK$'000**	2018 HK$'000
Profit before income tax	**4,691**	27,217
Calculated at a tax rate of 16.5%	**774**	4,491
Income not subject to tax	**(1)**	–
Expenses not deductible for tax purposes	**1,791**	2,245
Adjustments for current tax of prior periods	**155**	–
Tax concession (Note)	**(165)**	–
Tax losses not recognised	**47**	–
Utilisation of tax losses previously not recognised	**–**	(59)
	2,601	6,677

Note:

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

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of a qualifying entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. One of the subsidiaries qualified for such tax concession and hence its profits tax is calculated in accordance with the two-tiered profits tax rates regime for the year ended 31 December 2019.

For the year ended 31 December 2019, the Group has unrecognised tax losses of HK$1,332,000 (2018: HK$1,048,000) available for offset against future profit. No deferred tax asset has been recognised in respect of these tax losses in the financial statements as it is uncertain whether future taxable profit will be available for utilising the tax losses. All unutilised tax losses can be carried forward indefinitely under the current tax legislation.

12 EARNINGS PER SHARE

	2019 **HK$'000**	2018 HK$'000
Earnings		
Profit attributable to equity holders of the Company, used in calculating basic and diluted earnings per share	**2,090**	20,540

12 EARNINGS PER SHARE *(Continued)*

(a) Basic earnings per share

For the year ended 31 December 2019, basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

For the year ended 31 December 2018, since the Company's shares were listed on 4 July 2018, the calculation of the basic and diluted earnings per share attributable to the equity holders of the Company was based on the assumption that the additional 899,999,997 shares issued pursuant to the reorganisation and capitalisation during the year ended 31 December 2018, and in respect of the listing of the shares of the Company were treated as if they had been in issue since 1 January 2018.

	2019	2018
Weighted average number of ordinary shares used in the basic earnings per share calculation (in thousands)	**1,200,000**	1,048,767
Total basic earnings per share attributable to equity holders of the Company (HK cents)	**0.17**	1.96

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2019	2018
Adjusted weighted average number of ordinary shares (including the share option granted on 8 July 2019) used in the diluted earnings per share calculation (in thousands)	**1,201,881**	1,048,767
Total diluted earnings per share attributable to equity holders of the Company (HK cents)	**0.17**	1.96

12 EARNINGS PER SHARE *(Continued)*

(c) Weighted average number of shares used as the denominator

	2019 **(In thousand)**	2018 (In thousand)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,200,000**	20,540
Adjustments for calculation of diluted earnings per share:		
— Share options	**1,881**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,201,881**	20,540

Share options granted under the Company's Share Option Scheme are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required total return to shareholders return hurdles would have been met based on the Company's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 28.

13(a) PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018					
Cost	571	31	279	1,757	2,638
Accumulated depreciation	(571)	(23)	(94)	(1,077)	(1,765)
Net book amount	–	8	185	680	873
Year ended 31 December 2018					
Opening net book amount	–	8	185	680	873
Additions	–	–	73	934	1,007
Disposal	–	–	–	(13)	(13)
Depreciation	–	(6)	(60)	(302)	(368)
Closing net book amount	–	2	198	1,299	1,499
At 31 December 2018					
Cost	571	31	352	2,666	3,620
Accumulated depreciation	(571)	(29)	(154)	(1,367)	(2,121)
Net book amount	**–**	**2**	**198**	**1,299**	**1,499**
Year ended 31 December 2019					
Opening net book amount	**–**	**2**	**198**	**1,299**	**1,499**
Additions	**–**	**–**	**16**	**–**	**16**
Disposal	**–**	**–**	**–**	**(126)**	**(126)**
Depreciation	**–**	**(2)**	**(71)**	**(391)**	**(464)**
Closing net book amount	**–**	**–**	**143**	**782**	**925**
At 31 December 2019					
Cost	**571**	**31**	**368**	**2,352**	**3,322**
Accumulated depreciation	**(571)**	**(31)**	**(225)**	**(1,570)**	**(2,397)**
Net book amount	**–**	**–**	**143**	**782**	**925**

For the year ended 31 December 2019, depreciation of the Group's property and equipment amounted to HK$464,000 (2018: HK$368,000) has been charged to "administrative expenses" in consolidated statement of comprehensive income.

13(b) LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	31 December 2019 HK$'000	1 January 2019 HK$'000 (Note)
Right-of-use assets		
Properties	**4,611**	6,917
Lease liabilities		
Current lease liabilities	**2,376**	2,265
Non-current lease liabilities	**2,275**	4,652
	4,651	6,917

Note:

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under HKAS 17 "Leases". The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2.2.

There is no additions to the right-of-use assets during the year ended 31 December 2019.

13(b) LEASES *(Continued)*

(ii) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	31 December 2019 HK$'000
Depreciation charge of right-of-use assets	
Properties	**2,306**
Interest expense (included in finance cost)	**339**

Note:

As permitted under the specific transition provisions in the standard, the Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period.

The total cash outflow for leases in 2019 was HK$2,605,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leased for the office premise under rental contract is made for a fixed period of 3 years.

The lease agreement does not impose any covenants and are not used as security for borrowing purposes.

14 SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 December 2019 are as follows:

Name of entities	Place and date of incorporation	Principal activities	Particulars of issued share capital	Equity interest held by the Group
Directly held by the company				
Pegasus Stone Limited	BVI, 15 December 2015	Investment holding	1 ordinary share of USD 1 each	100%
Indirectly held by the company				
Pacific Marble & Granite (HK) Limited	Hong Kong, 19 December 1991	Supply and installation of marble and granite for construction projects	14,000,000 ordinary shares of HK$ 1 each	100%
Pacific Marble & Granite Limited	Hong Kong, 30 June 2011	Trading of marble and granite and supply and installation of marble and granite for construction projects	100 ordinary shares of HK$ 1 each	100%
PMG Engineering Limited	Hong Kong, 3 August 2018	Supply and installation of marble and granite for construction projects and fitting-out works	100 ordinary shares of HK$ 1 each	100%
Stable Wealthy Holdings Limited	BVI, 14 August 2019	Inactive	50,000 ordinary shares of USD 1 each	100%
PMG Building Supply Limited	Hong Kong, 3 August 2018	Inactive	100 ordinary shares of HK$ 1 each	100%
PMG Construction Materials (Macau) Limited	Macau, 17 December 2018	Inactive	1,000,000 ordinary shares of MOP 1 each	100%

15 FINANCIAL INSTRUMENTS BY CATEGORY

	2019 HK$'000	2018 HK$'000
Financial assets at amortised cost:		
Trade and retention receivables	**58,776**	54,815
Deposits and other receivables	**3,792**	1,251
Pledged bank deposits	**37,385**	34,196
Cash and cash equivalents	**2,922**	9,778
	102,875	100,040
Financial liabilities at amortised cost:		
Trade and retention payables	**20,586**	16,230
Other payables	**4,670**	1,780
Bank borrowings	**146,405**	124,136
Lease liabilities	**4,651**	–
	176,312	142,146

16 TRADE AND RETENTION RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables — third parties	**34,487**	26,456
Retention receivables — third parties	**24,969**	29,039
	59,456	55,495
Less: provision for impairment	**(680)**	(680)
	58,776	54,815

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

As at 31 December 2019, trade and retention receivables of HK$13,368,000 (2018: HK$16,154,000) have been pledged to secure the bank facilities as set out in Note 22 and are classified as current assets.

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

	2019 HK$'000	2018 HK$'000
Up to 30 days	**123**	1,425
31–60 days	**33,456**	–
61–90 days	**–**	45
Over 90 days	**908**	24,986
	34,487	26,456

Trade receivables by invoice date aged over 90 days are related to a number of third-party customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

16 TRADE AND RETENTION RECEIVABLES *(Continued)*

As at 31 December 2018 and 2019, trade and retention receivables of HK$680,000 were impaired and fully provided. The individually impaired trade and retention receivables mainly relate to customers that were in default or delinquency in payments, in which the directors are of the opinion that whole outstanding amount are expected not to be recovered.

As at 31 December 2018 and 2019, the carrying amounts of trade and retention receivables are denominated in following currencies and approximate their fair values.

	2019 **HK$'000**	2018 HK$'000
HK$	**58,776**	32,891
United States dollars	**–**	21,924
	58,776	54,815

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

	2019 **HK$'000**	2018 HK$'000
Within 1 year	**6,891**	10,596
Between 1 to 2 years	**18,078**	18,443
	24,969	29,039

Impairment and risk exposure

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

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

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Refundable deposits for potential acquisition of subsidiaries (Note)	**2,000**	–
Prepayments	**13**	232
Insurance compensation receivables	**969**	481
Other receivables	**823**	770
	3,805	1,483

As at 31 December 2018 and 2019, the carrying amounts of deposits and other receivables are denominated in HK$ and approximate their fair values.

Note:

On 21 November 2019, the Stable Wealthy Holdings Limited ("**Stable Wealthy**"), a wholly-owned subsidiary of the Company, signed a sales and purchase agreement (the "**SPA**") to acquire a private company (the "**Target Company**") engaging in supply and installation of Kitchenware and furniture in Hong Kong for a consideration of HK$120 million. A refundable deposits of HK$2,000,000 was paid to the vendor during the year ended 31 December 2019. Pursuant to the event occurring after the reporting period as disclosed in Note 32, the potential acquisition was terminated and the deposit is thus expected to be refunded to the Group in due course.

18 INVENTORIES

	2019 HK$'000	2018 HK$'000
Goods in transit — marble and granite	**–**	984
Finished goods — marble and granite	**62,661**	–
	62,661	984

For the year ended 31 December 2019, the cost of inventories recognised as expense and included in "cost of sales" amounted to HK$11,594,000 (2018: HK$22,189,000) (Note 7).

19 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Pledged bank deposits	**37,385**	34,196
Cash in bank	**2,917**	9,773
Cash on hand	**5**	5
Cash and cash equivalents	**2,922**	9,778

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

	2019 HK$'000	2018 HK$'000
HK$	**40,300**	43,967
Renminbi ("**RMB**")	**7**	7
	40,307	43,974

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

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents in the consolidated balance sheet	**2,922**	9,778
Less: bank overdrafts (Note 22)	**(2,188)**	–
Cash and cash equivalents in the consolidated statement of cash flows	**734**	9,778

For the year ended 31 December 2019, the pledged bank deposits and bank balances generate interest at prevailing market interest rates ranged from 0.01% to 0.4% per annum (2018: ranged from 0.01% to 0.25% per annum).

The pledged bank deposits are held in designated bank accounts for the Group's banking facilities (Note 22).

Pledged bank deposits represent deposits that will mature within 3 months and are therefore classified as current assets.

20 TRADE AND RETENTION PAYABLES

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

	2019 HK$'000	2018 HK$'000
Trade payables	**7,047**	5,889
Retention payables	**13,539**	10,341
	20,586	16,230

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

	2019 HK$'000	2018 HK$'000
1–30 days	**4,965**	603
31–60 days	**–**	1,051
61–90 days	**–**	119
Over 90 days	**2,082**	4,116
	7,047	5,889

As at 31 December 2018 and 2019, the carrying amounts of trade and retention payables are denominated in HK$ and approximate their fair values.

21 ACCRUALS AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Accruals for employee benefit expenses	**2,462**	2,375
Accruals for long service payment	**564**	816
Other accruals and other payables	**4,670**	1,780
	7,696	4,971

As at 31 December 2018 and 2019, the carrying amounts of accruals and other payables are denominated in HK$ and approximate their fair values.

22 BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank overdrafts (Note 19)	**2,188**	–
Term loans — secured	**661**	–
Trust receipt loans — secured	**139,556**	121,036
Revolving loans — secured	**4,000**	3,100
	146,405	124,136

Bank overdrafts are repayable within the next 12 months as at 31 December 2019. Bank borrowings due for repayment, based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand are as follows:

	2019 HK$'000	2018 HK$'000
Bank borrowings:		
Within 1 year	**146,405**	124,136

As at 31 December 2019, bank facilities granted to the Group are secured by the following:

(a) Trade and retention receivables of HK$13,368,000 (2018: HK$16,154,000) (Note 16);

(b) Pledged deposits of HK$37,385,000 (2018: HK$34,196,000) as at 31 December 2019 (Note 19);

(c) Contract assets of HK$59,609,000 (2018: HK$27,812,000) as at 31 December 2019 (Note 5); and

(d) Cross guarantees by the Group's subsidiaries (2018: same).

As at 31 December 2018 and 2019, the carrying amounts of bank borrowings are denominated in HK$ and approximate their fair values.

The effective interest rates of bank borrowings as at 31 December 2019 are 4.8% (2018: 4.9%).

23 SHARE CAPITAL

	Issued and fully paid	
	Number of shares	Amount
		HK$'000
Ordinary share of HK$0.01 each:		
Authorised:		
At 1 January 2018	38,000,000	380
Increase on 14 June 2018 (Note (a))	2,962,000,000	29,620
At 31 December 2018, 1 January 2019 and 31 December 2019	**3,000,000,000**	**30,000**
Issued and fully paid:		
At 1 January 2018	1	–
Shares issued pursuant to the reorganisation (Note (b))	2	–
Shares issued pursuant to the capitalisation (Note (c))	899,999,997	9,000
Shares issued pursuant to the listing (Note (d))	300,000,000	3,000
At 31 December 2018, 1 January 2019 and 31 December 2019	**1,200,000,000**	**12,000**

Notes:

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

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

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

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

24 RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Total HK$'000
Balance at 1 January 2018	–	14,000	–	14,000
Transaction with equity holders in their capacity as equity holders:				
Shares issued pursuant to the Capitalisation	(9,000)	–	–	(9,000)
Shares issued pursuant to the Listing	117,000	–	–	117,000
Transaction costs attributable to the Listing	(18,736)	–	–	(18,736)
Balances at 31 December 2018 and 1 January 2019	**89,264**	**14,000**	**–**	**103,264**
Transactions with equity holders in their capacity as equity holders:				
Recognition of share option expenses	**–**	**–**	**2,831**	**2,831**
Balance at 31 December 2019	**89,264**	**14,000**	**2,831**	**106,095**

25 DIVIDENDS

	2019 HK$'000	2018 HK$'000
Final dividend of HK 1 cent (2018: Nil) per ordinary share for the year ended 31 December 2018	**12,000**	–

The Board resolved not to propose final dividend for the year ended 31 December 2019 at the forthcoming Annual General Meeting.

26 RELATED PARTIES BALANCES AND TRANSACTIONS

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

The directors are of the view that the following individual/company were related parties that had transactions or balances with the Group during the year ended 31 December 2018 and 2019:

Name of the related party	**Relationship with the Group**
Mr. Lui Yue Yun Gary	The Controlling Shareholder of the Group
Win Goal Enterprises Limited	Controlled by the Controlling Shareholder

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the years ended 31 December 2018 and 2019:

Continuing transactions

	2019 HK$'000	2018 HK$'000
Motor vehicle rental expense to Win Goal Enterprises Limited	**–**	49

(b) Key management compensation

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

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**9,435**	8,068
Retirement benefits	**500**	–
Pension costs	**90**	90
	10,025	8,158

Detailed remuneration disclosures are provided in the remuneration report in Note 9.

27 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
Profit before income tax	**4,691**	27,217
Adjustments for:		
Finance income (Note 10)	**(189)**	(521)
Finance costs (Note 10)	**7,662**	4,828
Loss on disposal of property and equipment (Note 7)	**126**	3
Depreciation of property and equipment (Note 7)	**464**	368
Depreciation of right-of-use assets (Note 7)	**2,306**	–
Recognition of share option expenses (Note 28(b))	**2,831**	–
	17,891	31,895
Changes in working capital:		
Inventories	**(61,677)**	(984)
Trade and retention receivables	**(3,961)**	34,655
Deposits, prepayments and other receivables	**(322)**	13,993
Contract assets	**40,796**	(146,413)
Contract liabilities	**(4,310)**	3,859
Trade and retention payables	**4,356**	(16,717)
Accruals and other payables	**2,725**	(4,813)
Net cash used in operations	**(4,502)**	(84,525)

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

	2019 HK$'000	2018 HK$'000
Net book amount	**126**	13
Loss on disposal of property and equipment (Note 7)	**(126)**	(3)
Proceeds from disposal of property and equipment	**–**	10

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

(c) Cash flow information — Financing activities

This section sets out the movement of liabilities from financing activities for each of the year ended 31 December 2018 and 2019.

	Lease liabilities HK$'000	Finance lease liabilities HK$'000	Bank borrowings (excludes bank overdraft) HK$'000	Total HK$'000
At 1 January 2018	–	873	94,967	95,840
Cash inflow	–	–	181,496	181,496
Cash outflow	–	(873)	(152,327)	(153,200)
At 31 December 2018	–	–	124,136	124,136
At 1 January 2019	**–**	**–**	**124,136**	**124,136**
Recognition on adoption of HKFRS 16	**6,917**	**–**	**–**	**6,917**
	6,917	**–**	**124,136**	**131,053**
Cash inflow	**–**	**–**	**276,466**	**276,466**
Cash outflow	**(2,605)**	**–**	**(256,385)**	**(258,990)**
Non-cash movement:				
Accrued interest expenses	**339**	**–**	**–**	**339**
At 31 December 2019	**4,651**	**–**	**144,217**	**148,868**

28 SHARE-BASED PAYMENTS

(a) Share option scheme

The establishment of Anchorstone Holdings Limited's Share Option Scheme (the "**Share Option Scheme**") was approved by the board of directors (including all the Independent Non-executive Directors). The Share Option Scheme is designed to provide long-term incentives for grantees to deliver long-term shareholder returns. Under the scheme, share options granted to the Executive Directors are vested immediately while the share options granted to a consultant are conditional upon the completion of its service to the Group. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options granted to the consultant vested upon the completion of its service to the Group on 7 September 2019. The options are exercisable from 8 September 2019 to 7 July 2021.

Options are granted under the Share Option Scheme at the consideration of HK$1 per grant and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within fourteen days after receiving a written notice from the grantees exercising the share options and a payment in full of the subscription price.

The exercise price of options represented the highest of (i) the closing price of HK$0.249 of the Company's shares traded on the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of HK$0.244 per Company's share for five business days immediately preceding the date of grant; and (iii) the nominal value of HK$0.01 per Company's share.

	Exercise price per share option	Number of options
As at 1 January 2018, 31 December 2018 and 1 January 2019	–	–
Granted on 8 July 2019	0.249	47,200,000
As at 31 December 2019	0.249	47,200,000
Vested and exercisable at 31 December 2019	0.249	47,200,000

No options expired during the periods covered by the above tables.

28 SHARE-BASED PAYMENTS *(Continued)*

(a) Share option scheme *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Share options as at 31 December

Grant date	Expiry date	Exercise price	2019	2018
8 July 2019	7 July 2021	HK$0.249	**47,200,000**	–
Weighted average remaining contractual life of options outstanding at end of period			**1.52 years**	–

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2019 was approximately HK$0.06 per option (2018: Nil). The fair value at grant date is independently determined using Binomial Option Price Model which includes a binomial lattice model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The model inputs for options granted during the year ended 31 December 2019 included:

(a) Options are granted under the Share Option Scheme at the consideration of HK$1 per grant

(b) exercise price: HK$0.249

(c) grant date: 8 July 2019

(d) expiry date: 7 July 2021

(e) share price at grant date: HK$0.249

(f) expected price volatility of the Company's shares: 51.18%

(g) expected dividend yield: 0%

(h) risk-free interest rate: 1.67%

The expected price volatility is based on annualised historical daily volatility of peer group companies' share price.

28 SHARE-BASED PAYMENTS *(Continued)*

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of consultancy expenses and employee benefit expenses were as follows:

	2019 HK$'000	2018 HK$'000
Share options issued as part of:		
— consultancy expenses	**606**	–
— employee benefit expenses	**2,225**	–
	2,831	–

29 CONTINGENCIES

Performance bonds

As at 31 December 2019, the Group issued performance bonds in respect of construction contracts through the bank amounted to HK$1,466,000 (2018: HK$2,980,000).

As at 31 December 2019, the performance bonds were secured by certain bank facilities (2018: same).

Legal cases

During the year ended 31 December 2019, the legal cases of the Group were as follows:

(i) The workers of the Group's subcontractors initiated claims for personal injuries against certain subsidiaries of the Group. The amount being claimed amounted to HK$784,000 in total. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claims through mediation and the amount of the possible obligation cannot be ascertained with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment for services rendered in the sum of HK$6,470,000. The litigation is still ongoing. The Group actively defended the case and the directors consider the likelihood of the plaintiff succeeding in the claim to be remote.

30 COMMITMENTS

Operating leases commitments

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

	As at 31 December	
	2019 HK$'000	2018 HK$'000
Not later than 1 year	**–**	2,604
Later than 1 year and no later than 5 years	**–**	4,991
	–	7,595

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	2019 HK$'000	2018 HK$'000
Assets			
Non-current asset			
Investment in a subsidiary		–	–
Total non-current asset		–	–
Current assets			
Deposits, prepayments and other receivables		–	172
Amounts due from subsidiaries		83,678	100,330
Cash and bank balances		170	191
Total current assets		83,848	100,693
Total assets		83,848	100,693
Equity			
Share capital		12,000	12,000
Reserves	(a)	69,013	88,443
Total equity		81,013	100,443
Liabilities			
Current liabilities			
Accruals and other payables		2,835	250
Total current liabilities		2,835	250
Total liabilities		2,835	250
Total equity and liabilities		83,848	100,693

The balance sheet of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf:

Lui Yue Yun Gary
Director

Fung Wai Hang
Director

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

Note (a) Reserve movement of the Company

	Share premium HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	–	–	–	–
Loss and total comprehensive loss for the year	–	–	(821)	(821)
Transactions with equity holders in their capacity as equity holders:	–			
Shares issued pursuant to the capitalisation	(9,000)	–	–	(9,000)
Shares issued pursuant to the listing	117,000	–	–	117,000
Listing expenses charged to share premium	(18,736)	–	–	(18,736)
At 31 December 2018 and 1 January 2019	**89,264**	**–**	**(821)**	**88,443**
Loss and total comprehensive loss for the year	**–**	**–**	**(10,261)**	**(10,261)**
Transactions with equity holders in their capacity as equity holders:				
Recognition of share option expenses	**–**	**2,831**	**–**	**2,831**
Dividend paid relating to the year ended 31 December 2018 (Note 25)	**–**	**–**	**(12,000)**	**(12,000)**
At 31 December 2019	**89,264**	**2,831**	**(23,082)**	**69,013**

32 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Details of events occurring after the reporting period are listed as follows:

(i) After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of COVID-19 outbreak and evaluate its impact it may have on the financial position and operating results of the Group.

(ii) On 26 March 2020, Stable Wealthy has signed a deed of termination ("**DoT**") with New Chain Limited, the Vendor of the Target Company, whereby the parties had mutually agreed to terminate the SPA (as amended and supplemented by the Supplemental Agreement) signed between Stable Wealthy Holdings Limited and New Chain Limited on 21 November 2019. The potential acquisition was terminated effective from 26 March 2020 and the deposit is refundable to the Group within 6 months from date of the DoT, unless another date agreed by both parties but within 12 months from the date of the DoT.

(iii) On 27 March 2020, the Company entered into a placing agreement to place for a 18-month bonds in the principal amount of up to HK$16,000,000, at a 12% coupon interest rate per annum on the outstanding principal amount. On 30 March 2020, all conditions as set out in the placing agreement have been fulfilled and the 18-month bonds with principal amount of HK$16,000,000 were issued to an individual on the same day. The maturity date of the 18-month bonds is 29 September 2021.

FIVE YEAR FINANCIAL SUMMARY

For the year	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**324,256**	299,045	224,793	222,141	213,303
Gross profit	**43,312**	69,765	62,967	63,898	73,393
Operating profit	**12,164**	31,524	37,224	39,592	58,629
Profit before income tax	**4,691**	27,217	32,703	35,501	53,914
Profit attributable to equity holders of the Company	**2,090**	20,540	25,274	27,371	44,186

For the year	2019 HK cents	2018 HK cents	2017 HK cents	2016 HK cents	2015 HK cents
Basic and diluted earnings per share (Note)	**0.17**	1.96	2.81	N/A	N/A

At year end	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Pledged bank deposits	**37,385**	34,196	19,080	11,028	11,012
Cash and cash equivalents	**2,922**	9,778	503	350	723
Total assets	**333,436**	309,330	186,399	232,877	174,427
Bank borrowings	**146,405**	124,136	102,886	112,203	123,994
Total liabilities	**181,320**	150,135	149,008	177,760	172,421
Total equity	**152,116**	159,195	37,391	55,117	2,006

Key financial ratios	2019	2018	2017	2016	2015
Gross profit margin (%)	**13.4**	23.3	28.0	28.8	34.4
Net profit margin (%)	**0.6**	6.9	11.2	12.3	20.7
Return on equity (%)	**1.3**	20.9	54.6	95.8	250.8
Return on total assets (%)	**0.7**	8.3	12.1	13.4	17.6
Interest coverage (time)	**1.6**	6.5	7.9	9.2	12.0
Current ratio	**1.8**	2.1	1.3	1.3	1.0
Quick ratio	**1.5**	2.0	1.3	1.3	1.0

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

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

For the financial year ended 31 December 2019, basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.