G&M Holdings Limited
信越控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6038

Annual Report 2019

About G&M

G & M is a subcontractor that focuses on providing podium facade and curtain wall works in Hong Kong with a history of over 20 years. The Group is principally engaged in the provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lee Chi Hung *(Chairman and Chief Executive Officer)*
Mr. Chan Wai Yin

Non-executive Director

Mr. Leung Ping Kwan

Independent Non-Executive Directors

Professor Wong Roderick Sue Cheun
Mr. Tai Kwok Leung, Alexander
Mr. Kwan Cheuk Kui

AUDIT COMMITTEE

Mr. Tai Kwok Leung, Alexander *(Chairman)*
Professor Wong Roderick Sue Cheun
Mr. Kwan Cheuk Kui

NOMINATION COMMITTEE

Mr. Lee Chi Hung *(Chairman)*
Professor Wong Roderick Sue Cheun
Mr. Tai Kwok Leung, Alexander
Mr. Kwan Cheuk Kui

REMUNERATION COMMITTEE

Mr. Kwan Cheuk Kui *(Chairman)*
Mr. Lee Chi Hung
Professor Wong Roderick Sue Cheun
Mr. Tai Kwok Leung, Alexander

RISK MANAGEMENT COMMITTEE

Mr. Chan Wai Yin *(Chairman)*
Professor Wong Roderick Sue Cheun
Mr. Tai Kwok Leung, Alexander
Mr. Kwan Cheuk Kui

JOINT COMPANY SECRETARIES

Ms. Huen Shuk Man
Mr. Lee Baldwin

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1709–14, 17/F
Manhattan Centre
8 Kwai Cheong Road
Kwai Chung, New Territories
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Shanghai Commercial Bank Ltd

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY WEBSITE

www.gm-eng.com.hk

STOCK CODE

6038

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of G & M Holdings Limited (the "**Company**") together with its subsidiaries (the "**Group**"), I am delighted to present the annual report of the Group for the year ended 31 December 2019 (the "**Year 2019**").

The capital raised from listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") enables the Group to undertake more curtain wall projects. During the Year 2019, the Group was awarded a curtain wall projects out of 6 curtain wall projects tenders submitted. As a result, the revenue from curtain wall projects increased from HK$113.2 million in the Year 2018 to HK$142.6 million in the Year 2019.

With the intensified competition in the podium facade and curtain wall markets in Hong Kong, as well as the rising labour and operation costs, the Group is facing further challenges ahead. The Group's profit was decreased from HK$36.9 million to HK$26.4 million, the decrease was mainly due to (i) the delay in progress of a few of the Group's on-going projects and (ii) additional construction costs incurred towards the completion stage of certain projects. The Group will continue to maintain strong operating cost discipline and is confident to achieve improvements in our operations.

Looking forward, although there are uncertainties surrounding the Coronavirus Disease 2019 ("**COVID-19**") outbreak, the fundamentals of our business remain robust as we still observe growing business opportunities with potential podium projects from our long established customers network. The Group maintains a healthy liquidity position with net cash of over HK$100 million and minimal bank borrowings, which allows us to weather challenging global economic conditions, such as the uncertainties brought about by the COVID-19 outbreak. Furthermore, we will seek for more curtain wall projects opportunities and continue to execute our growth strategies as set out in the Company's prospectus dated 25 May 2017 (the "**Prospectus**") in order to maintain our competitive edge and provide comprehensive services to our customers. The Board is confident that the Group will remain competitive in the market due to our established market presence in the podium facade market, the well-established long term relationship with customers and our experienced and dedicated management team.

On behalf of the Board, I wish to take this opportunity to express our gratitude to our management and staff for their exceptional effort, they have put our shareholders, investors and business partners who trust and remain faithful to the Group.

The Board is please to share the Group's performance with its shareholders and recommends the payment of a final dividend of HK1.4 cents per share of the Company for the Year 2019.

LEE Chi Hung
Chairman and Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong.

With the capital raised from issuance of shares of the Company in 2017, technical expertise and quality project execution capability, the Group, previously being predominantly engaged in podium and facade design and build projects, has gradually established a notable presence in the curtain wall design and build market in the past two years. The Group was awarded 3 curtain wall projects in Year 2018, the site work of which have been underway through most part of the Year 2019 and continued into year 2020; in the Year 2019, the Group was awarded one out of 6 curtain wall projects being tendered for. As a result, the revenue generated from curtain wall projects increased from a mere approximately HK$6.3 million in the year 2017 to approximately HK$113.2 million in the Year 2018, and further to approximately HK$142.6 million in the Year 2019. Meanwhile, as more financial and personnel resources are dedicated to undertake curtain wall projects, the Group's revenue from podium facade and related works has been steadily declining. Given that curtain wall projects are generally larger in scale and extend over a longer time period, and incur more net cash outflows at the early stage, whereas the podium and facade projects market segment is more fragmented and dynamic. It is the Group's strategy to achieve an optimal balance of curtain wall and podium and facade design and build projects in the medium to long term for the ultimate goal of steady growth with healthy profit margin.

FINANCIAL REVIEW

Revenue

During the Year 2019, design and build projects contributed approximately HK$285.3 million (Year 2018: HK$357.3 million) of the Group's total revenue whereas repair and maintenance services brought in revenue of approximately HK$14.5 million (Year 2018: HK$8.1 million), representing approximately 95.2% (Year 2018: 97.8%) and 4.8% (Year 2018: 2.2%) of the Group's total revenue, respectively. The decrease in revenue from design and build projects in the Year 2019 was attributable to a HK$101.4 million drop in revenue from podium and facade projects, which was partly offset by a rise in revenue from curtain wall projects of HK$29.4 million. The reduction in podium and facade works undertaken is the result of the Group's strategy to concentrate its resources to capture market share of the curtain wall design and build segment. On the other hand, while the Group recorded revenue growth in the curtain wall segment in the Year 2019, it fell below the expected revenue target as the progress of two major curtain wall projects was delayed due to factors not within the control of the Group. As a result of aforesaid factors, the Group's revenue reduced by approximately HK$65.6 million or 17.9% to approximately HK$299.8 million for the Year 2019, as compared to approximately HK$365.4 million for the Year 2018.

Outlook and prospects

The Group's major projects on hand as at 31 December 2019 can be summarised as follow:

No.	Type of works undertaken	Location	Expected completion date	Estimated remaining contract value as at 31 December 2019 HK$' million
1.	Podium Facade	Taikoo, Hong Kong	Dec 2021	259.6
2.	Curtain Wall	Jaffe Road, Hong Kong	Oct 2020	53.7
3.	Podium Facade	Tin Shui Wai, New Territories	Jul 2020	51.7
4.	Curtain Wall	Kwai Chung, New Territories	Jun 2020	26.4
5.	Podium Facade	Yuenlong, New Territories	Jun 2021	15.8
				407.2

Subsequent to the end of the Year 2019 and up to the date of this announcement, the Group is in the process of bidding for or pending the results of 5 sizeable project tenders with an estimated total contract value of over approximately HK$1,008.0 million, which comprised a podium facade project with an estimated contract value of approximately HK$244.8 million and 4 curtain wall projects with an estimated total contract value of approximately HK$763.2 million.

Ever since the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), the developers have taken a more prudent business approach for their projects so that the tender invitations and award notice have shown sign of delay in general. The Group will closely monitor the situation and evaluate the potential impact on its operation and financial position on a continuing basis.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately HK$17.5 million or 20.1% from approximately HK$87.0 million for the Year 2018 to approximately HK$69.5 million for the Year 2019. Gross profit margin of the Group was approximately 23.2% for the Year 2019 which was similar with that of approximately 23.8% for the Year 2018. The decrease in the gross profit margin was mainly due to (i) the delay in progress of a few of the Group's on-going projects and (ii) additional construction costs incurred towards the completion stage of certain projects.

Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by approximately HK$3.0 million or 7.2% from approximately HK$41.4 million for the Year 2018 to approximately HK$38.4 million for the Year 2019. Such decrease was mainly due to the reduction of provision of expected credit losses allowance, legal and professional expenses and discretionary bonus and incentive for administrative staff in the Year 2019.

Income tax expenses

The Group's operation is based in Hong Kong which is subject to Hong Kong profits tax calculated at 8.25% and 16.5% of the estimated assessable profit under two-tiered profits tax rates regime during the reporting periods.

For the Year 2019, the Group recorded income tax expense of approximately HK$4.9 million (Year 2018: approximately HK$8.3 million) representing an effective tax rate of approximately 15.7% (Year 2018: approximately 18.3%) owing to over-provision made in prior years being reversed in the Year 2019.

Profit for the Year

The Group's profit for the Year 2019 amounted to approximately HK$26.4 million, representing a decrease of approximately HK$10.5 million or 28.5% as compared to approximately HK$36.9 million for the Year 2018.

Such decrease was mainly due to the drop in gross profit of approximately HK$17.5 million as discussed above and partially offset by the decrease in administrative expense of HK$3.0 million and decrease in income tax expenses of HK$3.4 million compared with FY2018.

Receivable turnover days

The Group's receivable turnover days for the Year 2019 increased to approximately 75.2 days as compared to that of approximately 63.1 days for the Year 2018 because the progress payments of curtain wall projects from customers were certified near the year end and decrease in revenue. The Group did not observe any signs of default on any of its trade receivables as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank borrowings

The Group's bank borrowings as at 31 December 2019 were approximately HK$1.0 million, representing a decrease of approximately HK$7.2 million as compared to that of approximately HK$8.2 million as at 31 December 2018 as the Group's internal financial resources improved and required less external financings.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's gearing ratio, calculated by dividing total debts by total equity, as at 31 December 2019 was approximately 0.4% (31 December 2018: 3.8%). The decrease was mainly due to the increase in the total equity and the decrease in the bank borrowings.

The Group's cash and bank balances as at 31 December 2019 amounted to approximately HK$128.5 million, representing an increase of approximately HK$31.9 million as compared to that of approximately HK$96.6 million as at 31 December 2018. Such increase was mainly due to the amount received from customers.

The Group's bank borrowings as at 31 December 2019 were all denominated in Hong Kong Dollars. The interest rate was 4.78% per annum.

Foreign exchange

The Group mainly operates in Hong Kong and majority of the operating transactions such as revenue, expenses, monetary assets and liabilities are denominated in Hong Kong Dollars. As such, the Directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group did not engage in any derivatives contracts to hedge its exposure to foreign exchange risk during the Year 2019.

CAPITAL EXPENDITURES AND COMMITMENTS

As at 31 December 2019, the Group did not have any significant capital commitments.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the Year 2019.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year 2019, the Group did not have any material acquisitions and disposal of subsidiaries, associations and joint ventures.

PLEDGE OF ASSETS

As at 31 December 2019, pledged deposits in the sum of approximately HK$5.0 million (31 December 2018: HK$5.0 million) were placed with a bank as security for a banking facility of the Group.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group has kept good communications and built a close and caring relationship with its employees and business partners to achieve its long-term business growth and development.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 100 staff as at 31 December 2019 (31 December 2018: 95 staff) and the total employee benefit expenses for the Year 2019 amounted to approximately HK$51.7 million (Year 2018: HK$49.6 million). The increase is mainly due to increase in number of staff. The Group determines the remuneration of its employees based on each employee's qualifications, experience and past performance. The remuneration committee makes recommendations to the Board on the overall remuneration policy and structure for our Directors and senior management. The Group maintains a good relationship with its employees and has not experienced any major labour disputes nor any difficulty in recruiting suitable staff.

Senior management remuneration

Emoluments paid or payable to members of senior management who are not Directors were within the following bands:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Customers, suppliers and subcontractors

The Group maintains a close and stable relationship of more than 10 years with the majority of its major customers, with some going over 15 years. The Group is generally invited by its customers to submit tenders for potential projects. The pricing on projects is determined by reference to the estimated costs plus a profit margin having taken into consideration the project type, design and scale, target completion date and the Group's availability of resources. The Group endeavours to maintain its presence and keep abreast of opportunities in the market by continuous communication and working with customers, potential customers and by responding to tender invitations, it may however from time to time decide to turn down certain tender enquiries in order to focus on other target projects. The Group has been making continuous efforts to diversify its customer base by targeting projects of different scales and from different customers.

The Group has built up a stable pool of suppliers and subcontractors over the 20 years of its operating history, which allows the Group to effectively maintain the quality of its works, including the quality of materials and workmanship. An internal list of approved suppliers and subcontractors is maintained and updated on a continual basis. The Group assigns a project manager to each project to monitor and supervise the working process of the contractors and to ensure they have met the workmanship, safety and other applicable regulatory compliance requirements. The Group has not experienced any shortage or delay in supply of materials and labour.

USE OF PROCEEDS

The net proceeds raised by the Group from issuance of shares upon the Listing of the Company's shares on the Stock Exchange have been fully utilised as at 31 December 2019 in the manner consistent with the proposed allocation as stated in the Company's prospectus dated 25 May 2017.

ENVIRONMENTAL POLICIES

The Group's in-house rules contain measures and work procedures in relation to environmental protection which are required to be followed by the Group's employees, including the followings.

Air pollution control:

(i) Dust suppression by use of water.

(ii) Installation of dust screens as required.

(iii) Use of low-dust techniques and equipment as required.

Noise control:

(i) Inspection and maintenance of all equipment before use for permitted noise level compliance.

(ii) Works to be undertaken in accordance with the permitted work hours.

Waste disposal:

(i) Water to be segregated into general wastes and construction wastes before transporting to the designated site rubbish collection point.

The Group's operation does not directly produce greenhouse gases or hazardous wastes. The Group monitors energy consumption in its supportive functions, such as fuel consumption/mileage usage in motor vehicles, electricity consumption in office and requiring office staff to switch off electricity supply when not in use.

COMPLIANCE WITH LAWS AND REGULATIONS

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in each of the above jurisdictions. During the Year 2019 and up to the date of this report, the Group's operations have complied with all the relevant laws and regulations in the above jurisdiction in all material respect.

PRINCIPAL RISK AND UNCERTAINTY

The Group's operation is subject to general economic and market risks which may affect the competition and profitability of projects in the podium facade and curtain wall works industry. Furthermore, the projects undertaken by the Group are awarded on a project-by-project basis through tendering; failure to obtain continuity of the order book for new projects could materially affect the Group's financial performance. Revenue from a few of the Group's customers accounted for a substantial portion of the Group's revenue; inability to retain business relation with and/or secure sufficient new business from them may adversely affect the Group's operation and financial performance.

EVENTS AFTER THE FINANCIAL YEAR

Since January 2020, the outbreak of COVID-19 has impact on the global business environment. Up to the date of this annual report, COVID-19 has not resulted in material impact to the Group. Pending on the development and spread of COVID-19 subsequent to the date of this annual report, further changes in economic conditions arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this annual report. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

Save as the above, there were no significant events after 31 December 2019 and up to the date of this annual report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance and considers that conducting business in an ethical and responsible manner will generate the highest level of benefits to its shareholders and the Group in the long term. The Board will continuously review and improve the Group's corporate governance practices in order to uphold a transparent and effective corporate governance function for the Group.

The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and has complied with the CG Code during the Year 2019, except in relation to provision A.2.1 of the CG Code which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lee Chi Hung, an executive Director, is both the chairman of the Board and the chief executive officer of the Company. With over 23 years of experience in the construction industry in Hong Kong, Mr. Lee is responsible for the overall management of the Group's operations and business development and is instrumental to the Group's growth and business expansion since the establishment in November 1993. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises two executive Directors (including Mr. Lee), one non-executive Director and three independent non-executive Directors and therefore has a strong independence element in its composition.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules and all the Directors confirmed, upon specific enquiry made, that they complied with the Model Code during the Year 2019 and up to the date of this annual report.

BOARD OF DIRECTORS

The Board is responsible for leading and directing the Group's business through formulation of overall strategies and policies, evaluation of performance and overseeing the management function. In discharging its duties, the Board acts in good faith with due diligence and care, and makes decisions objectively in the best interests of the Company and its shareholders. The execution of strategies and implementation of policies in the Group's daily operations are delegated to the management team. The Board is also responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Year 2019 and up to the date of this report, the number of independent non-executive Directors was in compliance with the requirement under Rules 3.10 and 3.10A of the Listing Rules. The composition of the Board and the attendance record of each Director at board meetings and general meeting during the Year 2019 are as below.

	Attendance/ Board meeting held	Attendance/ General meeting held
Executive Directors		
Mr. Lee Chi Hung *(Chairman and Chief Executive Officer)*	4/4	1/1
Mr. Chan Wai Yin	4/4	1/1
Non-executive Director		
Mr. Leung Ping Kwan	4/4	1/1
Independent Non-executive Directors		
Professor Wong Roderick Sue Cheun	4/4	1/1
Mr. Tai Kwok Leung, Alexander	3/4	1/1
Mr. Kwan Cheuk Kui	4/4	1/1

Biographic details of and the relationship amongst the Directors are presented in the "Directors and Senior Management" section of this annual report. Each of the executive Directors has entered into a service contract with the Company for an initial term of three years, while each of the non-executive Director and independent non-executive Directors has been appointed for an initial term of three years. Notwithstanding the specific term of appointment, provisions of the Company's articles of associations require that every Director is subject to retirement by rotation at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the next general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Each of the Directors has participated in continuous professional development seminar organised by the Company to develop their knowledge and skills during the Year 2019.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence and considers that each of them to be independent by reference to the Rule 3.13 of the Listing Rules.

The composition of the Board provides sufficient balance of skills, experience and diversity of perspectives in leading the Company to achieve its goal and the independent non-executive Directors provide independent judgment in the Board's overall decision making process.

BOARD DIVERSITY

The Company recognised that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development.

The Board shall comprise members with the following attributes in order to achieve a sufficient balance of knowledge and perspectives in discharging the Board's duties:

– management skills and experience;

– industry specific knowledge and experience relevant to the Group;

– financial management skills and experience; and

– legal and compliance expertise.

The Company does not discriminate on the basis of gender, age and other personal backgrounds in assessing the suitability of candidate for appointment to the Board. The nomination committee shall take the opportunity to enhance gender balance of the Board over time in the selection of candidates amongst those who are equally competent and possess the desired attributes.

BOARD COMMITTEE

As an integral part of good corporate governance, the Board has established four committees for overseeing the performance of specific functions which are set out in written terms of reference for each committee. The composition of each committee and attendance of members at committee meetings held during the Year 2019 are as follow.

Composition of Board committees	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Risk Management Committee**
	Attendance/Number of meetings held (C = Chairman; M = Member of the committee)			
Independent Non-executive Directors				
Professor Wong Roderick Sue Cheun	3/3(M)	1/1(M)	1/1(M)	2/2(M)
Mr. Tai Kwok Leung, Alexander	3/3(C)	1/1(M)	1/1(M)	2/2(M)
Mr. Kwan Cheuk Kui	3/3(M)	1/1(M)	1/1(C)	2/2(M)
Executive Directors				
Mr. Lee Chi Hung	N/A	1/1(C)	1/1(M)	N/A
Mr. Chan Wai Yin	N/A	N/A	N/A	2/2(C)
Non-executive Director				
Mr. Leung Ping Kwan	N/A	N/A	N/A	N/A

Audit committee

The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The audit committee has met with the Company's management to review its interim and final financial statements for the Year 2019 and met the Company's auditor to discuss auditor's independence, audit approach, key audit matters, results of audit for the Year 2019. The audit committee has met with the chairman of the Board and the auditor, separately and without the presence of management, for discussion of matters which may be of sensitive nature. The audit committee has also met with and reviewed the report of the Company's internal control adviser for their review on selected areas of the Group's internal control system for the Year 2019. Further information on the Group's risk management and internal control is set out in the section headed"Risk Management and Internal Control" of this report.

Nomination committee

The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management. The nomination committee has reviewed the independence of independent non-executive Directors, considered the retirement and proposal for appointment of Directors at the Company's forthcoming annual general meeting and considered the appointment of a new independent non-executive Director. The nomination committee is of the view that the Board comprised the suitable qualifications and diversity for leading and governing the Group.

Remuneration committee

The responsibilities of the remuneration committee are to make recommendations to the Board on policy and structure for Directors' and senior management's remuneration, and to ensure that no Director is involved in deciding his own remuneration. The remuneration committee has assessed the performance and remuneration of executive Directors and senior management for the Year 2019 and made recommendations to the Board thereon.

Risk management committee

The primary duties of the risk management committee are to oversee the Group's risk management and internal control systems, to review risk reports and any material breaches of risk limits, and to review the effectiveness of our Company's risk management system. Further information on the Group's risk management and internal control is set out in the section headed "Risk Management and Internal Control" of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks to take in achieving the Company's strategic objectives.

The risk management committee supports the Board in ensuring the effectiveness of the risk management and internal control of the Group and reports to the Board on any material issues identified. The risk management committee has conducted an update risk assessment during the Year 2019 according to the Group's latest operation; key risks identified are recorded in a risk register and assigned to a risk owner who shall ensure such risks are continuously monitored and properly controlled according to the prescribed procedures.

The Group adopted a manual of policies and procedures to provide guidance on compliance with internal control and risk management in various operational and management functions, including but not limited to project tendering, procurement, financial reporting, treasury and risk management etc.

The Company has not established a separate internal audit department; however, procedures are in place to provide adequate resources and qualified personnel to carry out the duties of the internal audit function, including annual review of the effectiveness of risk management and internal control. The Company has engaged an external independent consultant to conduct a review on the internal control system of the Group during the Year 2019 and to report their findings to the risk management committee and the Board. The review scope for the Year 2019 covered overall management control, risk assessment and management, control procedures for procurement and payable, human resources, accounting and general ledger, investment function and tax reporting.

Based on review and procedures conducted, the Board considers that the Group's risk management and internal control systems are effective and adequate. However, the risk management and internal control systems of the Group are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

AUDITOR'S REMUNERATION

The remuneration paid to the Company's auditor for the Year 2019 is as below:

	HK$'000
Audit services provided to the Group	670
Non-audit services	–
	670

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the financial position of the Group. The responsibilities of the Company's auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 43 to 46 of this annual report. The Directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

JOINT COMPANY SECRETARIES

The Company's joint company secretaries are Ms. Huen Shuk Man and Mr. Lee Baldwin. Ms. Huen is an employee of the Company, while Mr. Lee is an external service provider. Ms. Huen is the primary contact person at the Company with Mr. Lee. During the Year 2019, each of Ms. Huen and Mr. Lee has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rule.

The joint company secretaries coordinate the supply of information about the Group to the Directors. All Directors have access to the joint company secretaries to ensure that Board procedures are followed.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

One or more shareholders holding not less than 10% of the paid up capital of the Company may convene an extraordinary general meeting by making a requisition in writing, specifying any business for transaction at such meeting, to the Directors or the joint company secretaries.

To propose a candidate for election as a Director at a general meeting, a shareholder should deposit a written proposal, together with a written notice by the candidate indicating his willingness to be elected, to the Company either at its principal place of business in Hong Kong (at Room 1709–14, 17th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong) or its branch share registrar and transfer office in Hong Kong (Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) at least seven clear days before the date of the general meeting.

The Company believes that effective communication with its shareholders is essential for enhancing investors' understanding of the Group's business and performance. The Company maintains a corporate website at www.gm-eng.com.hk to disseminate latest information about the Group. The Company's constitution document and terms of reference of board committees are also available for download at Company's website. There has been no change to the Company's constitution document during the Year. The chairman of the Board will attend, and endeavour to ensure the chairmen of various board committees to attend, general meetings to answer questions from shareholders.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group for the Year 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities of the Group are the provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong. The principal activities of the subsidiaries of the Company are set out in note 27 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group during the Year 2019, a discussion about the Group's future business development and an analysis of the Group's performance using financial key performance indicators are set out in the section headed "Management Discussion and Analysis – Financial Review" in this annual report and a discussion of the principal risks and uncertainties facing by the Group is included in the section headed "Management Discussion and Analysis – Principal Risk and Uncertainty" in this annual report and note 35 to the consolidated financial statements. The review forms part of this Directors' Report.

RESULTS AND DIVIDENDS

The Group's results for the Year 2019 are set out in the consolidated statement of comprehensive income on page 47 of this annual report.

The Directors recommended the payment of a final dividend of HK1.4 cents per share, amounting to a total of HK$14.0 million for the Year 2019, representing a dividend ratio of approximately 53.1%. The proposed final dividend is subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 18 June 2020 (the "**AGM**") and is expected to be paid on or about 17 July 2020.

As at the date of this annual report, the Board is not aware of any shareholders who have waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020 (both days inclusive), during which period no transfer of Shares will be registered, for purpose of determining the right to attend and vote at the AGM. All transfer of the Company's shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong no later than 4:30 p.m. on Friday, 12 June 2020 in order for the holders of the shares to qualify to attend and vote at the AGM or any adjournment thereof.

To ascertain entitlement to the proposed final dividend, the register of members of the Company will also be closed from Friday, 26 June 2020 to Tuesday, 30 June 2020 (both days inclusive). In order to qualify for the proposed final dividend, which is subject to approval of shareholders at the AGM, holders of shares of the Company must ensure that all transfers of shares be lodged with the Company's branch share registrar and transfer office in Hong Kong for registration no later than 4:30 p.m. on Wednesday, 24 June 2020.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 112 of this annual report. Such summary does not form part of the audited consolidated financial statements.

DONATIONS

Charitable donations made by the Group during the Year 2019 amounted to approximately HK$214,000.

SHARE CAPITAL

Details of movement in the Company's share capital during the Year 2019 are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movement in the Group's and the Company's reserves during the Year 2019 are set out in note 26 to the consolidated financial statements.

The Company's distributable reserves amounted to approximately HK$164.3 million as at 31 December 2019.

SHARE OPTION SCHEME

During the Year 2019, 2,750,000 share options under the share option scheme (the "**Share Option Scheme**") was lapsed and no options have been exercised or cancelled since then and up to the date of this annual report.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. It is expected that grantees of an option will make an effort to contribute to the Group's development so as to bring about an increased market price of the Company's shares in order to capitalise on the benefits of the options granted. The Board may, at its absolute discretion, grant options pursuant to the Share Option Scheme to any directors or employees of the Company or its subsidiaries and any other persons (including customer, supplier, adviser or consultant of the Group) on the basis of the Board's opinion as to the grantee's contribution to the development and growth of the Group.

The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 100,000,000 (being 10% of the shares in issue on 13 June 2017 when the shares of the Company first commenced dealing on the Stock Exchange) (the "**General Scheme Limit**"). Subject to the approval of shareholders in general meeting, the Company may renew the General Scheme Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group as renewed must not exceed 10% of the Shares in issue as at the date of approval provided that the options previously granted will not be counted for purpose of calculating the General Scheme Limit as renewed.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being.

The subscription price for shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (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 the offer of grant; and (iii) the nominal value of the shares on the date of grant.

The Share Option Scheme will remain in force for a period of 10 years from 13 June 2017.

During the Year 2019, an executive Director and other eligible participants have interests in share options to subscribe for the shares of the Company. Details of such interests and movements in the Company's share options under the Share Option Scheme for the Year 2019 as followings:

Participants	Date of Grant	Exercise period	Balance as at 1 January 2019	Granted during the Year	Exercised during the Year	Lapsed during the Year	Balance as at 31 December 2019	Exercise Price HK$
Chan Wai Yin	2 November 2018	*Note*	3,000,000	–	–	1,500,000	1,500,000	0.28
Other Eligible Participants	2 November 2018	*Note*	2,500,000	–	–	1,250,000	1,250,000	0.28

Note: 2,750,000 share options are exercisable from 1 January 2020 to 31 December 2020 (both days inclusive).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

Neither the Company, nor any of its subsidiaries, had purchased, sold or redeemed any of the Company's listed securities during the Year 2019.

DIRECTORS

The Directors of the Company during the Year 2019 and up to the date of this report are as follow.

Executive Directors

Mr. Lee Chi Hung ("**Mr. Lee**") *(Chairman and Chief Executive Officer)*
Mr. Chan Wai Yin

Non-executive Director

Mr. Leung Ping Kwan ("**Mr. Leung**")

Independent Non-executive Directors

Professor Wong Roderick Sue Cheun
Mr. Tai Kwok Leung, Alexander
Mr. Kwan Cheuk Kui

In accordance with the provisions of the Company's articles of association, Mr. Leung and Mr. Chan Wai Yin will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual meeting has a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DEED OF NON-COMPETITION

The controlling shareholders of the Company has given an unconditional and irrevocable non-competition undertaking in favour of our Company and its subsidiaries on 12 May 2017 to protect the Group from any potential competition with the controlling shareholders. The controlling shareholders have confirmed full compliance with the terms of the non-competition undertaking during the Year 2019. Furthermore, the Directors, including independent non-executive Directors, have carried out certain review procedures and nothing has come to their attention that there has been non-compliance with the terms of the non-competition undertaking during the Year 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year 2019.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Except as disclosed elsewhere in this annual report, none of the Directors or controlling shareholders, nor a connect party of any Directors or controlling shareholders, had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party during the Year 2019.

DISCLOSURE OF INTERESTS

As at 31 December 2019, the interests and short positions of Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO, or as notified the Company and the Stock Exchange pursuant to the Model Code, are as follows:

(i) Directors' interests in the Company

Name of Director	Capacity	Number of Shares interested	Percentage of shareholding
Mr. Lee	Interest in a controlled corporation; interest held jointly with another person *(Note)*	750,000,000	75%
Mr. Leung	Interest in a controlled corporation; interest held jointly with another person *(Note)*	750,000,000	75%

(ii) Directors' interests in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares interested	Percentage of shareholding
Mr. Lee	Luxury Booming Limited ("**Luxury Booming**")	Beneficial owner	3	75%
Mr. Leung	Luxury Booming	Beneficial owner	1	25%

Note: Luxury Booming is the registered and beneficial owner holding 75% of the issued shares of the Company. The issued share capital of Luxury Booming is owned as to 75% by Mr. Lee and 25% by Mr. Leung. By virtue of the concert parties confirmatory deed entered into between Mr. Lee and Mr. Leung dated 9 January 2017, each of Mr. Lee and Mr. Leung is deemed to be interested in the entire shareholding interests of Luxury Booming in the Company under the SFO.

So far as the directors are aware, as at 31 December 2019, the interest and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Substantial shareholders' interest in the Company

Name of shareholder	Capacity	Number of Shares held/ interested in	Long/short position	Percentage of shareholding
Luxury Booming *(Note 1)*	Beneficial owner	750,000,000	Long	75%
Ms. Lam Suk Yee *(Note 2)*	Interest of spouse	750,000,000	Long	75%
Ms. Ku Nga Ping *(Note 3)*	Interest of spouse	750,000,000	Long	75%

Notes:

1. Luxury Booming is the registered and beneficial owner holding 75% of the issued shares of the Company. The issued share capital of Luxury Booming is owned as to 75% by Mr. Lee and 25% by Mr. Leung. By virtue of the concert parties confirmatory deed entered into between Mr. Lee and Mr. Leung dated 9 January 2017, each of Mr. Lee and Mr. Leung is deemed to be interested in the entire shareholding interests of Luxury Booming in the Company under the SFO.

2. Ms. Lam Suk Yee is the spouse of Mr. Lee and is deemed, or taken to be, interested in all Shares in which Mr. Lee has interest in under the SFO.

3. Ms. Ku Nga Ping is the spouse of Mr. Leung and is deemed, or taken to be, interested in all Shares in which Mr. Leung has interest in under the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2019, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 95.8% and 56.3% of the Group's total turnover respectively.

During the Year 2019, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 56.1% and 17.1% of the Group's total purchases respectively.

To the best of the knowledge of the Directors, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major customers or suppliers.

DIVIDEND POLICY

The Company may declare and distribute dividends to the shareholders of the Company (the "**Shareholders**") to allow Shareholders to share the Company's profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Board shall also take into account variety factors, including but not limited to the Group's financial conditions, availability, future operations and funding needs for expansion.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group during the Year 2019 are disclosed in note 32 to the consolidated financial statements, none of which constituted connected transactions or continuing connected transactions subject to reporting requirement under Chapter 14A of the Listing Rules.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, the Directors are indemnified and secured harmless out of the assets of the Company against all losses and liabilities which may incur or sustain in execution of their duty, except such which they shall incur or sustain through their own fraud or dishonesty.

The Company has taken out directors' liability insurance that provides the appropriate cover for the Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float required under the Listing Rules during the Year 2019 and up to the date of this annual report.

AUDITOR

The consolidated financial statements for the Year 2019 have been audited by BDO Limited, who will retire, and being eligible, offer themselves for re-appointment. A resolution to re-appoint BDO Limited will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board of
G & M Holdings Limited

LEE Chi Hung
Chairman and Executive Director

Hong Kong, 30 March 2020

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lee Chi Hung (李志雄), aged 54, is an executive Director, the chairman of the Board and the chief executive officer of the Company. Mr. Lee is the co-founder of the Group and is primarily responsible for the overall management of the Group's operations and business development. Mr. Lee obtained an endorsement to higher certificate in mechanical engineering from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1988. Mr. Lee has over 23 years of experience in the construction industry in Hong Kong since joining the Group. In November 1993, Mr. Lee founded G&M Engineering Company Limited with Ms. Ku Ngan Ping and he has been handling the Group's business development and operations since then. Mr. Lee is also a director of all the subsidiaries of the Group.

Mr. Chan Wai Yin (陳偉賢), aged 54, was appointed as an executive Director on 9 January 2017 and is primarily responsible for overall management and overseeing and monitoring of projects of the Group. Mr. Chan joined the Group in February 1999. He obtained a degree of Bachelor of Business Administration from The University of Oklahoma in the United States in May 1991. Mr. Chan has over 20 years of experience in the construction industry in Hong Kong. Mr. Chan is also a director of one of the Group's subsidiaries, G & M Engineering Company Limited and a board member of Hong Kong Facade Associate.

NON-EXECUTIVE DIRECTORS

Mr. Leung Ping Kwan (梁炳坤), aged 58, was appointed as a non-executive Director on 9 January 2017 and is responsible for providing technical advice in relation to the Group's business. He is a registered skilled worker under Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong) as curtain wall installer, glazier, metal worker, general welder and curtain wall and glass panes installer (master), who possesses not less than 10 years of experience in these trade divisions. He has more than 20 years of experience in the construction industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Wong Roderick Sue Cheun (王世全), aged 75, is an independent non-executive Director and joined the Group in May 2017. Professor Wong obtained a degree of Bachelor of Arts from San Diego State College (now known as San Diego State University) in the United States and a degree of Doctor of Philosophy in mathematics from the University of Alberta in Canada. He had been Chair Professor of Mathematics and the Director of the Liu Bie Ju Centre for Mathematical Sciences at City University of Hong Kong until his retirement in July 2019. Professor Wong is currently a special advisor to the president of Southern University of Science and Technology of China (南方科技大學) (formerly known as South University of Science and Technology of China). Also, Professor Wong is an independent non-executive director of Sam Woo Construction Group Limited (stock code: 3822) and BExcellent Group Holdings Limited (stock code: 1775) which shares are listed on the Stock Exchange.

Mr. Tai Kwok Leung, Alexander (戴國良), aged 62, is an independent non-executive Director and joined the Group in May 2017. Mr. Tai is a partner of VMS Securities Limited and previously was a managing director and the head of Corporate Finance Department of Investec Capital Asia Limited. Mr. Tai is licensed under the Securities and Futures Ordinance to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai is an independent non-executive director of Luk Fook Holdings (International) Limited (stock code: 590), Jiayuan International Group Limited (stock code: 2768), Shengjing Bank Co., Ltd. (stock code: 2066) and AAG Energy Holdings Limited (stock code: 2686), which are all listed on the Stock Exchange. Mr. Tai was formerly an independent non-executive director of Anhui Conch Cement Company Limited (stock code: 914), from May 2013 to May 2019, which is listed on Main Board of the Stock Exchange. Mr. Tai graduated from the Victoria University of Wellington in New Zealand and obtained a bachelor degree in Commerce and Administration in 1982. He is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwan Cheuk Kui (關卓鉅), aged 56, is an independent non-executive Director and joined the Group in May 2017. Mr. Kwan obtained a degree of Bachelor of Arts and a Postgraduate Certificate in Law from the University of Hong Kong in November 1987 and June 1992 respectively. He has been admitted as a solicitor in Hong Kong since December 1994. Mr. Kwan is currently a partner of Rowdget W. Young & Co.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the date of this annual report; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders as at the date of this annual report; and (iii) did not hold any other directorships in listed public companies in the three years prior to the date of this annual report.

SENIOR MANAGEMENTS

Mr. Choi Yau Wan (蔡有宏), aged 60, is the Head of Design of the Group and joined the Group in August 2017. He is primarily responsible for overseeing the operation of Design Team of a subsidiary of the Group. He obtained a diploma in Construction Management at Hong Kong University (Space). He has over 30 years of experience in the construction industry in Hong Kong and Australia. He also is the president of Hong Kong Facade Association.

Mr. Lau Chi Sing (劉智星), aged 64, is the Head of Project of the Group and joined the Group in May 2019. He is primarily responsible for overseeing the operation of each project of a subsidiary of the Group. He obtained a Master Degree in Business Administration at The International Management Centres on 1993 and a Diploma in Civil Engineering at Hong Kong Baptist University (formerly known as : Hong Kong Baptist College). He has over 35 years of experience in the construction industry in Hong Kong.

Mr. Tong Wai Shing, Wilson (湯偉成), aged 41, is the Senior Project Manager of the Group. He is primarily responsible for organising, managing and supervising the Group's projects. He holds a degree of Master of Science in construction law and dispute resolution from the Hong Kong Polytechnic University. Mr. Tong has over 14 years of experience in the construction industry in Hong Kong.

Mr. Ho Ting Shun (賀挺信), aged 54, is a senior design manager and joined the Group in May 2013. He is responsible for the overall management of the Group's design department. Mr. Ho holds a degree of Bachelor of Engineering in manufacturing engineering from the Hong Kong Polytechnic. Mr. Ho has over 21 years of experience in the construction industry in Hong Kong.

Ms. Huen Shuk Man (禤淑敏), aged 35, is the financial controller of the Group and one of the joint company secretaries of the Company and joined the Group in October 2015. She is primarily responsible for the financial reporting and financial control matters, and the company secretarial matters of the Group. She holds a degree of Bachelor of Business Administration in accountancy from the City University of Hong Kong and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Huen has over ten years of experience in auditing, accounting and financial management.

Save as disclosed above, each of the senior management (i) did not hold other positions in the Company or other members of the Group; and (ii) had no other relationship with any Directors, senior management members or substantial or controlling shareholders.

OUR GOAL

Be a Reliable Company For Sustainability

G&M'S BACKGROUND AS A SOCIAL ENTITY

Since G&M was founded in 1993, we have been contributing to the society with our engineering technology that has been kept refining, and with our passion as a socially responsible corporate. For more than 20 years, we have been contributing to the growth of the facade and curtain wall industry. We have also been taking measures for the environment by incorporating our technology in constructing more environmental friendly and safe projects. We have made every effort to provide the best products to meet the requirements of the changing era, and to contribute to the sustainability and wellness of the society in Hong Kong with our technology and talents.

OUR CORPORATE SOCIAL RESPONSIBILITY ("CSR")

In order to address our CSR issues and their associated risks, and to take initiatives and to implement our principles of sustainability development into our business operations, we have set up an Environmental, Social and Governance ("**ESG**") working group in 2017, comprising one of our directors, senior managers and a specialized ESG consultant. By aiming to be a socially responsible corporate, we link our business with sustainability. The ESG working group is responsible for integrating individual CSR initiatives into strategic plans under our ESG framework with clear objectives and actions in our business operations.

OUR GOAL FOR A RELIABLE COMPANY

We are committed to meeting the sustainability challenges of today and the future. As such, we are dedicated to developing ourselves as a reliable company in which not only our employees but also all the other stakeholders, such as customers, suppliers, business partners and local communities can participate and play an active role. We have established an ESG framework to ensure our CSR objectives are properly identified and translated into sustainable performances. We have also incorporated this ESG framework and process into our risk management system such that the risks of failing to meet the CSR objectives could be mitigated and the outcome of sustainable performances would be more reliable.

Chairman
Lee Chi Hung

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

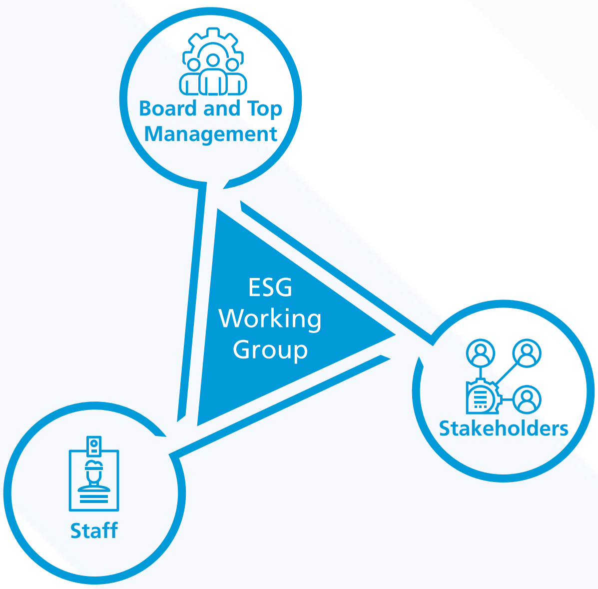
G&M Holdings Limited (the "**Company**" together with its subsidiaries as the "**Group**" or "**G&M**") is pleased to present the Environmental, Social and Governance ("**ESG**") Report (the "**Report**") for the year ended 31 December 2019. This Report aims to provide an annual update on the sustainability performance of the Group to our stakeholders, and it presents our cares for the environment, the society and our customers.

This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and has complied with all the "comply or explain" provisions of the Guide. In this Report, we consider the reporting principles as proposed in the Guide for materiality, quantitative, balance and consistency for presenting the ESG information in a way that can meet better the expectation of our stakeholders.

This Report covers the Group's operations in Hong Kong, which consists mainly of the provision of one-stop design and build solutions, as well as repair and maintenance services in relation to podium facade and curtain wall works for the period from 1 January 2019 to 31 December 2019 (the " **Reporting Period**"). There is no significant change in the scope of this Report from that of 2018.

OUR GOVERNANCE STRUCTURE AND ESG STRATEGY

G&M's ESG strategy is developed for aligning the Group's philosophy of being a reliable company for sustainability and the objectives of creating long-term value for our stakeholders. The Board oversees the ESG development of the Group and sets out ESG objectives and direction. It has delegated the day-to-day execution of all ESG related responsibilities to the ESG working Group, through the responsible Executive Director.



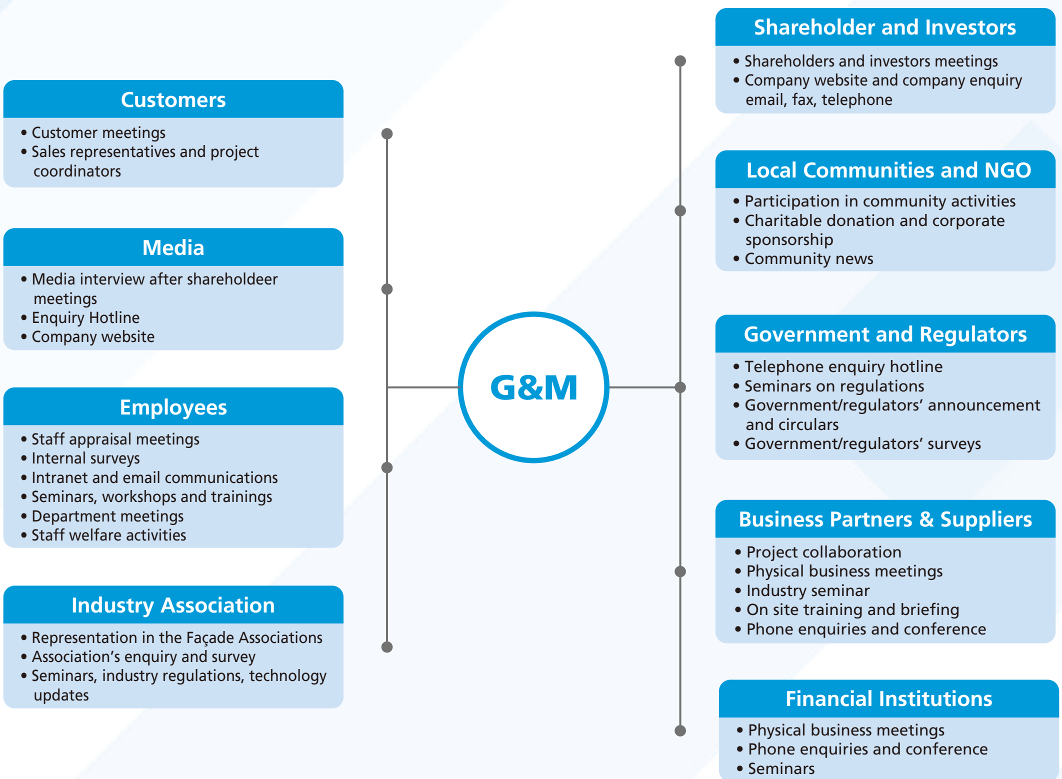
This Report is prepared by our ESG working group, which consists of the external ESG advisor, the financial controller, the administration officer, the project manager, and an Executive Director.

Objectives of ESG working group

- Follows and reports to the Board and the top management on the ESG strategies and proposes ESG initiatives for achieving the sustainability objectives;
- Engages and communicates with stakeholders for performing materiality assessment and formulating ESG strategies and initiatives;
- Coordinates with staffs for delivery of the ESG initiatives;
- Determines the Key Performance Indicators ("**KPI**") for measurement of CSR performances;
- Monitors the CSR activities for on-going development and improvement.

ENGAGEMENT OF STAKEHOLDERS AND COMMUNICATION CHANNELS

We have been engaging key stakeholders to understand their concerns over our sustainability developments. Such engagement is important for us to assess the priority of sustainability development and implementation of CSR initiatives. We hope to enhance two-way communications with the stakeholders through a variety of channels. As a result, we not only can identity the opportunities and challenges for formulating our business strategies, but also can enhance our corporate social responsibilities. We are committed to act ethically and to contribute to the society and at the same time to improve the quality of life for our employees and their family. The chart below highlighted the various communication channels with our stakeholders:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

G&M FRAMEWORK FOR CREATING SUSTAINABLE VALUES

Our ESG framework governs how our objectives are translated into sustainability performance. After stakeholders are engaged and views are collected from the stakeholders, materiality assessment is carried out by plotting a matrix of relevance and importance, where the views of what are important to business (as considered by the top management) and what are important to stakeholders are identified. Through the assessment result, we identify the material ESG issues and the respective risks associated in our operations. We prioritise the material issues and focus such in the medium and long-term planning, and ensure adequate manpower and financial resources are allocated to meet these strategic objectives. Policies are enhanced and improved where they are inadequate to meet the ESG objectives. The ESG working Group formulates ESG initiatives and arranges activities for achieving the ESG objectives, and ensure the initiatives and action plans are properly executed. ESG data are accumulated continuously and analysed annually for evaluation of sustainability performance. A feedback mechanism on the ESG performance is in place for the Board to revise and update the ESG objectives based on the result, and the ESG process will be revisited periodically as a continuous process to reflect what we have achieved during the process.

STAKEHOLDERS' FEEDBACK

We welcome stakeholders' feedback on our environmental, social and governance approach and performance for enhancing our sustainable values. Please share your views with us via email at gmhk@gm-eng.com.hk.

OUR COURSE TOWARDS A RELIABLE COMPANY

RESPECT OUR TALENTS

Human Resource is our most valuable assets and is vital for our business and sustainability development

We value our talents and believes they play an important role to G&M's success and they are the key to delivering quality and reliable products and services to our customers consistently, and making our business value sustainable. We are committed to providing our talents with a harmonious working environment that they can develop, contribute and at the same time enjoy their lives.

Recruiting and retaining talents

Fair employment practices and labour standards

The role of human resources policies is important for recruiting our desired candidates and maintaining the quality and stability of our workforce. Such policies endeavour to foster a culture of harmony, creativity and sustainability. As at 31 December 2019, the Group had 69 (2018: 70) staff in Hong Kong and 31 (2018: 25) staff in the PRC. We have established human resources policies covering recruitment, dismissal, probation, promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. Our key fundamental human resources guidelines are as follows:

G&M fundamental human resources guidelines

- Comply with all applicable laws and regulations on employment of our staff.
- Offer to our staff the competitive employment terms and conditions in the region.
- Respect the human rights and privacy of our staff.
- Fairly treat and not discriminate against each individual staff on their nationality, gender, marital status, race, religion, age, and physical or mental disability that are irrelevant to their work performance.
- Provide a workplace to our staff where there is good balance of private and work lives, to ensure our staff live and work with fulfilment.
- Absolute no child labour and forced labour.

G&M implements fair employment and labour practices in every aspect of the business. For our existing and potential staff, we are committed to providing equal opportunities and fair workplace to protect them from being treated disadvantageously or excluded on the basis of characteristics such as nationality, gender, age, race, marital status, religious belief, physical or mental disability. During the year, we have hired a talent for project supervision beyond his retired age. It is our policy to give opportunity to any person as long as the person's ability meets our work standard.

We have also established policies and procedures for prohibiting the employment of child labour and forced labour. Our human resources department will examine the applicant's original identity document with photo that indicates the age of the application to prevent employment of child labour. The Group ensures that the terms of employment are voluntary and would not be changed arbitrarily without communicating with the staff. Our staff can work on their own free will and are free to leave the Group upon reasonable notice under the Group's relevant human resources policies.

G&M has strictly complied with all relevant laws and regulations on staff employment as follows:

Compliance with employment regulations

The employment of staff in Hong Kong is subject to the:
- Employment Ordinance
- Minimum Wage Ordinance
- Employees' Compensation Ordinance
- Sex Discrimination Ordinance
- Disability Discrimination Ordinance
- Family Status Discrimination Ordinance
- Race Discrimination Ordinance

The employment of staff in the PRC is subject to the:
- Labour Law
- Labour Contract Law

During the Reporting Period, we were not aware of any non-compliance with the above relevant laws and regulations that had significant impact on the Group relating to employment and labour standards.

Rewards

We uphold our talents as our first priority, which is instrumental in bringing about a Reliable Company for business and sustainability. As such, we treat our talents with respect, offer flexibility on working and employment benefits, and provide them with good opportunities to grow professionally. We offer all our talents with medical hospitalization and term life insurance benefits. There are about 30% of our more senior talents enjoying the same enhanced insurance coverage identical to our CEO, while the remaining talents are receiving a little lower coverage. We also provide personal accident insurance benefits covering worldwide against bodily injury, and outpatient benefits to all of our talents.

We endeavour to provide a fair and supportive working environment for our talents and offer them with competitive remuneration package with benefits and welfares, in accordance with their individual qualification, working experience and work performance, to maintain our competitiveness in attracting and retaining talents.

We recognise and encourage our talents through our remuneration and appraisal system that they are compensated in a fair and objective manner by means of a pay-for-performance approach. To recognise and encourage our talents to deliver better and higher quality works, we reward high performers with more year-end bonus, and with higher salary increments and potential job promotion opportunities during 2019.

Our performance reviews are conducted annually comprising supervisory assessment and evaluation on KPIs of individual achievements, review meetings and company-wide performance calibration at different department levels. The result of reviews forms a basis for which annual salary review, discretionary bonus and promotion are determined.

Valuing our talents – work-life balance

Our talents play an active role in our overall success, we strive to ensure they have fulfilled and enjoyable lives both at work and in the family. We believe by providing our talents with quality time with their friends and family, they would be more motivated to perform at work. For this reason, we continue to provide our talents with leave benefits above what is statutorily required.

Accommodative leave benefits

Upon the third year of employment, our managerial staff will be entitled 21 days paid annual leave and the general staff will be entitled 11 to 14 days, while the statutory requirement is 7 days. We greet the newly married staff with 2 days marriage leave. We also provide fully paid leaves to our talents when they need to attend examinations for professional certification courses or attend job related short courses. To enable our talents to celebrate with their friends and family on big festive days, such as the Mid-autumn Festival, Christmas Eve, the Winter Solstice and Chinese New Year Eve, etc., they are given early leave in the afternoon.

Annual leave*	**Festive leave***
21 days for managerial staff and 11 to 14 days for other staff starting from the third year	For 4–5 important festive occasions, paid early leave is granted to all staff for celebration with family and friends
Marriage leave	**Flexible part-time work**
2 days of paid leave	Staff can apply to work part-time temporarily when there is any need
Exam leave	**Sabbatical leave**
Fully paid leave on examination days	Staff can apply for no pay sabbatical leave for a period for justifiable personal reasons without affecting the employment

* Applicable to HK office

We also respect our talents by allowing work flexibility whenever any need arises. We have tried our best to be flexible and accommodating for such events and unexpected situations such as typhoon, large scale traffic disruptions, perils of epidemic, etc. We allow our talents to work from home or leave office earlier if personal safety is a concern.

Social activities

To uphold the work-life balance principle for our talents, we organise various social activities to promote a healthy lifestyle and to enhance team cohesion. During the year, our staff gathering functions included monthly birthday celebration, Christmas party and festival lunches. The annual dinner organised in each year is a special event for us to express our appreciation and recognition to our talents for their hard works for the year.

On the Dragon Boat Festival day in this year, we rented a full cinema house showing "Avengers – End Game" for our staff in Hong Kong who are interested to watch the show as well as for the children of J-Life Foundation. In September this year, we organised a three-day vacation trip in Baodun Lake Hushan Hot Spring Resort, Qingyuan (清遠寶墩湖湖山溫泉度假村) for our PRC talents to relax from their busy works. As the trip was fallen on a working day, we provided one additional paid vacation leave for every talent who participated in the trip and about 30 talents came for this company function.

Talents development

In the engineering and build industry, people are the most valuable capital. Competence of staff is the key to client satisfaction as well as the continuous growth of our business. We believe training and development is essential to the personal and professional development of our staff, as well as to the continuing success of our business and the reliability of our company on sustainability. We give our staff every opportunity to acquire the knowledge and skills necessary for their jobs and future progress. Through the annual appraisal process, our staff can identify their training and development needs.

Our training programmes include:

- Orientation for new staff to get familiar with the company policies and working environment;
- External work related academic and professional courses for upgrading knowledge and skills for personal development of the staff;
- In-house training programmes for targeted staff to enhance their job knowledge and skills as well as safety practices.

Apart from the internal workshop run by the COO and the various internal departmental short briefings, during the year, we also provided external trainings to our staff based on specific needs for their career advancement. The following is an illustration of some of the training and development courses conducted in 2019:

External training and development courses

Type of Courses	Offering Organisation
• Technically Competent Person Training Course	IVE
• Construction Site Supervisor Course	Construction Industry Council
• ISO 9001:2015	ISO
• ISO 9001:2015 Internal Auditor	ISO
• Executive Certificate Course on Management Communication Strategy and Skills	HKMA
• Installation and Disassembly of Metal Scaffolding Training Course	HK Institute of Construction
• Safety Supervisor Course for Construction Industry	HK Institute of Construction
• Curtain wall and Facade	Hong Kong Facade Association
• Professional Accountancy seminars	HKICPA
• Directors Training	Law Firm

To encourage our talents to pursue continuing education and training, we have set up policy on subsidisation of external training and education courses taken by our talents. Usually upon satisfactory completion of the vocational or professional courses recognised and approved by us, our talents can get full reimbursement of the course fees.

Health and safety in our workplaces

We recognises it as our prime responsibility to assure the health, safety and welfare of our staff, as well as other persons who are likely to be affected by our operations, including the subcontractors and the public where appropriate. At all time we worked diligently to ensure that the Group and our subcontractors have complied with the following regulations:

Compliance with health and safety regulations

For Hong Kong:

- Factories and Industrial Undertakings Ordinance
- Occupational Safety and Health Ordinance
- Construction Sites (Safety) Regulation

For the PRC:

- Prevention and Control of Occupational Diseases Law

To provide our staff with a safe and healthy working environment, we set out various safety control measures and in-house rules in our safety handbook "Safety Plan", which is given to all our staff and subcontractors. For each construction project, we set up a safety team, under the supervision of project manager, to ensure safety in our construction sites. The safety supervisor provides safety courses and information to the workers, carries out site safety inspection and gives instructions to workers on correct and safe working practices. All safety supervisors and relevant subcontractors are required to undergo mandatory safety certification courses and regular trainings on updating safety issues.

We also maintain an internal accident reporting policy and internal record of accidents. All accidents are required to be reported to the project management team immediately after the occurrence of accidents.

To maintain a safe and healthy working environment for our staff, we undertook in 2019 regular and occasional safety inspections at our workplaces. Based on the inspection results, we reviewed the existing practices and facilities to make improvements. In addition we prohibit indoor smoking, and provide regular office cleaning and first aid kit at the office. We also arranged our staff to attend fire drill to get familiar with the fire escape route of the building and to increase emergency preparedness.

During the Reporting Period, we were not aware of any non-compliance with the above relevant laws and regulations that had a significant impact on the Group relating to occupational health and safety.

MAKE GREENER ENVIRONMENTS

"We Strive to Avoid Negative Impacts to the Environment in order to Make the World a Better Place to Live"

We believe it is important for our business to thrive in a sustainable environment. We are committed to avoiding adverse impact and damage to the environment in order to make the world a better place to live and for our business to survive. We continuously identify opportunities for conserving the environment and evaluate the ways we can contribute to improving our environmental performance. We believe that with the efforts of our management and staff, together with our business partners, we are able to make remarkable contribution to our environment.

G&M is a project engineering company operating in offices, and we engage subcontractors to carry out construction works in the construction sites. Our business operations does not directly produce greenhouse gas ("**GHG**"), air pollutants and hazardous waste in construction sites. The direct environmental impact of our services relates primarily to office energy consumption, business travels, and office supplies. In this connection, we focused our efforts in 2019 on reducing energy consumption, GHG and paper usage.

We are committed to comply with certain laws and regulations in relation to environmental protection in Hong Kong, as fundamental to our continual improvement of environmental performance. We require our staff and subcontractors in the construction sites to strictly comply with all environmental laws and regulations during the year:

Compliance with environmental protection regulations

- Air Pollution Control Ordinance
- Noise Control Ordinance
- Waste Disposal Ordinance
- Public Health and Municipal Services Ordinance

During the Reporting Period, we were not aware of any non-compliance with the above laws and regulations that had a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Emissions and resources management

Environment conservation

We are committed to minimising the adverse impact on the environment during the construction process. We require our staff and subcontractors to take range of measures for environmental protection. All equipment used is in compliance with the permitted noise level and is maintained in good condition. We strictly comply with the Noise Control Ordinance and our customers' instruction to carry out our construction works within the permitted work hours. We would use noise barrier where necessary for operating noisy equipment. Wastes are segregated into general wastes and construction wastes and disposed to rubbish collection points designated by the main contractors.

Conservation of energy

In our offices, electricity is the most consumed energy. We take various eco-friendly measures at our offices to achieve energy saving and emission reduction. To enhance energy efficiency, we have replaced most fluorescent lamps in our offices with LED lightings. We have been able to lower electricity consumption by 2.8% in 2019 and the intensity of electricity consumption has further been lowered by 7.3% as compared to last year.

Gasoline consumption is directly related to carbon emissions and air emissions. We control the consumption of gasoline by monitoring the use of motor vehicles in order to minimise air emissions. We have been encouraging our staff to take more public transportation to travel between construction sites and the suppliers' factories. When we buy new vehicles for business use, we would select those more economically efficient and environmentally friendly vehicles. Our vehicles are required to undertake regular maintenance in order to maintain fuel efficiency and to reduce pollutant emissions. However the usage of gasoline for 2019 was slightly higher than last year due to higher usage rate on the higher fuel consumption vehicle under business concern.

	Direct Energy Consumption		Indirect Energy Consumption	
Key performance indicators – use of resources	**Gasoline** (litre)	**Intensity** (litre/staff)	**Electricity** (kWh)	**Intensity*** (kWh/staff)
2019	**4,010**	**41**	**145,700**	**1,494**
2018	3,850	41	149,900	1,612
Change	**+ 4.2%**	**–**	**-2.8%**	**-7.3%**

* In terms of average number of staff during the year

Air Emissions and Greenhouse Gas ("GHG") Emissions

For the year 2019, the total gasoline consumption was slightly increased by about 4.2%. As a result, the air emission of sulphur oxides ("**SO_x**") had increased proportionately by 4.2%. However the emissions of nitrogen oxides ("**NO_x**") and particulate matter ("**PM**") remained roughly the same as the last year due to the mileage incurred by our vehicles were roughly the same for both years. As gasoline consumption is also directly related to GHG emissions, the GHG emission attributable to gasoline consumption in 2019 had increased by 3.8%.

Despite the increase of GHG emission as a result of more gasoline consumed, the total GHG emissions of the Group had decreased by 9.7% and the GHG intensity had also decreased significantly by 14.4%. This is the result of our continual efforts on saving electricity in our offices, reducing paper usage and paper wastage, and containing business air travels.

Electricity consumption in our offices is indirectly related to GHG emissions. We have been educating our staff on electricity saving by turning off lights, air-conditioning and other electric equipment and appliances when they are not needed. In 2019, our consumption of electricity had decreased by 2.8%. As such our GHG emission relating to electricity consumption had decreased by 4.6%.

In addition, consumption of paper in our offices and business air travels for visiting our suppliers are also indirectly related to GHG emissions. Paper usage and paper wastage are another sources of GHG emissions. In 2019, we had collected 655 kg of waste paper for recycling, which means more than 3 tonnes of GHG emissions had been avoided. As our staff's awareness of environmental conservation increases, the amount of paper used has also been reduced. We have been able to significantly reduce the GHG emission from the consumption of paper by about 30%.

Key Performance Indicators – Air Emissions	**NO_x** (kg)	**SO_x** (kg)	**PM** (kg)
2019	**3.23**	**0.0590**	**0.238**
2018	3.23	0.0566	0.238
Change	–	**+4.2%**	–

Key Performance Indicators – GHG Emissions	**Direct From Gasoline** (tonnes CO_{2-e})	**Indirect From Electricity** (tonnes CO_{2-e})	**Indirect From Paper/ Air Travel** (tonnes CO_{2-e})	**GHG Total** (tonnes CO_{2-e})	**GHG Intensity*** (tonnes CO_{2-e}/staff)
2019	**10.8**	**75.2**	**18.8**	**104.8**	**1.07**
2018	10.4	78.8	26.8	116.0	1.25
Change	**+3.8%**	**-4.6%**	**-29.9%**	**-9.7%**	**-14.4%**

* In terms of average number of staff during the year

Waste management

We do not produce any hazardous waste due to the nature of our business model. The general non-hazardous wastes produced by us are mainly waste paper, office supplies and general garbage. In this year, owing to the implementation of our new ERP system, we have significantly used less paper and instead we used more electronic communications and filing. In this connection, our general non-hazardous wastes were greatly reduced by 27% as compared with last year. The non-hazardous wastes produced per staff were also reduced by 33% to 0.04 tonnes per staff.

Key Performance Indicators – Non-Hazardous Waste	Non-Hazardous Waste (tonnes)	Non-Hazardous Waste Intensity* (tonnes/staff)
2019	**3.8**	**0.04**
2018	5.2	0.06
Change	**-27%**	**-33%**

* In terms of average number of staff during the year

G&M's construction projects are carried out by our subcontractors, therefore the Group does not directly generate hazardous waste. Our subcontractors are responsible for collecting those construction wastes and hazardous wastes from the construction sites, and disposing to the designated places as required by the main contractors. In order to be responsible for the sustainability of the environment, we would collect those useful residual materials from the construction sites for reuse in other projects. For those specialised residual materials and equipment that reuse is impossible, we would resell to anyone who needs these or would dispose for recycling purpose.

In respect of packaging material, due to our business nature that packaging materials are normally not required, we do not cause significant impact on the environment from packaging materials.

Water consumption management

Water is supplied to our offices by municipal water supply or public organisations through the respective property management company where our offices locate. So we do not have issues in sourcing water. Our offices have not consumed significant amount of water and we have no discharge made into water. Although it is not feasible to measure our water consumption, we still promote the awareness to our staff on saving water and reducing unnecessary wastage of water.

In our construction sites, water is supplied by the main contractors and our sub-contractors are responsible for the water usage, we do not have control over the consumption. We have not encountered any issue in sourcing appropriate amount and type of water for our projects.

The environment and natural resources

Except for the energy consumption, paper usage and solid waste produced, our offices do not cause any direct and significant impacts on the environment and natural resources. For our construction projects, we pay close attention to the works carried out by our subcontractors and to ensure that they strictly comply with the laws and regulations in relation to environmental protection and to minimise damage to the environment.

COMMIT TO OUR CUSTOMERS

“To Be a Reliable and Responsible Company, We Are Committed to Provide Our Customers with Reliable, Safe and Quality Products”

Quality, safety and reliability are the foundation of G&M’s success. We provide services ranging from structural calculation and shop drawings, sourcing and procurement of materials, arrangement for material fabrication and processing, installation works and post-completion repair and maintenance services. We strive to deliver quality, reliable and safe construction works and also to provide sustainable solutions to our customers, so that people can enjoy using our construction works and improve the quality of life.

Safe construction projects

We put safety at the forefront of our quality assurance measures. This is important in particular for our facade and curtain wall construction works. We have to ensure the safety of our workers when the projects are being built, and the safety of the public both when the projects are in process and when the projects have been put into use. When our engineers design the projects, safety features will be incorporated as a top consideration. Detail proposals with structural calculation, shop drawings, fabrication techniques and installation methods have to be approved by the qualified project architects.

It is the job and responsibility of every staff to uphold the following principles on provision of products and services:

Measures for product safety

- Complying with international quality standards, such as ISO9001:2015 and legal requirements.
- Mitigating any injury that might occur to the people using the products when an accident occurs.
- Designing the product with a sense of assurance that the product is not harmful to the public using the product.
- Sustaining a corporate climate in which product safety is emphasised.
- Upholding the company’s risk management system to continuously identify, report and improve safety issues.

Quality and reliability

To maintain high quality services, we have been employing a quality management system to monitor our work processes for meeting customer' needs and to fulfil regulatory requirements. Our business is operated under the procedures that comply with ISO 9001:2015 quality standards.

For each project, a project management team, leading by a project manager, is set up to oversee and manage the project. The project manager is responsible for communicating with customers, subcontractors and internal departments, supervising the work progress and the overall quality assurance of the project.

At the project planning stage, our qualified design engineers are responsible for system design and structural calculation to assess the feasibility of the design and installation works. The system design and structural calculation is submitted to customers and the Buildings Department for approval. The curtain wall systems are required to undergo a series of tests by independent laboratories to confirm the performance meeting the stringent safety standard as required by the Buildings Department.

After completion of projects, G&M provides a defects liability period to our customers subject to terms set out in the contracts and also provides a warranty on certain aspects such as glazing and waterproofing works. Since G&M is involved in every stage of design and build, we can effectively monitor the progress of the projects and minimise the possibility of having significant deviation from the original design.

During the Reporting Period, we were not aware of any non-compliance with relevant laws and regulations that had a significant impact on the Group relating to product responsibility.

MANAGING OUR SUPPLY CHAIN

Supply chain management is crucial to our sustainable operations. We address supply chain challenges through risk management, responsible sourcing, and close monitoring the suppliers and subcontractors. G&M has a supply chain sustainability working group to develop sustainability policies and guidelines, to share best practices with the suppliers, and to monitor the quality of the suppliers.

Responsible sourcing

We source materials such as aluminium, metal and glass, and engage subcontractors for installation works. Our procurement activities follow a set of fair and transparent quotation invitation process that conflicting of interest has to be declared, and also bribery and misconducts are strictly prohibited. We select suppliers not only based on the product quality, technical capability and track records etc., but also on their social responsibilities. We have priority to source from those suppliers and to cooperate with those business partners who can demonstrate that they are environmentally and socially responsible, and have complied with all laws and regulations in relation to environmental, safety and health and employment at their locations.

We carefully evaluate the subcontractors' company background, job references, scope of work, warranty and system information, and to require all subcontractors to follow the laws and regulations in relation to occupational health and safety, environmental and employment at the construction sites.

Aligning suppliers and customers with our sustainable value

As a reliable company committed to sustainability, we actively work with suppliers and subcontractors who favour and operate on the principles of sustainable development. Many of our supply chain policies and product quality and responsibility policies are developed and implemented in close collaboration with our customers and business partners. Through regular and intensive communication and long-term cooperation, the sustainable values of our Group and our business partners are aligned with our customers.

CARE FOR THE COMMUNITY

"Caring and Investing on the Community Makes Our Business More Sustainable, as Our Construction Projects Are Inseparable from the Day-to-day Lives of the Community"

G&M strives to be a socially responsible contractor delivering popular projects for the community. We care for and support the community where we operate. G&M is committed to contributing to our community in different ways. We give monetary donations to various charitable bodies to support their works in helping people in needs in the community. On the other hand, we encourage and support our staff to give back by participating in community activities. Through the Group's active participation in giving back to our community, we hope to inspire our staff to increase their sense of community involvement and participation.

In 2019, we continued to support J Life Foundation ("**J Life**") to provide aids to underprivileged people in Hong Kong. J Life is a privately funded non-profit organisation that aims to empower at-risk children and families in underprivileged communities in Hong Kong. We have made regular monthly donations of HK$30,000 to a youth centre operated by J Life, such that the youth centre can have resources to help teenagers by holding mentorship program, regular tutoring classes and weekly caring groups.

On the Dragon Boat Festival day in this year, we rented a full cinema house showing "Avengers – End Game" and invited children of the J Life to watch the show. We also encourage our staff to volunteer in the event for helping and entertaining the J Life children and their family. A total of about 100 people including our volunteers had participated in the community event for a warm and cheerful afternoon.

During the year, we have also made donations to other Non-Governmental Organisations, such as World Vision Hong Kong and Save The Children, in order to benefiting other people in needs.

The Group will keep on our best to contribute to the community through supporting different volunteer services and community programs.

OTHER SOCIAL COMMITMENTS

Anti-corruption

The Group is committed to conducting business in fair, integrity and legal manner. We do not tolerate bribery, kickbacks, or corrupt acts of any kind or in any circumstances from our staff or our agents. The management, our staff and agents are required to strictly comply with the Prevention of Bribery Ordinance, which is stated clearly in the Code of Conduct of the Group. We have given guidelines to our staff about giving and receiving gifts among our business partners. Our staff are also required to declare any conflict of interests.

The Group has established whistleblowing policies to provide channels and guidance to our staff on reporting any misconduct, malpractice or irregularity within the Group. All cases reported will be kept confidential and will be investigated thoroughly. The investigation reports will be reported to the Chairman and the Audit Committee. Appropriate corrective or disciplinary actions will be taken when a misconduct case is proven.

In the Reporting Period, there were no reported legal cases regarding corrupt practices brought against the Group or our staff.

THE STOCK EXCHANGE ESG REPORTING GUIDE CHECKLIST

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KPI A1.2	Greenhouse gas emissions in total and intensity.	36
KPI A1.3	Total hazardous waste produced and intensity.	Not applicable for disclosure
KPI A1.4	Total non-hazardous waste produced and intensity.	37
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Aspect A2: Use of Resources		
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KPI A2.2	Water consumption in total and intensity.	Not applicable for disclosure
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	34–36
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable for disclosure
KPI A2.5	Total packaging material used for finished products.	Not applicable for disclosure

ASPECTS	DESCRIPTION	PAGE REF
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KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	41
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B8	General Disclosure.	
KPI B8.1	Focus areas of contribution.	40
KPI B8.2	Resources contributed to the focus area.	40

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF G & M HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of G & M Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 47 to 111 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Recognition of contract revenue and contract assets/contract liabilities

Refer to notes 7 and 17 to the consolidated financial statements

For the year ended 31 December 2019, the Group recognised revenue from one-stop design and build solutions amounting to HK$285,255,000 and, as at 31 December 2019, the Group recorded contract assets and contract liabilities of HK$74,661,000 and HK$3,357,000 respectively. Revenue from construction works is recognised by applying input method, which is measured by reference to the contract costs incurred to date as a proportion to the total estimated contract costs, whereas contract assets/contract liabilities are determined based on contract costs incurred, progress billings, any foreseeable losses and recognised profits which is also dependent on estimation of contract costs. As disclosed in notes 5(i) and 5(ii) to the consolidated financial statements, the estimation of contract costs for an individual contract, which mainly comprise subcontracting fees, materials and processing charges and project staff costs, is based on quotations provided by subcontractors/suppliers/vendors as well as from the experience of the directors, which is revised regularly as the contract progresses. This involves the use of significant management judgment and involves estimation uncertainty.

Our audit procedures in relation to the recognition of contract revenue and contract assets/contract liabilities included:

- Understanding the procedures and relevant controls of the Group in preparing and updating budgets for construction works and recording contract costs.
- Agreeing budgeted costs to respective construction budgets, on a sample basis.
- Evaluating reasonableness of contract budgets through discussion with management about preparation of those budgets.
- Testing contract costs incurred to date and estimated total costs to underlying supporting evidence, on a sample basis.
- Assessing reliability of contract budgets by comparing actual contract costs against budgeted costs of completed projects.
- Checking the calculations of input method for the completion of individual contract and the amounts of contract revenue and gross profit recognised.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants

Leung Tze Wai
Practising Certificate Number: P06158

Hong Kong, 30 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	7	**299,756**	365,436
Cost of revenue		**(230,304)**	(278,441)
Gross profit		**69,452**	86,995
Other income, gains and losses	8	**570**	(26)
Administrative and other operating expenses		**(38,402)**	(41,438)
Finance costs	9	**(387)**	(336)
Profit before income tax	10	**31,233**	45,195
Income tax expense	11	**(4,867)**	(8,256)
Profit for the year		**26,366**	36,939
Other comprehensive income for the year			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising from translation of foreign operation		**(10)**	17
Total comprehensive income for the year		**26,356**	36,956
Profit for the year attributable to owners of the Company		**26,366**	36,939
Total comprehensive income for the year attributable to owners of the Company		**26,356**	36,956
		HK cents	HK cents
Earnings per share			
– Basic	14	**2.6**	3.7
– Diluted	14	**2.6**	3.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**2,211**	3,508
Right-of-use assets	*28*	**3,489**	–
		5,700	3,508
Current assets			
Inventories	*16*	**805**	986
Contract assets	*17*	**74,661**	87,891
Trade and other receivables	*18*	**77,314**	104,537
Tax recoverable		**–**	3,956
Pledged bank deposits	*19*	**5,000**	5,000
Cash and bank balances	*20*	**128,467**	96,620
		286,247	298,990
Current liabilities			
Contract liabilities	*17*	**3,357**	16,153
Trade and other payables	*21*	**55,576**	59,093
Tax payable		**878**	–
Bank borrowings	*22*	**1,000**	8,233
Lease liabilities	*28*	**2,377**	–
		63,188	83,479
Net current assets		**223,059**	215,511
Total assets less current liabilities		**228,759**	219,019
Non-current assets			
Lease liabilities	*28*	**1,180**	–
Net assets		**227,579**	219,019
CAPITAL AND RESERVES			
Share capital	*23*	**10,000**	10,000
Reserves	*26*	**217,579**	209,019
Total equity		**227,579**	219,019

On behalf of the directors

Lee Chi Hung
Director

Chan Wai Yin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Equity attributable to owners of the Company						
	Share capital *(note 23)* HK$'000	Share premium* *(note 26)* HK$'000	Merger reserve* *(note 26)* HK$'000	Translation reserve* HK$'000	Share-based payments reserve* *(note 26)* HK$'000	Retained profits* HK$'000	Total equity HK$'000
Balance as at 1 January 2019	**10,000**	**82,848**	**(4,592)**	**(32)**	**200**	**130,595**	**219,019**
Profit for the year	–	–	–	–	–	**26,366**	**26,366**
Other comprehensive income for the year:							
Exchange difference arising from translation of foreign operation	–	–	–	**(10)**	–	–	**(10)**
Total comprehensive income for the year	–	–	–	**(10)**	–	**26,366**	**26,356**
Dividend paid *(note 13)*	–	–	–	–	–	**(18,000)**	**(18,000)**
Lapse of share option	–	–	–	–	**(166)**	**166**	–
Equity settled share-based transactions *(note 24)*	–	–	–	–	**204**	–	**204**
Balance at 31 December 2019	**10,000**	**82,848**	**(4,592)**	**(42)**	**238**	**139,127**	**227,579**

* The reserves of HK$217,579,000 (2018: HK$209,019,000) in the consolidated statement of financial position were comprised of these reserve accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Equity attributable to owners of the Company						
	Share capital *(note 23)* HK$'000	Share premium* *(note 26)* HK$'000	Merger reserve* *(note 26)* HK$'000	Translation reserve* HK$'000	Share-based payments reserve* *(note 26)* HK$'000	Retained profits* HK$'000	Total equity HK$'000
Balance as at 1 January 2018	10,000	82,848	(4,592)	(49)	–	117,656	205,863
Profit for the year	–	–	–	–	–	36,939	36,939
Other comprehensive income for the year:							
Exchange difference arising from translation of foreign operation	–	–	–	17	–	–	17
Total comprehensive income for the year	–	–	–	17	–	36,939	36,956
Dividend paid	–	–	–	–	–	(24,000)	(24,000)
Equity settled share-based transactions *(note 24)*	–	–	–	–	200	–	200
Balance at 31 December 2018	10,000	82,848	(4,592)	(32)	200	130,595	219,019

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
Profit before income tax	**31,233**	45,195
Adjustments for:		
Depreciation of property, plant and equipment	**1,475**	1,920
Depreciation of right-of-use assets	**2,526**	–
Bank interest income	**(56)**	(38)
Loss on disposal of property, plant and equipment	**297**	88
Interest expenses	**387**	336
Equity settled share-based transactions	**204**	200
Reversal of expected credit losses allowance for retention receivables	**(42)**	(94)
(Reversal of)/provision for expected credit losses allowance for trade receivables	**(116)**	61
(Reversal of)/provision for expected credit losses allowance for contract assets	**(643)**	1,136
Operating profit before working capital changes	**35,265**	48,804
Decrease in inventories	**181**	1,446
Decrease/(increase) in contract assets	**13,873**	(48,513)
Decrease/(increase) in trade and other receivables	**27,381**	(8,269)
(Decrease)/increase in trade and other payables	**(3,586)**	20,666
(Decrease)/increase in contract liabilities	**(12,796)**	7,772
Cash generated from operations	**60,318**	21,906
Income tax paid	**(33)**	(12,451)
Net cash generated from operating activities	**60,285**	9,455
Cash flows from investing activities		
Interest received	**56**	38
Decrease in pledged bank deposits	**–**	16,215
Acquisition of property, plant and equipment	**(984)**	(672)
Sales proceeds from disposal of property, plant and equipment	**500**	500
Net cash (used in)/generated from investing activities	**(428)**	16,081

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Cash flows from financing activities		
Proceeds from bank borrowings *(note 31)*	**11,000**	24,317
Interest paid on bank borrowings *(note 31)*	**(213)**	(336)
Repayment of bank borrowings *(note 31)*	**(18,233)**	(35,560)
Repayment of principal portion of the lease liabilities *(note 31)*	**(2,458)**	–
Interest paid on lease liabilities *(note 31)*	**(174)**	–
Dividends paid	**(18,000)**	(24,000)
Net cash used in financing activities	**(28,078)**	(35,579)
Increase/(decrease) in cash and cash equivalents	**31,779**	(10,043)
Effect of exchange rate changes on cash and cash equivalents	**68**	49
Cash and cash equivalents at the beginning of year	**96,620**	106,614
Cash and cash equivalents at the end of year	**128,467**	96,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

G & M Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2016. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 June 2017 (the "**Listing**"). The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is located at Units 1709–14, 17th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred hereafter as the "**Group**") is principally engaged in provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong.

The Company's parent is Luxury Booming Limited ("**Luxury Booming**"), a limited liability company incorporated in the British Virgin Islands. In the opinion of the directors, Luxury Booming is also the ultimate parent of the Company.

The financial statements for the year ended 31 December 2019 were approved and authorised for issue by the directors on 30 March 2020.

2. BASIS OF PRESENTATION

The Group's consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**"), Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements are presented in HK$, which is the same as the functional currency of the Group.

It should be noted that accounting estimates and assumptions are used in the preparation of these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately different from those estimates and assumptions. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 5.

3. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, which are effective from current year, have been adopted by the Group.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs

The impact of the adoption of HKFRS 16 *Leases* ("**HKFRS 16**") have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 *Leases* ("**HKAS 17**"), HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* ("**HK(IFRIC) – Int 4**"), HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, refer to section (ii) to (iv) below.

3. ADOPTION OF HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 (Continued)

(i) *Impact of the adoption of HKFRS 16 (Continued)*

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16, if any, as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets	1,323
Lease liabilities (non-current)	247
Lease liabilities (current)	1,076

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments as of 31 December 2018	1,374
Less: lease of low-value assets	(15)
Less: future interest expenses	(36)
Total lease liabilities as of 1 January 2019	1,323

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 was 5.07%.

3. ADOPTION OF HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which the underlying asset is of low-value and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the date of initial application.

3. ADOPTION OF HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements. As a result, the right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

3. ADOPTION OF HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 (Continued)

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment, if any, to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 *Impairment of Assets* at 1 January 2019 to assess if there was any impairment as on that date.

The Group has applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC) – Int 4.

3. ADOPTION OF HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The new/revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's consolidated results and consolidated financial position upon application.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries (Continued)

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

– The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

– Substantive potential voting rights held by the Company and other parties who hold voting rights;

– Other contractual arrangements; and

– Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiary are accounted for by the Company on the basis of dividends received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Plant and machinery	5 years
Motor vehicles	3 years
Leasehold improvement	Over the shorter of 2 years or the remaining lease terms

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Leasing

(i) Accounting policies applied from 1 January 2019

The Group as lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leasing (Continued)

(i) Accounting policies applied from 1 January 2019 (Continued)

Lease liability (Continued)

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(ii) Accounting policies applied until 31 December 2018

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee under operating lease

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(e) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not measured at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely 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. There are three measurement categories into which the Group classifies its debt instruments measured at:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(i) Financial assets (Continued)

Debt instruments (Continued)

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. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as financial assets at FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("**ECLs**") on trade receivables, contract assets and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the end of reporting period; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using simplified approach under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if the contractual payments are more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, lease liabilities and bank borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(h) Revenue recognition and other income

Income is classified by the Group as revenue when it arises from rendering design and build services and repair and maintenance services to the customers in the ordinary course of the Group's business.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or 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 control of the goods or services 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 goods or service.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition and other income (Continued)

When the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liabilities under the effective interest method. The Group takes advantage of the practical expedient in HKFRS 15 *Revenue from Contracts with Customers* and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

(i) Contracts of design and build project

There are significant integration of different elements underlying a contract of design and build project and thus such contract is considered to contain only one performance obligation. In addition, the revenue from these contracts are recognised over time with input method which is measured by reference to the contract costs incurred to date as a proportion to the total estimated contract costs while the contract costs and the contract progress are highly correlated for design and build projects. Invoices are issued according to contractual terms and are usually payable within 60 days. Uninvoiced amounts are presented as contract assets (note 4(i)).

When the outcome of a performance obligation in the contract of design and build project can be reasonably measured, contract revenue and the associated contract costs are recognised over time based on the progress of the respective contract at the end of the reporting period. The progress toward complete satisfaction of the performance obligation of a contract of design and build project is determined by reference to the contract costs incurred to date as a proportion of the total estimated contract costs.

When the outcome of a performance obligation in the contract of design and build project cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Contract modification (i.e. variation order) are recognised when they are approved by customer. Generally modification to a contract of design and build project is not accounted for as a separate contract. Contract modification is accounted for as if it were a part of the existing contract and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract of the performance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the dare of the contract modification (i.e. the adjustment to revenue is made on a cumulative catch-up basis). For approved modifications where a change in price has not been agreed and other claims, they are accounted for following the requirements in relation to variable consideration, that is to include in the transaction price to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition and other income (Continued)

(i) Contracts of design and build project (Continued)

For warranty embedded to the construction contracts, the Group accounts for the warranty in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*" unless the warranty provides the customer with a service in addition to the assurance that the contracting work complies with the agreed-upon specifications.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, a provision is recognised in accordance with the accounting policy for onerous contracts as set out in note 4(p).

(ii) Repair and maintenance services

The contract of repair and maintenance services are considered to contain only one performance obligation and the revenue from these contracts are recognised over time. The performance obligation of the contract is satisfied when the repair and maintenance services are rendered.

(iii) Other income

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Interest income is recognised on a time proportion basis by reference to the principal outstanding and using the effective interest method.

(i) Construction contracts

Contract assets and liabilities

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

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contract asset is recognised when the Group completes the design and build works under such services contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the input method then the Group recognises a contract liability for the difference.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Construction contracts (Continued)

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

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

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

(c) the costs are expected to be recovered.

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

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

For the purpose of preparing the consolidated financial statements, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of the reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

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 end of the reporting period.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee benefits (Continued)

(ii) Defined contribution retirement plan

Retirement benefits to employees are provided through defined contribution plans. The Group operates a defined contribution retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance, for all its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income. Contributions are recognised as an expense in profit or loss when the services are rendered by the employees.

The employees of a subsidiary of the Company which operate in The People's Republic of China (the "**PRC**") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The Group's obligations under these plans are limited to the fixed percentage contribution payable.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(m) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each of the reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment of non-financial assets

Property, plant and equipment, right-of-use assets and the Company's investment in a subsidiary is subject to impairment testing. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's or cash-generating unit's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which required a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investment of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Segment reporting

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

(r) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

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

(iii) Both entities are joint ventures of the same third party;

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Construction contracts

Construction contract revenue is recognised according to the percentage of completion of individual construction contract, which is measured by reference to the contract costs incurred to date as a proportion to total estimated contract cost. Contract assets/contract liabilities are determined based on contract costs incurred, progress billings, any foreseeable losses and recognised profit which is also dependent on estimation of contract costs. The recognition of contract revenue and contract assets/contract liabilities requires significant management judgment and involves estimation uncertainty. Estimated contract costs of individual contract, which mainly comprise subcontracting charges, materials and processing charges and project staff costs, are supported by contract budget which was prepared by the directors of the Company. In order to ensure that the total estimated contract costs are accurate and up-to-date such that contract revenue can be estimated reliably, management reviews the contract budget, costs incurred to date and costs to completion regularly, in particular in the case of costs over-runs, and revises the estimated contract costs where necessary. Recognition of variations and claims also requires estimation and judgment by the management. Notwithstanding that the management regularly reviews and revises contract budgets when those construction contracts progressed, the actual contract costs and gross profit margin achieved may be higher or lower than the estimates and that will affect the revenue and gross profit recognised in the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

(ii) Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) materials and processing charges and project staff costs; (ii) costs of subcontracting; and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) costs incurred up-to-date; (ii) current offers from sub-contractors and suppliers; (iii) recent offers agreed with sub-contractors and suppliers; and (iv) professional estimation on materials and processing charges, project staff costs and other costs estimated by the directors.

(iii) Warranty provision

The Group provides assurance-type warranty to customers for a period up to 15 years for the contracts completed by the Group. The Group undertakes to rectify the defects within the warranty period. The warranty provision has been recognised for expected costs to rectify the defects based on past experience of warranty claims by customers. Management will review the sufficiency of provision and make adjustments, if appropriate, at the end of each of the reporting period.

(iv) Impairment of receivables

The measurement of impairment losses on receivables requires judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each of the reporting period, the Group assesses whether there has been a significant increase in credit risk on receivables since initial recognition by comparing the risk of default occurring over the expected life. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

(v) Estimating the incremental borrowing rate for lease liabilities

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

6. SEGMENT INFORMATION

(a) Operating segment information

The Group determines its operating segments based on the reports reviewed by the chief operating decision-marker, i.e. directors of the Company, who are used to make strategic decisions.

During the year, the directors assess the operating performance and allocate the resources of the Group as a whole as the Group is primarily engaged in provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong. Therefore, the Group has only one operating segment that qualifies as reporting segment under HKFRS 8 *"Operating Segments"*. The Group operates in Hong Kong and the PRC. All of the Group's revenue are derived from Hong Kong, and approximately 88% (2018: 85%) of the Group's non-current assets are located in Hong Kong. Accordingly, no separate segmental analysis is presented.

(b) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

	2019 **HK$'000**	2018 HK$'000
Customer I	**168,717**	164,759
Customer II	**68,568**	N/A*
Customer III	**N/A***	92,015

* The corresponding revenue does not contribute over 10% of the Group's revenue in respective year.

7. REVENUE

The Group is principally engaged in the provision of one-stop design and build solutions as well as repair and maintenance services in relation to podium facade and curtain wall works in Hong Kong. Revenue derived from the principal activity comprises the following:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers and recognised over time:		
Design and build projects		
– Podium facade and related works	**142,634**	244,066
– Curtain wall works	**142,621**	113,222
	285,255	357,288
Repair and maintenance services	**14,501**	8,148
	299,756	365,436

Revenue expected to be recognised in the future arising from the provision of design and build services, which represents the aggregate amount of the consideration the Group is entitled allocated to the remaining performance obligations under the Group's contracts of design and build projects existed at the end of each of the reporting period, is summarised as follows:

	2019 HK$'000	2018 HK$'000
Design and build projects		
– Podium facade and related works	**333,732**	107,672
– Curtain wall works	**83,314**	139,203
	417,046	246,875

The Group will recognise the expected revenue arising from its existing contracts of design and build projects in future as the project work is progressed, which is expected to occur over the next 4 to 16 months.

For repair and maintenance service, there is no unsatisfied performance obligation as at 31 December 2019 and 2018.

8. OTHER INCOME, GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Bank interest income	**56**	38
Loss on disposal of property, plant and equipment	**(297)**	(88)
Reversal of loss allowance	**801**	–
Others	**10**	24
	570	(26)

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	**213**	336
Interest on lease liabilities	**174**	–
	387	336

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging and (crediting) the following:

	2019 HK$'000	2018 HK$'000
Auditor's remuneration	**670**	660
Cost of inventories recognised as expenses#	**80,236**	128,453
Depreciation charge:		
property, plant and equipment*	**1,475**	1,920
right-of-use assets*		
– building, car parks and machinery	**2,526**	–
(Reversal)/provision of expected credit losses allowance for trade receivables	**(116)**	61
(Reversal)/provision of expected credit losses allowance for contract assets	**(643)**	1,136
Reversal of expected credit losses allowance for retention receivables	**(42)**	(94)
Warranty expenses#	**100**	26
Employee benefit expenses, including directors' emoluments *(note 12(a))*		
– Salaries, allowances and other benefits	**50,449**	48,452
– Contributions to defined contribution retirement plan	**1,072**	984
– Equity settled share-based payment	**204**	200
	51,725	49,636
Exchange losses, net	**91**	477
Short-term leases expenses	**2,133**	2,313
Total minimum lease payments previously classified as operating leases under HKAS 17	**–**	2,443

Included in cost of revenue

* Included in administrative and other operating expenses

11. INCOME TAX EXPENSE

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

	2019	2018
	HK$'000	HK$'000
Hong Kong Profits Tax		
– current tax for the year	**5,283**	8,019
– (Over)/under-provision in respect of prior years	**(449)**	233
PRC Enterprise Income Tax		
– current tax for the year	**33**	4
Income tax expense	**4,867**	8,256

The Group is subject to Hong Kong Profits Tax. For the years ended 31 December 2019 and 2018, Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for the year.

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

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime was applicable to a nominated qualified entity in the Group for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2018: 25%) on the estimated assessable profit for the year.

11. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	2019 HK$'000	2018 HK$'000
Profit before income tax	**31,233**	45,195
Tax calculated at Hong Kong profits tax rate of 16.5% (2018:16.5%)	**5,153**	7,457
Tax effect of profit at concessionary rate	**(165)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(26)**	77
Tax effect of revenue not taxable for tax purposes	**(101)**	(2)
Tax effect of expenses not deductible for tax purposes	**363**	337
Tax effect of temporary differences not recognised	**92**	154
(Over)/Under-provision in respect of prior years	**(449)**	233
Income tax expense	**4,867**	8,256

No deferred tax has been provided in the consolidated statements of comprehensive income as no material temporary differences as at 31 December 2019 and 2018.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. The Group is therefore liable for withholding taxes on dividend distributed by the subsidiary in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax (2018: nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Company's subsidiary established in the PRC. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future.

12. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonuses *(note i)* HK$'000	Pension scheme contribution HK$'000	Equity settled share-based payment *(note ii)* HK$'000	Total HK$'000
Year ended 31 December 2019						
Executive directors						
Mr. Lee Chi Hung *(Chairman and Chief Executive Officer)*	**–**	**2,676**	**843**	**18**	**–**	**3,537**
Mr. Chan Wai Yin	**–**	**1,196**	**305**	**18**	**112**	**1,631**
Non- executive directors						
Mr. Leung Ping Kwan	**–**	**780**	**–**	**–**	**–**	**780**
Independent non- executive directors						
Professor Wong Roderick Sue Cheun	**240**	**–**	**–**	**–**	**–**	**240**
Mr. Tai Kwok Leung, Alexander	**240**	**–**	**–**	**–**	**–**	**240**
Mr. Kwan Cheuk Kui	**240**	**–**	**–**	**–**	**–**	**240**
	720	**4,652**	**1,148**	**36**	**112**	**6,668**
Year ended 31 December 2018						
Executive directors						
Mr. Lee Chi Hung *(Chairman and Chief Executive Officer)*	–	2,574	1,267	18	–	3,859
Mr. Chan Wai Yin	–	1,151	366	18	109	1,644
Non- executive directors						
Mr. Leung Ping Kwan	–	780	–	4	–	784
Independent non- executive directors						
Professor Wong Roderick Sue Cheun	240	–	–	–	–	240
Mr. Tai Kwok Leung, Alexander	240	–	–	–	–	240
Mr. Kwan Cheuk Kui	240	–	–	–	–	240
	720	4,505	1,633	40	109	7,007

Notes:

(i) The discretionary bonus of directors are determined by the Remuneration Committee having regard to their performance.

(ii) These amounts represented the estimated value of share options granted to the director under the Company's share option scheme for the year ended 31 December 2019 and 2018. The value of these share options is measured according to the accounting policies for share-based payments as set out in note 4(m) to the financial statements. Further details of the options granted are set out in note 24 to the financial statements.

During the years ended 31 December 2019 and 2018, none of the directors waived the remuneration and there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 include two (2018: two) directors whose emoluments are reflected in the analysis presented note (a) above. The emoluments payable to the remaining three (2018: three) highest paid individuals during the year ended 31 December 2019 are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and other benefits	**3,666**	3,128
Discretionary bonuses	**839**	1,076
Equity settled share-based payment	**56**	91
Contributions to retirement benefits schemes, other social security plans and housing fund	**50**	54
	4,611	4,349

The emoluments fell within the following bands:

	2019 Number of individuals	2018 Number of individuals
HK$1,000,000 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	1

During the years ended 31 December 2019 and 2018, none of the five individuals with highest emoluments waived the remuneration and there were no amounts paid or payable by the Group to them as inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors were within the following bands:

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

13. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Final dividends *(note)*	**14,000**	18,000

Note:

Final dividends in respect of the year ended 31 December 2019 of HK1.4 cents per share, amounting to a total dividend of HK$14,000,000, will be proposed at the forthcoming annual general meeting. The proposed dividends are not reflected as dividend payable in the Group's consolidated financial statements for the year ended 31 December 2019. There are no income tax consequences for the Group related to the payment of dividends by the Company to its shareholders.

Final dividends in respect of the previous financial year, approved and paid during the year of HK1.8 cents per share, amounting a total dividend of HK$18,000,000.

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to owners of the Company	**26,366**	36,939

	'000	'000
Weighted average number of ordinary shares in issue		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000**	1,000,000
Effect of dilutive potential ordinary shares – share options	**–**	12
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,000,000**	1,000,012

For the purpose of calculating diluted earnings per share for the year ended 31 December 2019, no adjustment has been made as the exercise of the outstanding share options was an anti-dilutive effect of the basic earnings per share.

For the year ended 31 December 2018, diluted earnings per share is calculated based on the adjusted weighted average number of ordinary shares with dilutive effect arising from the share options issued during the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Total HK$'000
Cost						
1 January 2018	30	3,475	2,295	2,072	3,233	11,105
Additions	55	486	–	131	–	672
Disposal	–	–	(810)	–	–	(810)
Exchange realignment	–	(45)	–	–	–	(45)
As at 31 December 2018 and 1 January 2019	85	3,916	1,485	2,203	3,233	10,922
Additions	24	808	–	–	152	984
Disposal	–	–	–	(1,543)	–	(1,543)
Exchange realignment	–	(16)	–	–	–	(16)
As at 31 December 2019	**109**	**4,708**	**1,485**	**660**	**3,385**	**10,347**
Accumulated depreciation						
As at 1 January 2018	27	1,885	1,157	349	2,311	5,729
Depreciation	11	579	200	417	713	1,920
Disposal	–	–	(222)	–	–	(222)
Exchange realignment	–	(13)	–	–	–	(13)
As at 31 December 2018 and 1 January 2019	38	2,451	1,135	766	3,024	7,414
Depreciation	14	682	200	358	221	1,475
Disposal	–	–	–	(746)	–	(746)
Exchange realignment	–	(7)	–	–	–	(7)
As at 31 December 2019	**52**	**3,126**	**1,335**	**378**	**3,245**	**8,136**
Net book value						
As at 31 December 2019	**57**	**1,582**	**150**	**282**	**140**	**2,211**
As at 31 December 2018	47	1,465	350	1,437	209	3,508

16. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**805**	986

Cost of inventories recognised as expense in "cost of revenue" amounted to approximately HK$80,236,000 (note 10) for the year ended 31 December 2019 (2018: HK$128,453,000).

17. CONTRACT ASSETS/CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Contract costs incurred to date plus recognised profits less recognised losses*	**1,445,695**	1,162,370
Less: Progress billings to date	**(1,373,813)**	(1,089,411)
Less: Expected credit losses allowance for contract assets	**(578)**	(1,221)
	71,304	71,738
Contract assets	**74,661**	87,891
Contract liabilities	**(3,357)**	(16,153)
	71,304	71,738

* Included in the balances were warranty provision made for design and build projects amounting to HK$1,200,000 as at 31 December 2019 (2018: HK$1,424,000).

All contract assets/contract liabilities are arisen from the construction services for design and build projects and expected to be recovered/settled within one year. The changes in the contract assets and contract liabilities for the year were resulted from the pace of the progress of particular projects and the timing of approval for progress billing application for certain projects. Contract assets is reclassified to trade receivables at the point at which it is invoiced to the customer.

17. CONTRACT ASSETS/CONTRACT LIABILITIES (Continued)

(a) Contract assets

Typical payment terms which impact on the amount of contract assets are as follows:

Construction services

The Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. Additionally, the Group typically agrees 1–2 years retention period for 5%–10% of the contract sum, which is kept in contract assets until the end of the retention period as the Group's entitlement to it is conditional on the Group's work satisfactorily passing inspection. When the milestone payments made by customers is less than the Group's assessment of the stage of completion, contract assets are recognised.

The movements in the expected credit losses allowance for impairment of contract assets are as follows:

	2019	2018
	HK$'000	HK$'000
At beginning of the year	**1,221**	85
(Reversal of)/provision for impairment losses	**(643)**	1,136
At end of the year	**578**	1,221

An impairment analysis is performed at the end of each of the reporting period using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the end of the reporting period about past events, current conditions and forecast of future economic conditions.

17. CONTRACT ASSETS/CONTRACT LIABILITIES (Continued)

(a) Contract assets (Continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

At 31 December	**2019** **%**	2018 %
Expected loss rate	**0.8**	1.4

	HK$'000	HK$'000
Gross carrying amount	**75,239**	89,112
Expected credit losses allowance	**578**	1,221

(b) Contract liabilities

Typical payment terms which impact on the amount of contract liabilities are as follows:

Construction services

When the milestone payments made by customers exceed the Group's assessment of the stage of completion, contract liabilities are recognised.

Movement in contract liabilities

	2019 **HK$'000**	2018 HK$'000
Balance as at 1 January	**16,153**	8,381
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(14,577)**	(5,855)
Increase in contract liabilities as a result of billing in advance of construction activities	**1,781**	13,627
Balance as at 31 December	**3,357**	16,153

18. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**46,166**	77,679
Expected credit losses allowance	**(78)**	(194)
	46,088	77,485
Retention receivables	**17,503**	20,116
Expected credit losses allowance	**(1,868)**	(1,910)
	15,635	18,206
Deposits and prepayments	**15,591**	8,846
	77,314	104,537

The credit period granted to trade debtors ranged from 20 to 60 days.

The ageing analysis of the trade receivables (net of expected credit losses allowance), based on invoice date, as at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**38,528**	66,703
31 to 60 days	**3,239**	9,375
61 to 90 days	**1,479**	106
Over 90 days but less than 1 year	**859**	1,205
Over 1 year	**1,983**	96
	46,088	77,485

18. TRADE AND OTHER RECEIVABLES (Continued)

The movements in the expected credit losses allowance for trade and retention receivables are as follows:

	2019	2018
	HK$'000	HK$'000
At beginning of the year	**2,104**	2,137
Reversal of impairment losses	**(158)**	(33)
At end of the year	**1,946**	2,104

Trade receivables that were past due but not impaired related to customers with long business relationship. 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 fully recoverable.

As at 31 December 2019, based on due date, the Group's retention receivables of HK$15,588,000 (2018: HK$17,253,000) were not yet past due and the remaining balance of HK$47,000 (2018: HK$953,000) were past due, of which nil (2018: HK$386,000) was past due for over one year. Based on the assessment of the directors, no impairment allowance is necessary for the net retention receivables outstanding at the end of the reporting period as those balances due are from customers with long business relationship and there has not been a significant change in their credit quality.

19. PLEDGED BANK DEPOSITS

Pledged bank deposits as at 31 December 2019 are interest-bearing at fixed rate of 0.1% per annum (2018: fixed rate of 0.1% per annum) and have initial maturity period of three months (2018: three months). The pledged bank deposits were denominated in HK$.

Pledged bank deposits were placed in banks to secure the bank borrowings and banking facilities of the Group (notes 22 and 29).

20. CASH AND BANK BALANCES

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

21. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**37,586**	39,805
Retention payables	**7,806**	7,160
Accruals and other payables	**10,184**	12,114
Receipt in advance	**–**	14
	55,576	59,093

The credit period granted by the suppliers and subcontractors is normally 0 to 60 days.

The ageing analysis of the trade payables (net), based on invoice date, as at the end of the reporting period are as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**23,756**	20,792
31 to 60 days	**7,612**	6,657
61 to 90 days	**1,691**	1,056
Over 90 days	**4,527**	11,300
	37,586	39,805

As at 31 December 2019, retention payables of HK$5,867,000 (2018: HK$3,385,000) were aged one year or below and the remaining balance of approximately HK$1,939,000 (2018: HK$3,775,000) were aged over one year.

22. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank borrowings repayable within one year	**1,000**	8,233

The bank borrowings, including trade financing, are interest bearing at the bank's prime rate or the bank's prime rate adjusted by certain basis points per annum. The interest rates of the Group's bank borrowings as at 31 December 2019 granted under banking facilities was 4.78% (2018: 3.63% to 5.87%) per annum.

As at 31 December 2019 and 2018, the banking facilities (including bank borrowings and surety bonds (note 29)) granted to the Group were secured by the bank deposits as described in note 19 and the corporate guarantee provided by the Company.

23. SHARE CAPITAL

	2019 Number of shares	2019 Amount HK$'000	2018 Number of shares	2018 Amount HK$'000
Ordinary share of HK$0.01 each				
Authorised:				
At beginning and end of the year	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:				
At beginning and end of the year	**1,000,000,000**	**10,000**	1,000,000,000	10,000

24. SHARE OPTION SCHEME

Pursuant to resolutions passed by the shareholder of the Company on 12 May 2017, the shareholder of the Company approved the adoption of a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme enables the Company to grant options to eligible persons as incentives or rewards for their contributions to the Group.

The Share Option Scheme will be valid and effective for a period of 10 years commencing from 13 June 2017, after which period no further options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and the options granted during the life of the Share option Scheme may continue to be exercisable in accordance with their terms of issue.

The board of directors may, at its absolute discretion, invite any eligible persons to take up options at a price determined by the board of directors which shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) nominal value of a share. Upon acceptance of the offer of an option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

On 2 November 2018, the Company granted an aggregate of 5,500,000 share options under the Share Option Scheme to subscribe for the ordinary shares of nominal value of HK$0.01 each of the Company to eligible participants of the Company and its subsidiaries. Among the total of 5,500,000 share options granted, 3,000,000 share option were granted to a director of the Company.

The following share options were outstanding under the Share Option Scheme during the year:

	Weighted average exercise price 2019 HK$	**Number of share option 2019**	Weighted average exercise price 2018 HK$	Number of share option 2018
Outstanding at beginning of the year	**HK$0.28**	**5,500,000**	–	–
Granted during the year	**–**	**–**	HK$0.28	5,500,000
Forfeited during the year	**HK$0.28**	**(2,750,000)**	–	–
Outstanding at the end of the year	**HK$0.28**	**2,750,000**	HK$0.28	5,500,000

24. SHARE OPTION SCHEME (Continued)

The exercise price of options outstanding at the end of the year was HK$0.28 (2018: HK$0.28) and their weighted average remaining contractual life was 1 years (2018: 2.16 years).

Of the total number of options outstanding at the end of the year, no share option had vested and were exercisable at the end of the year (2018: nil).

The weighted average fair value of options granted as at 31 December 2019 was HK$238,000 (2018: HK$405,000).

The share-based payments of HK$204,000 was recognised in profit or loss during the year ended 31 December 2019 (2018: HK$200,000).

The following information is relevant in the determination of the fair value of options granted during the year ended 31 December 2018 under the equity-settled share based remuneration schemes operated by the Group.

	2018 HK$
Equity-settled	405,000
Option pricing model used	Binomial option pricing model
Weighted average share price at grant date	0.28
Exercise price	0.28
Weighted average contractual life	1.16 to 2.16 years

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years.

25. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investments in a subsidiary		**63,185**	63,185
Current assets			
Amount due from a subsidiary		**119,919**	112,630
Prepayments and other receivables		**459**	288
Cash and cash equivalents		**2,336**	12,132
		122,714	125,050
Current liabilities			
Accrual and other payables		**11,396**	11,396
Amount due to a subsidiary		**–**	1,649
		11,396	13,045
Net current assets		**111,318**	112,005
Net assets		**174,503**	175,190
CAPITAL AND RESERVES			
Share capital	*23*	**10,000**	10,000
Reserves	*26*	**164,503**	165,190
Total equity		**174,503**	175,190

On behalf of the directors

Lee Chi Hung
Director

Chan Wai Yin
Director

26. RESERVES

The Group

Details of the movements on the Group's reserves for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity. The nature and purposes of reserves within equity are as follows:

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.

(b) Merger reserve

Merger reserves arose from combining the financial statements of the companies now comprising the Group under the reorganisation.

(c) Share-based payments reserve

Cumulative expenses recognised on the granting of share options to the employees over the vesting period.

26. RESERVES (Continued)

The Company

Details of the movements in the Company's reserves during the years ended 31 December 2019 and 2018 are as follows:

	Share premium HK$'000	Share-based payments reserve HK$'000	Retained profits HK$'000	Total reserves HK$'000
As at 1 January 2018	146,033	–	25,929	171,962
Profit for the year	–	–	17,028	17,028
Dividend paid	–	–	(24,000)	(24,000)
Equity settled share-based transactions *(note 24)*	–	200	–	200
As at 31 December 2018	146,033	200	18,957	165,190

	Share premium HK$'000	**Share-based payments reserve HK$'000**	**Retained profits HK$'000**	**Total reserves HK$'000**
As at 31 December 2018 and 1 January 2019	**146,033**	**200**	**18,957**	**165,190**
Profit for the year	**–**	**–**	**17,109**	**17,109**
Dividend paid	**–**	**–**	**(18,000)**	**(18,000)**
Lapse of share option	**–**	**(166)**	**166**	**–**
Equity settled share-based transactions *(note 24)*	**–**	**204**	**–**	**204**
As at 31 December 2019	**146,033**	**238**	**18,232**	**164,503**

27. INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operation and kind of legal entity	Issued and paid-in capital/ registered capital	Equity interest held by the Company 2019	Equity interest held by the Company 2018	Principal activities
Directly held:					
Join Forward Group Limited	British Virgin Islands, limited liability company	4 shares of United States Dollars ("**US$**") 1 each	**100%**	100%	Investment holding
Indirectly held:					
G & M Engineering Company Limited	Hong Kong, limited liability company	1,000,000 shares of HK$1,000,000	**100%**	100%	Provision of one-shop design and build solutions for podium facade and curtain wall and undertaking repair and maintenance services
G & M Curtain Wall Maintenance Company Limited	Hong Kong, limited liability company	10,000 shares of HK$10,000	**100%**	100%	Provision of repair and maintenance services for podium facade and curtain wall
G & M Contracting Company Limited	Hong Kong, limited liability company	HK$1,000,000	**100%**	100%	Inactive
Shenzhen Design G & M Company Limited	The PRC, wholly-owned foreign enterprise with limited liability	Renminbi ("**RMB**") 2,000,000	**100%**	100%	Design of aluminium curtain wall, glass curtain wall and aluminium claddings

28. LEASE

HKFRS 16 was adopted since 1 January 2019 without restatement of comparative figures. Details of the explanation of the transitional requirements that were applied as at the date of initial application, i.e. 1 January 2019, are set out in note 3(a). The accounting policies applied subsequent to the date of initial application as disclosed in note 4(d)(i).

Nature of leasing activities (The Group as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. All the periodic rent is fixed over the lease term.

The Group also leases machinery for which rental is fixed over the lease terms.

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019	1 January 2019 *(note 3(a)(i))*
	HK$'000	HK$'000
Properties and machinery leased for own use, carried at depreciated cost		
– Building and car parks	**2,801**	1,323
– Machinery	**688**	–
Total	**3,489**	1,323

Lease liabilities

	Building and car parks	**Machinery**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
As at 1 January 2019	–	–	–
Recognition upon initial application of HKFRS 16 *(Note 3(a)(i))*	**1,323**	–	**1,323**
Additions	**3,848**	**844**	**4,692**
Interest expense	**139**	**35**	**174**
Lease payments	**(2,426)**	**(206)**	**(2,632)**
As at 31 December 2019	**2,884**	**673**	**3,557**

28. LEASE (Continued)

Lease liabilities (Continued)

Future lease payments are due as follows:

As at 31 December 2019	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
Within one year	2,498	121	2,377
In the second to fifth year, inclusive	1,216	36	1,180
	3,714	157	3,557

As at 1 January 2019	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
Within one year	1,108	32	1,076
In the second to fifth year, inclusive	251	4	247
	1,359	36	1,323

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See Note 3(a)(i) for further details about transition.

28. LEASE (Continued)

Operating lease commitments

Operating leases – lessee

The Group leases office premises and car parks under operating lease arrangement. The leases run for an initial period of one to three years during the year ended 31 December 2018 and were non-cancellable. The total future minimum lease payments were due as follows:

	2018
	HK$'000
Within one year	865
In the second to fifth year, inclusive	509
	1,374

29. GUARANTEES

The Group provided guarantees in respect of the surety bonds issued by a bank in favour of the customers of certain construction contracts. Details of these guarantees as of the end of each of the reporting period are as follows:

	2019	2018
	HK$'000	HK$'000
Aggregate value of the surety bonds issued in favour of customers *(note 19)*	**58,518**	31,084

The surety bonds are required for the entire period of the relevant construction contracts. As at 31 December 2019, the respective construction contracts are expected to be completed in year 2020 (2018: year 2019).

As assessed by the directors, it is not probable that the bank would claim the Group for losses in respect of the guarantee contracts as it is unlikely that the Group is unable to fulfill the performance requirements of the relevant contracts. Accordingly, no provision for the Group's obligations under the guarantees has been made.

30. LITIGATIONS

During the years ended 31 December 2019 and 2018, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding at the end of the reporting period. Claim amounts are not specified in some of the applications of these lawsuits and claims. In the opinion of the directors, sufficient insurance coverage are maintained to cover the losses, if any, arising from most of these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have material adverse impact on the consolidated financial position of the Group.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Bank borrowings HK$'000	Lease Liabilities HK$'000
At 1 January 2018	19,476	–
Changes from cash flows:		
– Proceeds from bank borrowings	24,317	–
– Repayment of bank borrowings	(35,560)	–
– Interest paid	(336)	–
	(11,579)	–
Other changes:		
– Interest incurred for the year	336	–
	336	**–**
At 31 December 2018 and 1 January 2019	**8,233**	**–**
Changes from cash flows:		
– Proceeds from bank borrowings	**11,000**	**–**
– Repayment of bank borrowings	**(18,233)**	**–**
– Capital element of lease payment	**–**	**(2,458)**
– Interest paid	**(213)**	**–**
– Interest element of lease payment	**–**	**(174)**
	(7,446)	**(2,632)**
Other changes:		
– Recognition upon initial application of HKFRS 16 *(Note 3(a)(i))*	**–**	**1,323**
– Increase in lease liabilities from entering into new leases	**–**	**4,692**
– Interest incurred for the year	**213**	**174**
	213	**6,189**
At 31 December 2019	**1,000**	**3,557**

32. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in these consolidated financial statements, the Group had the following transaction with its related party during the year:

Name	Related party relationship	Type of transaction	Transaction amount 2019 HK$'000	2018 HK$'000
Kentan Co., Ltd *(note)*	A director of the Company is key management personnel of this entity	Purchase of materials	**266**	656

Note: Mr. Lee Chi Hung is the director of Kentan Co., Ltd.

The above transaction was conducted in accordance with the terms mutually agreed between the Group and the related parties.

(b) Remuneration of key management personnel who are directors of the Company is disclosed in note 12(a).

33. CAPITAL MANAGEMENT

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group monitors capital using gearing ratio, which is total debt to equity. Total debts represents bank borrowings of the Group. Equity represents total equity of the Group.

The directors of the Company actively and regularly reviews and manages the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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, raise new debts or sell assets to reduce debt.

33. CAPITAL MANAGEMENT (Continued)

The gearing ratio at the end of the reporting period was as follows:

	2019 HK$'000	2018 HK$'000
Bank borrowings	**1,000**	8,233
Total equity	**227,579**	219,019
Gearing ratio	**0.44%**	3.76%

The Group targets to maintain a gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities are categorised as follows:

	2019 HK$'000	2018 HK$'000
Financial assets		
At amortised cost:		
– Trade and other receivables	**65,094**	96,790
– Pledged bank deposits	**5,000**	5,000
– Cash and bank balances	**128,467**	96,620
	198,561	198,410

	2019 HK$'000	2018 HK$'000
Financial liabilities		
At amortised cost:		
– Trade and other payables	**55,576**	59,079
– Lease liabilities	**3,557**	–
– Bank borrowings	**1,000**	8,233
	60,133	67,312

The Group's financial assets and financial liabilities are not materially different from their carrying amounts because of the short term maturity of these financial instruments.

35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management 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 key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

Generally, the Group employs a conservative strategy regarding its financial risk management. As the directors consider that the Group's exposure to financial risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant risks to which the Group is exposed to are described below:

(a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's credit risk is primarily attributable to its trade and other receivables, pledged bank deposits and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables (note 18), it is the Group's policy to deal only with creditworthy counterparties. Normally, the Group does not obtain collateral from the counterparties. In order to minimise credit risk, the Group has credit policy to determine the credit limit and to monitor the ageing of the receivable balances. Follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of the receivables individually and collectively at the end of each of the reporting period to ensure that adequate impairment provision is made for irrecoverable amounts.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2019 and 2018:

31 December 2019	**Current**	**Within 30 days past due**	**31 days to 60 days past due**	**61 days to 90 days past due**	**91 days to 12 months past due**	**More than 12 months past due**	**Total**
Expected loss rate (%)	**0.6%**	**0.1%**	**0.2%**	**0.1%**	**0.4%**	**1.1%**	**0.5%**
Gross carrying amount (HK$'000)	**108,635**	**6,634**	**1,801**	**1,482**	**2,763**	**90**	**121,405**
Loss allowance (HK$'000)	**632**	**7**	**3**	**2**	**11**	**1**	**656**

31 December 2018	Current	Within 30 days past due	31 days to 60 days past due	61 days to 90 days past due	91 days to 12 months past due	More than 12 months past due	Total
Expected loss rate (%)	0.9%	–	–	1.3%	1.1%	–	0.9%
Gross carrying amount (HK$'000)	165,358	12	106	156	1,063	96	166,791
Loss allowance (HK$'000)	1,401	–	–	2	12	–	1,415

Expected loss rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

In respect of pledged bank deposits and cash and bank balances, the credit risk is limited because majority of the deposits are placed with reputable banks and financial institutions.

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group provided guarantees in respect of the surety bonds issued in favour of several customers (note 29). As at 31 December 2019, the maximum exposure to credit risk of guarantees issued by the Group was the value of the surety bonds of HK$58,518,000 (2018: HK$31,084,000), which represented the maximum amount the Group could be required to pay if the guarantees were called on. Management considers that it is unlikely that the Group is unable to fulfill the performance requirements of the relevant contracts and accordingly, the Group's exposure to credit risk in this regard is low.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 41% and 85% (2018: 76% and 99%) of the Group's trade receivables was due from the Group's largest customer and the five largest customers respectively.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from bank deposits and bank borrowings. Borrowings arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

All of the Group's bank borrowings as at 31 December 2019 and 2018 bore interest at floating rates. Details of bank borrowings is disclosed in note 22.

The Group's bank balances, including bank deposits also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Company consider that the Group's exposure to interest rate risk in respect of bank balances is not significant due to low level of deposit interest rate.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

35. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk (Continued)

Sensitivity analysis

The following sensitivity analysis demonstrates the Group's exposure to a reasonable possible change in interest rates on its floating rate bank borrowings with all other variables held constant at the end of each of the reporting period (in practice, the results may differ from the sensitivity analysis below and the difference could be material):

	(Decrease)/Increase in profit for the year and retained profits	
	2019	2018
Changes in interest rate	**HK$'000**	HK$'000
+1%	**(2)**	(14)
-1%	**2**	14

The changes in interest rates do not affect the Group's other component of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the bank borrowings outstanding at the end of each of the reporting period resembles that of the corresponding financial years. The assumed changes in interest rate are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

(c) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk primarily through cash at banks and time deposits placed with banks that are denominated in RMB and EUR.

The carrying amount of the Group's major financial assets denominated in a currency other than the functional currency of the Group as at 31 December 2019 and 2018 are as follows:

	2019	2018
	HK$'000	HK$'000
Financial assets		
RMB	**26**	21
EUR	**110**	113

35. FINANCIAL RISK MANAGEMENT (Continued)

(c) Foreign currency risk (Continued)

Sensitivity analysis

The following table illustrates the approximate change in the Group's profit for the year and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of each of the reporting period.

	Increase in profit for the year and retained profits	
	2019	2018
	HK$'000	HK$'000
Financial assets		
RMB appreciated by 3%	**1**	1
EUR appreciated by 3%	**3**	3

The changes in exchange rates do not affect the Group's other component of equity. The same percentage depreciation in the foreign currencies against the functional currency of the respective group companies would have the same magnitude on profit and retained profits but of opposite effect.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because exposure at the end of each of the reporting period does not reflect the exposure during the respective years.

(d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management.

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

35. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates ruling at the end of the reporting period) and the earliest date the Group can be required to pay.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000
As at 31 December 2019				
Trade and other payables	**55,576**	**55,576**	**55,576**	**–**
Lease liabilities	**3,557**	**3,714**	**2,498**	**1,216**
Bank borrowings	**1,000**	**1,016**	**1,016**	**–**
	60,133	**60,306**	**59,090**	**1,216**
As at 31 December 2018				
Trade and other payables	59,079	59,079	59,079	–
Bank borrowings	8,233	8,303	8,303	–
	67,312	67,382	67,382	–

36. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus ("**COVID-19**") has impact on the global business environment. Up to the date of these financial statements, COVID-19 has not resulted in material impact to the Group. Pending on the development and spread of COVID-19 subsequent to the date of these financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from this annual report and the accountant's report as contained in the Prospectus, is set out below.

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**299,756**	365,436	315,751	273,912	329,920
Gross Profit	**69,452**	86,995	99,505	90,523	71,067
Profit before income tax	**31,233**	45,195	63,997	61,901	55,863
Income tax expenses	**(4,867)**	(8,256)	(11,730)	(11,824)	(9,371)
Profit for the year	**26,366**	36,939	52,267	50,077	46,492

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**5,700**	3,508	5,376	3,814	1,762
Current assets	**286,247**	298,990	269,232	159,841	166,983
Total assets	**291,947**	302,498	274,608	163,655	168,745
Non-current liabilities	**1,180**	–	–	–	178
Current liabilities	**63,188**	83,479	66,523	80,708	82,725
Total liabilities	**64,368**	83,479	66,523	80,708	82,903
Total equity	**227,579**	219,019	208,085	82,947	85,842