# Geotech Holdings Ltd.
# 致浩達控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock code: 1707

2019
ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**

Mr. Chen Zhi *(Chairman)*
*(Appointed as Chairman on 15 January 2019)*
Mr. Qiu Dong *(Appointed on 15 January 2019)*
Mr. Yau Kin Wing Sino *(Chief Executive Officer)*
*(Ceased to act as Chairman and appointed as Chief Executive Officer on 15 January 2019)*
Mr. Kung Ho Man *(Resigned on 15 January 2019)*
Ms. Tang Ka Wa Danise *(Resigned on 15 January 2019)*

**Independent Non-Executive Directors**

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

Mr. So Wai Man *(Chairman)*
*(Appointed on 15 January 2019)*
Mr. Chan Tsang Mo *(Appointed on 15 January 2019)*
Mr. Chen Zhi *(Appointed on 15 January 2019)*
Mr. Shen Zejing *(Appointed on 15 January 2019)*
Mr. Cheung Wai Lun Jacky *(Resigned on 15 January 2019)*
Mr. Chow Chun To *(Resigned on 15 January 2019)*
Mr. Kung Ho Man *(Resigned on 15 January 2019)*

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Ip Ying Hang

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1920, 19/F
Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITORS

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

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Shanghai Commercial Bank Limited
Bank of Communications Co., Ltd. Hong Kong Branch

## STOCK CODE

1707

## WEBSITE

www.geotech.hk

# CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Geotech Holdings Ltd. (the "**Company**", together with its subsidiaries, the "**Group**", "**we**", "**our**" or "**us**"), I present the audited annual results of the Group for the year ended 31 December 2019.

The Group's results for the 2019 financial year were not satisfactory, and we recorded an increase in revenue but net loss for the overall performance.

The Group's revenue increased by approximately 38.0% from approximately HK$257.4 million in 2018 to approximately HK$355.3 million in 2019, of which approximately HK$2.0 million were contributed from the property-related services engaged by the Group since August 2019. In terms of construction and engineering services, the Group continuously adopted the proactive pricing strategy since 2018 and continued into the year 2019 to maintain its competitiveness under the keen market competition, contributing to the increase in revenue in the year 2019. However, the Group recorded a net loss of approximately HK$12.5 million for the year 2019 in contrast to a net profit of approximately HK$5.3 million recorded in the year 2018. The net loss for the year was mainly due to significant decrease in gross profit and increase in administrative expenses despite the increase in revenue. Other external factors including the social unrest and overall economic environments in Hong Kong since the second half of 2019 also had a negative impact on the Group's operation. The Group's business performance for 2019 is further detailed in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" in this annual report.

As stated above, the Group's construction and engineering services is expected to be challenging in the coming years. We are actively exploring other opportunities that are beneficial to the long-term development of the Group. In August 2019, the Group expanded its business into property-related services, enabling a more diversified revenue base and securing stable cash inflows.

In terms of geographical expansion, the Directors believe that Cambodia's real estate business has continued to grow in recent years, providing business opportunities for site formation, construction and decoration works. To leverage the Group's experience in the construction and engineering industry in Hong Kong and capture potential business opportunities in the market, the Group has set up a subsidiary to expand into construction and decoration services in the Kingdom of Cambodia ("**Cambodia**"). Therefore, in addition to maintaining the existing businesses in Hong Kong, the Group will seize the opportunity to expand its business in other region in 2020.

Looking forward, the Group will continue to review its existing operations and businesses to formulate long-term business strategies. Based on the review, the Group will explore or seek other business opportunities to strengthen and consolidate its revenue base.

I strongly believe that the Group will be able to share the benefits of its continuous growth with our shareholders and deliver a greater shareholders' value in the very near future.

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

**Chen Zhi**
*Chairman*

Hong Kong, 31 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group was principally engaged in the provision of (i) construction and engineering services; and (ii) property-related services for the financial year ended 31 December 2019.

### Construction and Engineering Services

Geotech Engineering Limited ("**Geotech Engineering**"), an indirect wholly-owned subsidiary of the Company, is principally engaged in construction and engineering services and a leading slope works contractor in Hong Kong with over 20 years' of experience in the civil engineering industry. It is an approved specialist contractor included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the categories of "Landslip preventive/remedial works to slopes/retaining walls" (confirmed status) and "Ground investigation field work" (Group I status) and also an approved contractor included in the List of Approved Contractors for Public Works under the category of "Site formation" (Group B probationary status). In addition, Geotech Engineering is also registered as a specialist contractor in the categories of site formation works and ground investigation field works with the Building Authority.

Total revenue of construction and engineering services for the year ended 31 December 2019 amounted to approximately HK$353.3 million, representing an increase of approximately 37.3% as compared with total revenue of approximately HK$257.4 million last year. Revenue in this segment continued to be deriving from slope works and ground investigation field works, with public sector projects including those from the Landslip Prevention and Mitigation Programme (the "**Programme**") commissioned by the Civil Engineering and Development Department*, other government departments and statutory bodies, amounted to approximately 95.4% of total revenue in this segment (2018: approximately 94.3%).

The Group has been experiencing an intense competition in the construction and engineering market, especially the slope works sector in Hong Kong, affecting the profitability of the Group. Faced with more intense competition in the market during the year, the Group strives to remain competitive through a variety of operational initiatives:

- in response to such market conditions, the Group has adopted a proactive pricing strategy since 2018 and continued into the year 2019 in order to maintain the Group's competitiveness in the slope works sector in particular;

- in order to undertake more construction projects given Geotech Engineering's capacity, it has stepped up collaboration with subcontractors by focusing on project management role and subcontracting a larger part of works required; and

* The Programme had been implemented by The Government of Hong Kong Special Administrative Region (the "**Government**") since 2010 on a rolling basis

- other than slope works, the Group has diversified into other types of civil engineering works by tendering projects jointly with partners for contracts which involve various works category (including roads and drainage). In February 2019, Geotech Engineering entered into a joint arrangement with an independent third party, for the purpose of executing a public works contract under the roads and drainage category. The Directors consider that the successful tendering and execution of this contract are beneficial to the Group's diversification in construction and engineering services in Hong Kong.

However, the effect from the increase in revenue was dragged down by the thin gross margin of 3.1% for the year ended 31 December 2019 as compared with gross margin of 9.5% last year. Such a squeeze in margin was mainly due to (i) a significant increase in construction projects with relatively low gross profit margin; (ii) our continuing proactive pricing strategy; as well as (iii) unexpected geological difficulties in certain major contracts.

In addition, other external factors including the social unrest and overall economic environments in Hong Kong since the second half of 2019 also had a negative impact on the Group in terms of cash flow, operational efficiencies and completion progress on certain projects.

As at 31 December 2019, the Group had 60 construction contracts on hand, including contracts in progress and contracts yet to commence (31 December 2018: 22 contracts) with a total outstanding contract sum of approximately HK$595.9 million (31 December 2018: approximately HK$711.7 million) and these contracts are expected to be completed during or before 2022. Subsequent to the year ended 31 December 2019 and up to the date of this annual report, the Group has secured certain construction contracts with an aggregate total contract sum of approximately HK$2.2 million and these contracts are expected to be completed during 2020.

### Property-related Services

As the Directors expect that the industry conditions of the construction and engineering services, in particular the slope works sector in Hong Kong, to remain challenging in the coming years, the Group has been actively exploring other suitable development opportunities to diversify its revenue base that are beneficial to the long-term development of the Group. As part of this strategy, the Group has expanded its business into property-related services during the year.

In light of an increasing property supply giving rise to an increasing demand for various services such as property management and property agency in the property market in Hong Kong in the long run, and the Group's management experiences and knowledge gained in the industry, the Directors consider that it would be a good opportunity to participate in the property-related services sector in Hong Kong in order to capitalise on the potential in the industry. The Group has expanded its business in the property-related services sector in Hong Kong since August 2019 by entering into a property management consultancy services agreement with a property owner in Hong Kong and Mr. Chen Zhi, the chairman of the Board, an executive Director and the controlling shareholder of the Company, is the controlling shareholder of the property owner. For further details of the property management consultancy services agreement, please refer to section headed "CONTINUING CONNECTED TRANSACTIONS" in this annual report.

With the accumulation of solid experience including leasing related consultancy services during the period, the Group will continue to provide similar consultancy services and further expand its professional services into the provision of property leasing agency and other property management related services in order to benefit from such market opportunities. An indirect wholly-owned subsidiary of the Company has successfully obtained the Estate Agent's Licence (Company) from the Estate Agents Authority in Hong Kong in June 2019 to carry on estate agency works as an estate agent.

## OUTLOOK

Due to the outbreak of novel coronavirus (COVID-19) (the "**Outbreak**"), progress of certain construction projects were being delayed as (i) certain workers were unable to return to work in Hong Kong from the People's Republic of China (the "**PRC**") as part of the Government's 14 days quarantine countermeasures in containing the Outbreak in February 2020; and (ii) the Group also experienced temporary insufficient supply of construction materials such as concrete and cement due to delay in the supply chain logistics from the PRC. The supply of construction materials was resumed towards the end of February 2020. The Directors expect that the Outbreak would result in short-term delay in completion progress of works of certain construction projects, in the opinion of the Directors, it is not practicable to provide a quantitative estimate of the potential impact of this Outbreak on the Group's financial statements. The Group would assess the risks and uncertainties arising from the Outbreak and take various measures to mitigate the potential adverse impact from such disruptions.

Following the close of mandatory unconditional cash offer in early January 2019, the Board has reviewed the operation and business activities of the Group. Apart from focusing on construction and engineering services in Hong Kong, the Group considered to explore other business and seek to expand geographically in order to enhance the future development and strengthen the revenue bases of the Group. The Board believes that the Group's strategy to diversify its business could provide a better return to the shareholders of the Company (the "**Shareholders**").

In line with the Board's strategy as stated above, the Group is taking an active approach for further expansion:

- having considered the above, the Board expects that the industry conditions of the construction and engineering services, in particular the slope work sector in Hong Kong, to remain challenging in the coming years. The Group will closely monitor the market and respond to changes in market conditions. Going forward, in order to broaden the types of works in the construction and engineering sector other than slope works and ground investigation field works, Geotech Engineering strives to partner with other potential partner(s) for tendering projects in various types of civil engineering works;

- despite the positive outlook in the long run as set out under the section headed "BUSINESS REVIEW", it is envisaged that the market environment for our property-related services will be challenging in 2020 given the uncertainties in the external economic and trading environment under the Outbreak. However, by leveraging our management experiences and knowledge gained in the industry, the Group will strive to seek various property-related services opportunities; and

- following an initial study in the property industry in Cambodia, the Directors believe that there will be business opportunities including but not limited to site formation, construction and decoration works. To leverage the Group's construction and engineering experience in Hong Kong and expand geographically into the provision of construction and decoration services in Cambodia, the Group has set up a wholly-owned subsidiary in Cambodia in February 2019.

Besides, following the completion of placing of new shares of the Company in June 2019 with net proceeds of approximately HK$88.7 million, the Group is currently seeking for potential investment opportunities. Details of placing of new shares of the Company are set out in the section headed "Fund Raising Activity – Placing of new shares under general mandate" in this annual report.

## FINANCIAL REVIEW

### Revenue

The Group's total revenue increased by approximately HK$97.9 million or approximately 38.0% from approximately HK$257.4 million for the year ended 31 December 2018 to approximately HK$355.3 million for the year ended 31 December 2019. The Group's total revenue for the year was contributed by the construction and engineering services and property-related services.

**(a) Construction and Engineering Services**

The Group's revenue generated from the construction and engineering services recorded a significant increase of approximately HK$95.9 million or approximately 37.3% from approximately HK$257.4 million for the year ended 31 December 2018 to approximately HK$353.3 million for the year ended 31 December 2019. Such increase was mainly attributable to the increase in contracts awarded since 2018 and continued into 2019 as a result of the adoption of proactive pricing strategy in order to maintain the Group's competitiveness under the keen competition in the market.

**(b) Property-related Services**

The Group expanded into property-related services in August 2019 and recorded revenue for the year ended 31 December 2019 of approximately HK$2.0 million for the provision of property management consultancy services to property owners in Hong Kong. Included in the revenue was continuing connected transactions amounting to approximately HK$1.8 million and the details of the transactions are set out in the section headed "CONTINUING CONNECTED TRANSACTIONS" in this annual report.

### Gross Profit and Gross Profit Margin

Despite the increase in revenue for the year, the Group's total gross profit for the year ended 31 December 2019 amounted to approximately HK$10.9 million, representing a decrease of approximately 55.4% as compared with approximately HK$24.4 million for the year ended 31 December 2018. The Group's total gross profit margin for the year ended 31 December 2019 was approximately 3.1%, as compared with approximately 9.5% for the year ended 31 December 2018.

### (a) Construction and Engineering Services

The gross profit from construction and engineering services for the year ended 31 December 2019 amounted to approximately HK$10.5 million, representing a decrease of approximately 57.0% as compared with approximately HK$24.4 million for the year ended 31 December 2018. The gross profit margin from construction and engineering services for the year ended 31 December 2019 was approximately 3.0%, as compared with approximately 9.5% for the year ended 31 December 2018. The decrease in the gross profit margin from construction and engineering services was mainly due to (i) continuing proactive pricing strategy in response to competitive market conditions; (ii) the substantial use of subcontractors for a larger proportion of contracts resulted in a significant increase in subcontracting charges and thin gross profit margin for these contracts; and (iii) additional costs incurred in dealing with unexpected difficult geological conditions in certain construction sites resulted in gross loss or very low gross margin for a number of major construction projects.

### (b) Property-related Services

The gross profit and gross profit margin from property-related services for the year ended 31 December 2019 amounted to approximately HK$0.4 million and approximately 17.6% respectively.

## Other Income

Other income mainly included rental income from lease of machinery, bank interest income and safety consultancy income. For the year ended 31 December 2019, other income amounted to approximately HK$5.2 million (2018: approximately HK$4.2 million). The increase in other income was mainly due to the increase in bank interest income on unutilised proceeds from placing of new shares of the Company in June 2019.

## Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2019 amounted to approximately HK$29.4 million, representing an increase of approximately 30.2% compared with approximately HK$22.6 million for the year ended 31 December 2018. The increase was mainly due to (i) the Group's business expansion including new operations of property-related services in Hong Kong and construction and decoration services in Cambodia during the year resulting in higher staff costs from an increase in headcount; and (ii) impairment losses on trade and other receivables and contract assets recognised for the year ended 31 December 2019 from assessment of expected credit losses ("**ECL**") in consideration of the impact of unstable economic environment in the future and details of the measurement of ECL are set out in note 2.7 to the Consolidated Financial Statements in this annual report.

## Finance Costs

Finance costs included interest charges on bank borrowings and finance charge on lease liabilities. Finance costs for the year ended 31 December 2019 was approximately HK$0.2 million, representing a decrease of approximately 18.7% compared with approximately HK$0.3 million in the year ended 31 December 2018. The decrease was mainly attributable to the decrease in interest charges on bank borrowings as a result of repayment of all bank borrowings during the second half of 2018.

### Income Tax Credit/(Expense)

Income tax credit of approximately HK$1.0 million was recognised for the year ended 31 December 2019 in contrast to income tax expenses of approximately HK$0.4 million for the year ended December 2018 as a result of significant decrease in taxable income and increase in tax credit from deferred taxation during the year ended 31 December 2019.

### Net (Loss)/Profit

Loss attributable to equity holders of the Company for the year ended 31 December 2019 amounted to approximately HK$12.5 million, as compared to the profit attributable to equity holders of the Company of approximately HK$5.3 million for the year ended 31 December 2018. The Group's net loss for the year ended 31 December 2019 was mainly due to (i) the decrease in gross profit; and (ii) the increase in administrative expenses as discussed above. As a result, the Group's net loss margin for the year ended 31 December 2019 was approximately 3.5%, as compared to net profit margin of approximately 2.1% for the year ended 31 December 2018.

### Final Dividend

The Board did not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: nil).

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Company's issued share capital was HK$16.8 million and the number of its issued ordinary shares of the Company (the "**Shares**") was 1,680 million with par value of HK$0.01 each.

As at 31 December 2019, the Group had total cash and bank balances of approximately HK$143.3 million (31 December 2018: approximately HK$82.3 million). The Group had no bank borrowing as at 31 December 2019 (31 December 2018: nil). Other borrowings of the Group as at 31 December 2019 were lease liabilities of approximately HK$7.4 million (31 December 2018: obligations under finance leases* of approximately HK$2.4 million). Details of lease liabilities are set out in note 21 to the consolidated financial statements in this annual report. All borrowings were denominated in Hong Kong dollars. The interest rates on lease liabilities were charged at fixed rates with effective rates ranging from 4.13% to 5.29% for the year ended 31 December 2019 (2018: interest rates on obligation under finance leases* were charged at fixed rates with effective rates ranging from 4.27% to 4.29%). The Group did not carry out any interest rate hedging policy.

### Treasury Policy

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

* The Group has initially applied HKFRS16 at 1 January 2019, using the modified retrospective approach

### Gearing ratio

Gearing ratio is calculated by dividing total borrowings by total equity as at the year-end date and multiplied by 100%. Total borrowings of the Group were the lease liabilities of approximately HK$7.4 million (31 December 2018: obligations under finance leases* of approximately HK$2.4 million). The gearing ratio of the Group as at 31 December 2019 was approximately 2.8% (31 December 2018: approximately 1.3%). The increase in gearing ratio was mainly due to higher total indebtedness level from leases entered into during the year ended 31 December 2019.

### Pledge of Assets

As at 31 December 2019, the carrying amounts of the Group's motor vehicles of approximately HK$1.1 million were pledged under leases (31 December 2018: 1.1 million).

### Foreign Exchange Exposure

The Group mainly operates in Hong Kong. Most of the operating transactions and revenue are settled in Hong Kong dollars ("**HK$**") and the assets and liabilities are primarily denominated in HK$. The Group's exposures to foreign exchange mainly arise from its cash and bank denominated in United States Dollars ("**US$**") amounting to approximately HK$38.8 million as at 31 December 2019 (31 December 2018: approximately HK$41.0 million). Most of the operating transactions from the Group's new operation in Cambodia are also settled in US$.

However, HK$ are pegged to US$ under the Linked Exchange Rate System, the Group is not exposed to any significant foreign exchange risk against the US$ and therefore has not entered into any derivatives agreement and did not commit to any financial instrument to hedge its foreign exchange exposure during the year ended 31 December 2019 (2018: nil).

### Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year ended 31 December 2019, the Group did not have any significant investments held, material acquisitions and disposals of subsidiaries and associated companies.

### Future Plans for Material Investments or Capital Assets

Save as disclosed under the section headed "Use of Net Proceeds from the listing of shares of the Company on 12 October 2017" in this annual report, the Group did not have other future plans for material investments or capital assets as at 31 December 2019.

* The Group has initially applied HKFRS16 at 1 January 2019, using the modified retrospective approach

### Employees and Remuneration Policies

As at 31 December 2019, 180 employees were on the Group's payroll (31 December 2018: 145 employees). For the year ended 31 December 2019, total staff costs (included Directors' remuneration) amounted to approximately HK$27.6 million (2018: approximately HK$30.6 million). Total staff costs comprised salaries, wages and other staff benefits, bonuses and contributions to retirement schemes. In order to attract and retain high quality staff and to enable smooth operation within the Group, the remuneration policy of the Group's employees are being reviewed periodically to ensure that the salary and benefit levels of employees of the Group are competitive (with reference to market conditions and individual qualifications, position and experience). The Group continues to provide adequate job training to the employees to equip them with practical knowledge and skills. Apart from mandatory provident fund and job training programs, salaries increment and discretionary bonuses are being awarded to employees according to the assessment of individual performance and market situation. For remuneration policies of the Directors and senior management and share option schemes, please refer to sections headed "REMUNERATION COMMITTEE" and "SHARE OPTION SCHEME" in this annual report respectively.

### Environmental Policies and Performance

The Company is committed to environmental protection and sustainable development through the adaption and promotion of environmental management plan in its operations to increase staff's awareness on environmental protection and energy conservation. Information of the environmental policies and performance of the Group is set out in the section headed "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT" on pages 30 to 39 in this annual report.

### Capital Commitments and Contingent Liabilities

As at 31 December 2019, the Group had no capital commitments (31 December 2018: nil) nor material contingent liabilities (31 December 2018: nil).

### Use of Net Proceeds from the listing of shares of the Company on 12 October 2017 (the "Listing")

Net proceeds from the Listing ("**Net Proceeds**") amounted to approximately HK$72.8 million. As at 31 December 2019, a total amount of approximately HK$59.6 million out of the Net Proceeds had been used by the Group. The application of Net Proceeds during the year ended 31 December 2019 were as follows:

| | **Planned use of Net Proceeds remained unused as at 1 January 2019** HK$'000 | **Actual use of Net Proceeds during the year ended 31 December 2019** HK$'000 | **Unused amount of Net Proceeds as at 31 December 2019** HK$'000 | |
|---|---|---|---|---|
| Acquisition of the site facilities and equipment | 10,347 | 419 | 9,928 | |
| Expansion of our workforce both at office level and site level | 9,786 | 6,493 | 3,293 | |
| Total | 20,133 | 6,912 | 13,221 | *(note)* |

*Note:*

As the Group has been subcontracting a larger part of construction works required, the expansion plan as set out in the section headed "Future Plans and Use of Proceeds" to the prospectus of the Company dated 28 September 2017 for the procurement of site facilities and equipment and workforce has been postponed. As at 31 December 2019, the unused amount of Net Proceeds was placed as interest-bearing deposits with licensed banks in Hong Kong. The Group expects to gradually apply the remaining Net Proceeds in the manner in accordance with actual business needs and use up the remaining Net Proceeds within three years.

### Fund Raising Activity – Placing of new shares under general mandate (the "Placing")

Reference is made to the Company's announcements dated 4 June 2019 and 17 June 2019. All the terms and conditions set out in the placing agreement have been fulfilled and the completion of the Placing took place on 17 June 2019. Pursuant to the terms and conditions of the placing agreement, 280,000,000 Shares were issued and placed to not less than six independent placees at the placing price of HK$0.32 per placing share. The placing shares have an aggregate nominal value of HK$2.8 million.

The net proceeds from the Placing (after deducting the placing commission, and other professional fees and expenses) amounted to approximately HK$88.7 million. The net price of each placing share was approximately HK$0.317. The market price of the placing shares was HK$0.385 per share as quoted on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 4 June 2019, the date when the terms of the placing agreement were fixed. As at 31 December 2019, approximately HK$31.1 million of the net proceeds from the Placing had been used for general working capital of the Group and the rest of the net proceeds (approximately HK$57.6 million) remained unused and are intended to be used for general working capital of the Group and any potential investment opportunities within two years.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Chen Zhi (陳志先生)**, aged 32, was appointed as an executive Director in December 2018. He is the chairman of the Board and controlling shareholder of the Company and the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Chen is also a directors of certain subsidiaries of the Company. Mr. Chen holds a bachelor's degree of Business Administration from the National University of Management, Cambodia. Currently, he is a director, chairman and controlling shareholder of Prince Real Estate (Cambodia) Group Co., Ltd., the holding company for a group of companies principally engaged in property related industry that includes the provision of the development and leasing of commercial and residential properties in Cambodia (the "**Prince Group**"). Mr. Chen has over eight years of experience in the areas of property agency and development. In addition, Mr. Chen also has extensive experience in internet industry in Cambodia and Singapore, and is a director of several internet industry related companies in Cambodia and Singapore.

**Mr. Qiu Dong (邱東先生)**, aged 32, was appointed as an executive Director in January 2019. Mr. Qiu is also a director of a subsidiary of the Company. Mr. Qiu has over eight years of experience in the sales of construction stones and building decoration. Mr. Qiu is a chief executive officer of a group company principally engaged in providing real estate construction and decoration projects of the Prince Group. He is also a general manager of a company engaged in stone sales and interior decoration in China.

**Mr. Yau Kin Wing Sino (邱建榮先生)**, aged 62, was appointed as a Director in June 2016 and redesignated as an executive Director in September 2017 and redesignated as the chief executive officer on 15 January 2019. Mr. Yau is also director of certain subsidiaries of the Company. Mr. Yau is one of the founders of the Group with over 30 years of experience in the construction and engineering industry in Hong Kong.

### Independent Non-Executive Directors

**Mr. Chan Tsang Mo (陳增武先生)**, aged 35, was appointed as an independent non-executive Director in January 2019. He is the chairman of the audit committee of the Board (the "**Audit Committee**") and a member of the Remuneration Committee and the Nomination Committee. Mr. Chan has over 10 years of finance, accounting and treasury experience. Mr. Chan assumed various positions in professional accounting and financial firms including as a senior auditor (mainly responsible for accounting, auditing and taxation assignments) of RSM Nelson Wheeler (principally engaged in the provision of accounting services) from December 2009 to January 2011, as a supervisor in the corporate services division (mainly responsible for accounting, payroll, treasury and audit assignments) of Intertrust Resources Management Limited (principally engaged in the provision of legal and financial administrative services) from June 2011 to June 2013, and as an accounting manager (being mainly responsible for the management and supervision of tax and financial matters) of Reignwood International Investment (Group) Co., Ltd. (principally engaged in investment services) from October 2013 to April 2016.

Mr. Chan was an executive director of Ares Asia Limited (stock code: 645), the shares of which are listed on the main board of the Stock Exchange, from June 2014 to March 2016. From May 2016 to October 2017, he worked as a financial controller in Wan Cheng Metal Packaging Company Limited (stock code: 8291), the shares of which are listed on GEM of the Stock Exchange and was responsible for overseeing the consolidated accounts and preparing financial information, forecast memorandum, notes to the consolidated financial statements and checklists for the listing application of the company. Since August 2017, he has been a director of Morton Professional Services Limited and is responsible for advising on company formation, business establishments and legal compliance related matters. Mr. Chan currently serves as an independent non-executive director of Hong Kong Finance Investment Holding Group Limited (stock code: 7), the shares of which are listed on the main board of the Stock Exchange. Mr. Chan also has acted as an independent non-executive director of Rentian Technology Holdings Limited (stock code: 885) since March 2020, the shares of which are listed on the main board of the Stock Exchange.

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

**Mr. Fung Chi Kin (馮志堅先生)**, aged 70, was appointed as an independent non-executive Director in September 2017. Mr. Fung is a member of the Audit Committee and Nomination Committee. Mr. Fung has over 40 years of experience in banking and finance. He was a director and a deputy general manager of Po Sang Bank Limited (merged into Bank of China (Hong Kong) Limited in 2001) and a managing director of BOCI Securities Limited. From October 1998 to June 2000, Mr. Fung served as a Council Member of the First Legislative Council of Hong Kong Special Administrative Region of the People's Republic of China.

Mr. Fung has been appointed as an executive director and compliance officer of Loco Hong Kong Holdings Limited (stock code: 8162) in June 2019 and August 2019 respectively, the shares of which are listed on GEM of the Stock Exchange. Mr. Fung has also acted as an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (stock code: 682), the shares of which are listed on the main board of the Stock Exchange since September 2003. Since July 2018, Mr. Fung has also acted as a non-executive director of Sang Hing Holdings (International) Limited (stock code: 1472), the shares of which are listed on the main board of the Stock Exchange in March 2020. Mr. Fung served as an executive director and compliance officer of China Trustful Group Limited (stock code: 8265) from September 2014 to May 2017 and from March 2019 to October 2019, the shares of which are listed on GEM of the Stock Exchange. From August 2017 to April 2019, Mr. Fung served as an independent non-executive director of China Overseas Nuoxin International Holdings Limited (formerly known as Kenford Group Holdings Limited) (stock code: 464), the shares of which are listed on the main board of the Stock Exchange.

**Mr. Shen Zejing (沈澤敬先生)**, aged 62, was appointed as an independent non-executive Director in January 2019. Mr. Shen is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Shen is currently the partner of Hylands Law Firm. Mr. Shen holds a bachelor's degree in law from China University of Political Science and Law and is a practicing lawyer in China. Mr. Shen has over 30 years of experience in the fields of corporate, securities law business, foreign-related legal business and litigation business. He has provided legal services to a number of well-known conglomerates and institutions, acting as their legal counsels to advise and represent those conglomerates and institutions in both the litigation and non-litigation matters related to financial, real estate, corporate and other aspects.

**Mr. So Wai Man (蘇偉民先生)**, aged 47, was appointed as an independent non-executive Director in December 2018. Mr. So is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Mr. So is currently the finance director of a medical and healthcare company. Mr. So holds a bachelor's degree of Business Administration in Accounting from the Hong Kong University of Science and Technology and he is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. So has over 20 years of experience in corporate finance, planning and strategic implementation, change management and people development and he has served key financial and management positions in several multi-national corporations with diverse exposure in different industries ranging from creative agency, event agency, retail and manufacturing companies.

## SENIOR MANAGEMENT

**Mr. Ip Ying Hang (葉映恒先生)**, aged 34, is the financial controller and company secretary (the "**Company Secretary**") of the Company. He graduated from Hong Kong Baptist University in November 2009 with a bachelor's degree in Commerce in Accountancy. Mr. Ip has been a member of the Hong Kong Institute of Certified Public Accountants since March 2015 with over nine years of experience in auditing, accounting and financial management in Hong Kong. He joined the Group in December 2015 as the financial controller and company secretary of Geotech Engineering. Before that, Mr. Ip worked at SHINEWING (HK) CPA Limited from July 2011 to November 2014 at which his last position was assistant manager and then worked at KPMG from November 2014 to December 2015 at which his last position was manager.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of maintaining a high standard of corporate governance. The Company believes that an effective corporate governance practice is fundamental to enhancing Shareholders value and safeguarding the interests of Shareholders and other stakeholders. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business. The code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") have been adopted as the Company's corporate governance practices.

## CORPORATE GOVERNANCE CODE

### Compliance with the Corporate Governance Code

The Company has adopted and complied with applicable code provisions (the "**Code Provision(s)**") in the CG Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2019 except for Code Provision E.1.2. Code Provision E.1.2 stipulates that the chairman of the board of director should attend the annual general meeting. Mr. Chen Zhi, the chairman of the Board, was unable to attend the Company's annual general meeting held on 28 June 2019 as he was on business trip for other important business engagement. Nevertheless, he had arranged for Mr. Yau Kin Wing Sino, executive Director and the chief executive officer of the Company, to take the chair of the meeting and answer Shareholders' questions. The Directors will periodically review the Company's corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the CG Code from time to time.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the requirements of the Model Code during the year ended 31 December 2019.

## THE BOARD

### Role and function

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

### Composition

As at the date of this annual report, the Board is chaired by Mr. Chen Zhi and comprised seven members, consisting of three executive Directors and four independent non-executive Directors. The list of Directors is set out in the section headed "DIRECTORS' REPORT" in this annual report. Biographical details of Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" in this annual report.

## Board Diversity Policy

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

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

The Board sets measurable objectives to implement the Board Diversity Policy and reviews such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. During the year ended 31 December 2019, the Nomination Committee has considered a number of factors including but not limited to the age, education background and working experience of the candidates when selecting the Directors.

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

## Nomination Policy

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

## Dividend Policy

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

(i) the general financial condition of the Group;

(ii) capital and debt level of the Group;

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

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

(v) the general market conditions; and

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

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. In compliance with the CG Code, the position of the chairman and the chief executive officer of the Company are held by separate individuals.

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

As at the date of this annual report, the Company has four independent non-executive Directors representing more than one-third of the Board in compliance with Rule 3.10(1) and 3.10A of the Listing Rules. Among the four independent non-executive Directors, Mr. Chan Tsang Mo and Mr. So Wai Man have the appropriate professional qualifications in accounting or related financial management expertise in compliance with Rule 3.10(2) of the Listing Rules.

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

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

## APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

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

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

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

## CORPORATE GOVERNANCE FUNCTIONS

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

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

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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

## DIRECTORS' INSURANCE

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

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

Development and training of Directors is an ongoing process so that they can perform their duties appropriately. During the year ended 31 December 2019, all Directors are provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they continue to make contribution to the Board in an informed and relevant manner. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

The Directors are required to provide the Company with details of the training's records. Based on those training's record, the Directors received the following training during the year ended 31 December 2019:

| | **Type of training** | |
|---|---|---|
| **Name of Director** | **Reading and/ or on-line studying** | **Seminars and/ or workshops** |
| **Executive Directors** | | |
| Mr. Chen Zhi | ✓ | – |
| Mr. Qiu Dong(1) | – | ✓ |
| Mr. Yau Kin Wing Sino | ✓ | – |
| Mr. Kung Ho Man(2) | – | – |
| Ms. Tang Ka Wa Danise(2) | – | – |
| **Independent non-executive Directors** | | |
| Mr. Chan Tsang Mo(3) | ✓ | ✓ |
| Mr. Fung Chi Kin | ✓ | – |
| Mr. Shen Zejing(3) | ✓ | ✓ |
| Mr. So Wai Man | ✓ | – |
| Mr. Cheung Wai Lun Jacky(4) | – | – |
| Mr. Chow Chun To(4) | – | – |
| Mr. Wei Qianjiang(4) | – | – |

*Notes:*

(1) Mr. Qiu Dong was appointed as an executive Director on 15 January 2019.

(2) Mr. Kung Ho Man and Ms. Tang Ka Wa Danise resigned as executive Directors on 15 January 2019.

(3) Mr. Chan Tsang Mo and Mr. Shen Zejing were appointed as independent non-executive Directors on 15 January 2019.

(4) Mr. Cheung Wai Lun Jacky, Mr. Chow Chun To and Mr. Wei Qianjiang resigned as independent non-executive Directors on 15 January 2019.

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

## Board Meetings

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

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

During the year ended 31 December 2019, nine Board meetings and one general meeting were held. The attendance records of each member of the Board is set out below:

| Name of Director | Number of general meetings attended/ Number of general meetings during the tenure of directorship | Number of Board meetings attended/ Number of Board meetings during the tenure of directorship |
|---|---|---|
| **Executive Directors** | | |
| Mr. Chen Zhi | 0/1 | 8/9 |
| Mr. Qiu Dong[(1)] | 0/1 | 6/8 |
| Mr. Yau Kin Wing Sino | 1/1 | 9/9 |
| Mr. Kung Ho Man[(2)] | 0/0 | 0/0 |
| Ms. Tang Ka Wa Danise[(2)] | 0/0 | 0/0 |
| **Independent non-executive Directors** | | |
| Mr. Chan Tsang Mo[(3)] | 1/1 | 8/8 |
| Mr. Fung Chi Kin | 1/1 | 9/9 |
| Mr. Shen Zejing[(3)] | 0/1 | 8/8 |
| Mr. So Wai Man | 1/1 | 8/9 |
| Mr. Cheung Wai Lun Jacky[(4)] | 0/0 | 0/0 |
| Mr. Chow Chun To[(4)] | 0/0 | 0/0 |
| Mr. Wei Qianjiang[(4)] | 0/0 | 0/0 |

*Notes:*

(1) Mr. Qiu Dong was appointed as an executive Director on 15 January 2019.

(2) Mr. Kung Ho Man and Ms. Tang Ka Wa Danise resigned as executive Directors on 15 January 2019.

(3) Mr. Chan Tsang Mo and Mr. Shen Zejing were appointed as independent non-executive Directors on 15 January 2019.

(4) Mr. Cheung Wai Lun Jacky, Mr. Chow Chun To and Mr. Wei Qianjiang resigned as independent non-executive Directors on 15 January 2019.

## BOARD COMMITTEES

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

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

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

C: Chairman of the relevant Board Committees

M: Member of the relevant Board Committees

## AUDIT COMMITTEE

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

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

During the year ended 31 December 2019, the Board had no disagreement with the Audit Committee's view on the appointment of the external auditors. The consolidated financial statements for the year ended 31 December 2019 and this annual report have been reviewed by the Audit Committee.

During the year ended 31 December 2019, two meetings of the Audit Committee were held to review the Group's financial results for submission to the Board for approval, make recommendation on the re-appointment of the external auditors, review the internal control and risk management systems of the Group and oversee the audit process.

During the year ended 31 December 2019, the Audit Committee passed by resolution in writing to review the terms of reference of the Audit Committee.

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

| **Audit Committee** | **Number of meetings attended/ Number of eligible meetings during the tenure of directorship** |
|---|---|
| Mr. Chan Tsang Mo *(chairman)*[(1)] | 2/2 |
| Mr. Fung Chi Kin | 2/2 |
| Mr. Shen Zejing[(1)] | 2/2 |
| Mr. So Wai Man[(1)] | 2/2 |
| Mr. Chow Chun To[(2)] | 0/0 |
| Mr. Cheung Wai Lun Jacky[(2)] | 0/0 |

*Notes:*

(1) Mr. Shen Zejing and Mr. So Wai Man were appointed as members of the Audit Committee and Mr. Chan Tsang Mo was appointed as the chairman of the Audit Committee on 15 January 2019.

(2) Mr. Chow Chun To and Mr. Cheung Wai Lun Jacky resigned as members of the Audit Committee on 15 January 2019. No Audit Committee meeting was held before 15 January 2019.

## AUDITORS' REMUNERATION

The Audit Committee is responsible for considering the appointment and re-election of the Company's external auditor and reviewing any non-audit functions performed by the external auditor. For the year ended 31 December 2019, the Group engaged Grant Thornton Hong Kong Limited ("**Grant Thornton**") as the Group's external auditor and the remuneration paid and payable to Grant Thornton is set out as follows:

| | **HK$'000** |
|---|---|
| Audit services | 840 |
| Non-audit services | 236 |

The fees incurred for non-audit services represented fees paid to Grant Thornton for review of 2019 interim results and agreed-upon procedures in connection with mandatory unconditional cash offer.

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the consolidated financial statements of the Group and to ensure that the consolidated financial statements of the Group are prepared in a manner which give a true and fair view of the state of affairs of the Group on a going concern basis and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required of the Listing Rules. The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2019 has been prepared on this basis. The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statements by external auditor, Grant Thornton, about their reporting responsibility on the consolidated financial statements of the Group are set out in the section headed "INDEPENDENT AUDITOR'S REPORT" in this annual report.

## NOMINATION COMMITTEE

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

During the year ended 31 December 2019, one meeting of the Nomination Committee was held to make recommendations to the Board on the appointment of new Directors and composition of the Board Committees.

During the year ended 31 December 2019, the Nomination Committee passed by resolution in writing to review the structure, size and composition (including the skills, knowledge and experience) of the Board, the Board Diversity Policy, the Nomination Policy and review the terms of reference of the Nomination Committee.

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

| **Nomination Committee** | **Number of meetings attended/ Number of eligible meetings during the tenure of directorship** |
|---|---|
| Mr. Chen Zhi *(chairman)*(1) | 0/0 |
| Mr. Chan Tsang Mo(1) | 0/0 |
| Mr. Fung Chi Kin | 1/1 |
| Mr. Shen Zejing(1) | 0/0 |
| Mr. So Wai Man(1) | 0/0 |
| Mr. Cheung Wai Lun Jacky(2) | 1/1 |
| Mr. Yau Kin Wing Sino(2) | 1/1 |

*Notes:*

(1) Mr. Chan Tsang Mo, Mr. Shen Zejing and Mr. So Wai Man were appointed as members of the Nomination Committee and Mr. Chen Zhi was appointed as the chairman of the Nomination Committee on 15 January 2019. No Nomination Committee meeting was held after their appointments.

(2) Mr. Cheung Wai Lun Jacky and Mr. Yau Kin Wing Sino resigned as members of the Nomination Committee on 15 January 2019.

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

## REMUNERATION COMMITTEE

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

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

During the year ended 31 December 2019, one meeting of the Remuneration Committee was held for making recommendations to the Board on the remuneration packages of individual Directors. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements of the Company for the year ended 31 December 2019.

During the year ended 31 December 2019, the Remuneration Committee passed by resolution in writing to review the terms of reference of the Remuneration Committee.

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

| **Remuneration Committee** | **Number of meetings attended/ Number of eligible meetings during the tenure of directorship** |
|---|---|
| Mr. So Wai Man *(chairman)*[1] | 0/0 |
| Mr. Chan Tsang Mo[1] | 0/0 |
| Mr. Chen Zhi[1] | 0/0 |
| Mr. Shen Zejing[1] | 0/0 |
| Mr. Cheung Wai Lun Jacky[2] | 1/1 |
| Mr. Chow Chun To[2] | 1/1 |
| Mr. Kung Ho Man[2] | 1/1 |

*Notes:*

(1) Mr. Chan Tsang Mo, Mr. Chen Zhi and Mr. Shen Zejing were appointed as members of the Remuneration Committee and Mr. So Wai Man was appointed as the chairman of the Remuneration Committee on 15 January 2019. No Remuneration Committee meeting was held after their appointments.

(2) Mr. Cheung Wai Lun Jacky, Mr. Chow Chun To and Mr. Kung Ho Man resigned as members of the Remuneration Committee on 15 January 2019.

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

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Board, through the Audit Committee, has conducted a review of effectiveness on both design and implementation of the risk management and internal control systems of the Group for the year ended 31 December 2019, covering all material controls, including financial, operational and compliance controls. Such review will be made at least annually to monitor the adequacy and the effectiveness of the risk management and the internal control system of the Group. In this respect, the Audit Committee communicates any material issues to the Board.

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

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

## INSIDE INFORMATION POLICY

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

## COMPANY SECRETARY

Mr. Ip Ying Hang has been appointed as the Company Secretary since 6 June 2016. Mr. Ip has confirmed that he has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2019 in compliance with Rule 3.29 of the Listing Rules. His biographical details are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" in this annual report.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2019 Interim Report of the Company is set out below:

Mr. Fung Chi Kin has resigned as an executive director and compliance officer of China Trustful Group Limited (stock code: 8265), the shares of which are listed on GEM of the Stock Exchange, with effect from 15 October 2019. Mr. Fung was appointed as a non-executive director of Sang Hing Holdings (International) Limited (stock code: 1472) in July 2018, the shares of which are listed on the main board of the Stock Exchange in March 2020.

Mr. Chan Tsang Mo was appointed as an independent non-executive director of Rentian Technology Holdings Limited (stock code: 885) in March 2020, the shares of which are listed on the main board of the Stock Exchange.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS AND INVESTOR RELATIONS

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

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

The 2020 annual general meeting (the "**AGM**") of the Company will be held on 30 June 2020. The notice of the AGM, setting out details of the proposed resolutions, voting procedures and other relevant information, will be sent to Shareholders at least 20 clear business days prior to the meeting.

## SHAREHOLDERS' RIGHTS

### Procedures for Convening General Meetings by Shareholders

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

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

Such requisition shall be made in writing to the Board or the Company Secretary by post at Unit 1920, 19/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures for Putting Forward Proposals at Shareholders' Meeting

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

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

## INFORMATION DISCLOSURE

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

### Shareholders' enquiries

For matters in relation to the Board, Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary or relevant personnel by post to the Company's principal place of business in Hong Kong at Unit 1920, 19/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong (Tel: (852) 3469 5188 and Fax: (852) 3020 1705).

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividends warrants, the registered Shareholders can contact branch share registrar and transfer office in Hong Kong:

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

## CONSTITUTIONAL DOCUMENTS

The Company adopted the Articles on 21 September 2017, a copy of which has been posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.geotech.hk). There had been no significant changes in the Company's constitutional documents during the year ended 31 December 2019.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## INTRODUCTION

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

Being in the construction industry, we always pay due regard to the importance of adhering to safety standards and quality control as they can directly affect our staff and reputation. Accordingly, our management system was certified to comply with the International Organisation for Standardisation ("**ISO**") 9001:2015 which is related to quality management, and Occupational and Health Safety Assessment Series ("**OHSAS**") 18001:2007 which is related to occupational health and safety management. Also, given the nature of our specialties, we fully understand the importance of protecting our natural landscape and the environment. This is reflected in us being certified under ISO 14001:2015 in relation to environmental management.

In view of the increasing property supply giving rise to an increasing demand for various property-related services in Hong Kong in the long run, the Group has expanded its business into property-related services sector in Hong Kong since August 2019 in order to provide property management consultancy services to property owners.

In the following pages, we would like to present to the Shareholders in detail our efforts from 1 January 2019 to 31 December 2019 (the "**Review Year**") in fulfilling our corporate social responsibilities in terms of (I) environmental and (II) social aspects.

# I. ENVIRONMENTAL

## I.1 Our environmental policy

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

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

– Strictly comply with the relevant environmental legislation and regulations;

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

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

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

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

Together with a team of environmental management professionals, we established a Safety and Environmental Department which is responsible for ensuring strict compliance with relevant environmental protection regulations in our operations. This has been achieved by the effective implementation of our "Environmental Management Plan" (the "**EM plan**").

The EM plan is our organisational framework which sets out the duties and responsibilities of our environmental management functions. This includes an environmental management team for each project, a Site Safety & Environmental Committee, and a Site Safety & Environmental Management Committee.

***Minimising impact of our operations to the environment and natural resources***

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

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

In terms of waste handling, we strive to:

- Divert waste to other construction sites for re-use;
- Use water-based finishing materials wherever practicable;
- Re-use hard standing/old bricks;
- Re-use wood packaging in formwork; and
- Use recyclable containers for fixtures & fittings.

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

- All excavated material or pure construction and demolition inert material (e.g. hard rock, sand, soil and broken concrete) should be sorted onsite for re-use onsite or for disposal to designated outlets (e.g. public fill reception facility);
- All metal waste should be sorted and recovered onsite for collection by recycling contractors and companies;
- All cardboard and paper packaging (for plant, equipment and materials) should be sorted onsite. They should be stockpiled properly in a dry condition and covered to prevent cross-contamination with other construction and demolition waste;
- All chemical waste must be collected and disposed of properly by licensed collectors/contractors; and
- All demolition debris should be sorted onsite. Broken concrete, reinforcement bars, mechanical electrical fittings, and other hardware and fittings/materials that have established recycling outlets should be recovered.

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

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

As a result of our effective waste disposal strategies and policies, the Group has minimised the environmental risks and impacts caused by construction wastes disposed from its operation. During the Review Year, we did not receive any complaints from the Environmental Protection Department regarding environmental breaches.

During the Review Year, to the best of the Group's knowledge, we did not have any non-compliance issues in relation to environmental laws and regulations in Hong Kong, including but not limited to, Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong), Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong), Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) and Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong).

We do not produce any hazardous waste from our operations.

### I.2 Greenhouse gas ("GHG") emissions

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

Since the major source of the Group's GHG emissions is the use of motor vehicles, we focused our carbon footprint policies on regulating the use of vehicles, including:

- Closely monitoring the fuel consumption on every motor vehicle to ensure there's no waste of fuel;

- Purchasing environmentally friendly motor vehicles and put into consideration the weight of the vehicle;

- Regularly servicing the vehicles to maintain the engine functions; and

- Using fuel with a sulphur content not exceeding 0.005% in accordance with the Air Pollution Control Ordinance.

Consumption of electricity is also one of the sources of GHG emissions. To lower its consumption, eco-friendly labels were placed close to air conditioning switches to remind staff to set the temperature at an eco-friendly level of 25°C, and close to lighting switches to remind them to switch off lights which are not in use.

As a result, for the Review Year, the Group had reduced overall GHG emissions in aspects including "use of vehicles", "mobile combustion sources" and "generation of purchased electricity" as compared to the financial year ended 31 December 2018.

During the Review Year, we did not use any liquified petroleum gas and therefore have no relevant GHG emissions to report.

The following presents our GHG emissions in different key performance indicators ("**KPI**") for the Review Year:

**GHG emissions from use of vehicles:**

| **Aspects 1.1** | Unit | **2019** | 2018 |
|---|---|---|---|
| Nitrogen oxides | gram | **222,678.87** | 245,432.65 |
| Sulphur oxides | gram | **1,730.50** | 1,264.72 |
| Respiratory suspended particles | gram | **16,862.19** | 19,728.55 |

**GHG emissions from mobile combustion sources:**

| **Aspects 1.2** | Unit | **2019** | 2018 |
|---|---|---|---|
| Scope 1 | | | |
| Carbon dioxide | kg | **278,383.55** | 203,646.30 |
| Methane | kg | **558.76** | 385.43 |
| Nitrous oxide | kg | **34,334.07** | 22,958.44 |

**Indirect GHG emission from the generation of purchased electricity:**

| **Aspects 1.2** | Unit | **2019** | 2018 |
|---|---|---|---|
| Scope 2 | | | |
| Indirect GHG Emissions | kg (CO2 equivalent) | **102,899.16** | 104,987.61 |

**Hazardous wastes produced:**

| **Aspects 1.3** | Unit | **2019** | 2018 |
|---|---|---|---|
| Hazardous waste disposal | tonnes | **N/A*** | N/A* |
| Hazardous waste intensity | tonnes/construction contract | **N/A*** | N/A* |

* The operation of the Group did not generate any hazardous waste for the Review Year and for the financial year ended 31 December 2018 and hence does not have relevant KPI to report.

**Non-hazardous wastes produced:**

| **Aspects 1.4** | Unit | **2019** | 2018 |
|---|---|---|---|
| Non-hazardous waste disposal | Tonnes | **9,262.80** | 9,266.60 |
| Non-hazardous waste intensity | Tonnes/construction project | **617.52** | 386.11 |

## I.3 Use of Resources

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

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

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

We participated in the Green Office Award Labelling Scheme ("**GOALS**") and attended training on responsible management in order to achieve sustainable development goals.

Eco-friendly labels were placed close to air conditioning switches to remind staff to set the temperature at an eco-friendly level of 25°C, and close to lighting switches to remind them to switch off lights which are not in use.

During the Review Year, the Group did not encounter any issue in sourcing water that is fit for purpose. Eco-friendly labels were also placed beside water taps to remind employees the importance of water conservation. As a result, we had reduced the amount and intensity of water consumed for the Review Year as compared to the financial year ended 31 December 2018.

As a recognition of our efforts in building a green office, we were granted with the "Eco-Healthy Workplace Label" by the World Green Organisation in 2019.

The following shows our direct energy and water consumption for the Review Year:

**Direct energy consumption in total and intensity**

| **Aspects 2.1** | Unit | **2019** | 2018 |
|---|---|---|---|
| Electricity usage | kWh | **163,332.00** | 166,647.00 |
| Electricity usage intensity | kWh/no. of offices (including offices or workshop of the Group and construction site offices) | **27,222.00** | 20,830.88 |

**Water consumption in total and intensity**

| **Aspects 2.2** | Unit | **2019** | 2018 |
|---|---|---|---|
| Water consumption | cu.m | **6,976.00** | 36,055.00 |
| Water consumption intensity | cu.m/no. of offices (including offices or workshop of the Group and construction site offices) | **872.00** | 3,004.58 |

## II. SOCIAL

### II.1 Employment and Labour Practices

***Our people***

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

We review our compensation and benefits programmes regularly to ensure that they remain competitive. Through regular and effective staff appraisals and communications, outstanding staff members are rewarded with internal promotions and salary increases.

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

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

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

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

During the Review Year, to the best of the Group's knowledge, we did not have any non-compliance issues in relation to labour laws and regulations, including but not limited to, Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Employees Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) and of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

***Protecting staff health and safety***

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

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

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

For the Review Year, four construction site accidents were reported.

Regarding lost days due to work injuries, we noted a loss of 1,337 man-days.

During the Review Year, to the best of the Group's knowledge, we had no non-compliances in relation to occupational health and safety laws and regulations.

***Hong Kong Occupational Safety and Health Award***

The Group is committed to promote safety awareness among its employees. During the "18th Hong Kong Occupational Safety & Health Award" held in September 2019, the Group won the "Safety Performance Award". The award reflects the Group's effort in promoting safety awareness for the past years among its employees and served as a role model in the construction industry.

***Training and Development***

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

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

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

For safety related site training, we follow the requirement of Construction Site Safety Manual of the Development Bureau to prepare training plans for all our projects. The required duration for each session for induction training is 1 hour and for tool box talks are 15 minutes. The total number of hours delivered for these two types of training during the Review Year were 2,919 hours.

Trainings on topics such as working at height, wearing personal protective equipment, handling harmful substances, and compliance to ISO requirements were organised during the Review Year.

During the Review Year, to the best of the Group's knowledge, we had no non-compliances in relation to labour laws and regulations.

## II.2 Operational Practices

***Supply Chain Management***

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

– Weekly environmental inspections;

– Attendance at environmental meetings and training;

– Reviewing records of environmental incidents; and

– Reviewing complaints from the public.

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

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

***Service pledge to our customers***

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

We also strive to deliver the best construction service available. Each of our construction project would be assigned a project team to be in charge of the quality of construction works delivered. The teams would frequently perform site visits to their respective projects in order to monitor the workmanship of workers and subcontractors. The quality of our works would also be certified by representatives of customers regularly and the Group maintains ongoing communication with them.

***Anti-Corruption***

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

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

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

In the Review Year, to the best of our knowledge, no fraud or corruption occurred within the Group, and we have fully complied with the laws and regulations relating to anti-bribery and corruption, including Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong).

## II.3 Community Involvement

The Group supports and encourages its employees to participate in volunteer works or charity activities to help contribute to the society.

***Donation to the Hong Kong Institution of Engineers***

The "LPM Contractors Scholarship" is established to provide financial assistance and encouragement to undergraduate students to pursue studies in geotechnical engineering. It will be offered to final year undergraduate students at the University of Hong Kong to encourage geotechnical engineering students for greater success. The Group donated to the institution for supporting and nurturing geotechnical engineering students during the Review Year.

# DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**Consolidated Financial Statements**").

## PRINCIPAL PLACE OF BUSINESS

The principal place of business of the Company is located at Unit 1920, 19/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 14 to the Consolidated Financial Statements.

## RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the section headed "CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME" on page 57 in this annual report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 127 to 128 in this annual report. This summary does not form part of the audited financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 and discussion on the Group's future business development are set out in the section headed "CHAIRMAN'S STATEMENT" and "MANAGEMENT DISCUSSION AND ANALYSIS" on page 3 and pages 4 to 12 respectively in this annual report. The description of key risks and uncertainties facing the Group and financial risk management and fair value measurement are set out in this Directors' Report on pages 41 to 42 in this annual report and note 30 to the Consolidated Financial Statements respectively.

In addition, discussion on the Group's environmental policies and performance and the relationships with its stakeholders are contained in the "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT" on pages 30 to 39 in this annual report.

The Group complies with the relevant laws and regulations that has a significant impact on it and no important event affecting the Group has occurred since the end of this financial year.

## EVENTS AFTER REPORTING PERIOD

The Outbreak in early 2020 has certain impact to the operations of the Group. In the opinion of the Directors, it is not practicable to provide a quantitative estimate of the potential impact of the Outbreak on the Group's financial statements.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the rights to attend and vote at the AGM to be held on 30 June 2020, the register of members of the Company will be closed from 24 June 2020 to 30 June 2020 (both days inclusive), during which period no transfer of Shares will be effected. In order to be entitled to attend and vote at the AGM, non-registered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration no later than 4:30 p.m. on 23 June 2020.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the Consolidated Financial Statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries during the year ended 31 December 2019 are set out in note 14 to the Consolidated Financial Statements.

## KEY RISKS AND UNCERTAINTIES

The following are some principal risks and uncertainties facing the Group, which may materially and adversely affect its businesses, financial condition or results of operations in (i) construction and engineering services; and (ii) property-related services.

### (a) Construction and engineering services

***Reliance on the public sector contracts granted by the Government departments and statutory bodies***

The Government departments and statutory bodies have been and are expected to continue to be the Group's largest customers. During the year ended 31 December 2019, revenue attributed to the public sector projects represented approximately 95.4% (2018: approximately 94.3%) of the Group's total revenue. If there is any reduction or significant delay in the spending of the Government departments and statutory bodies in the construction and civil engineering industry, the Group's business, results of operations and financial positions of the Group may be materially and adversely affected. In order to cope with the risk of relying on the public sector contracts in the construction and engineering market, the Group will continuously explore or seek other developments that are beneficial to the long-term development of the Group so as to diversify the risks.

***Competitive tendering process and making of estimates***

The business of the Group operates on a non-recurring and project-by-project basis. We have no long-term commitments with our customers but rely on successful tenders that determine the award of construction contracts. The number of contracts awarded to the Group, therefore, may vary from time to time. Upon completion of its contracts on hand, the Group's financial performance may adversely be affected if the Group is unable to secure new tenders or obtain new contract awards with comparable contract sums or at all. As such, to cope up with the keen market competition, the Group has adopted a proactive pricing strategy for tendering in order to maintain the competitiveness of tenders which may narrow the profit margin. The Group will assess and adjust its business strategy from time to time to adapt to the market environment in order to maintain the Group's competitiveness in the construction and engineering market.

Further, in the tendering process, the Group determines a tender price by estimating the construction costs under the contract duration as specified in the tender invitation documents. However, the actual implementation of projects may not accord with our estimation at the time of tender due to cost overruns and/or subject to other related construction risks. If our estimates of the overall risks, revenue or costs prove inaccurate, the Group will experience lower profitability or even make losses on contracts, which could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

***Uncertain external factors***

The Group's operation of the construction and engineering services is currently located in Hong Kong. Uncertain external factors including the delay in approval of the funding proposals for public works due to political filibustering, downturn in the economy of Hong Kong, public health issues such as the Outbreak and social unrest or other civil movements in Hong Kong, may materially and adversely affect the Group's business, financial condition, results of operations and prospects. The Group will continue to closely monitor the market situation and to consider appropriate strategies to promptly respond to the risks to minimise potential adverse effects on the Group's financial performance.

### (b) Property-related services

***Management's estimates***

The Group's property management consultancy services are charged on a fixed fee basis, it is important to accurately estimate the cost in preparing fee quotation/proposal to customers and to make sure the fixed fee covers all the costs to be incurred for the provision of such services. If the Group fails to estimate the potential increase in costs accurately, it may experience lower profitability or even make losses, which could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

## SHARE CAPITAL

The Company's total issued share capital as at 31 December 2019 was HK$16,800,000 divided into 1,680,000,000 ordinary shares with par value of HK$0.01 per Share.

Detailed movements of the share capital of the Company during the year ended 31 December 2019 are set out in note 23 to the Consolidated Financial Statements.

## RESERVES

Detailed movements of the Group's reserves during the year ended 31 December 2019 are set out in the section headed "CONSOLIDATED STATEMENT OF CHANGES IN EQUITY" on page 60 in this annual report.

As at 31 December 2019, the Company has reserves amounted to approximately HK$152.5 million available for distribution (31 December 2018: approximately HK$73.1 million).

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## DIRECTORS

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

### Executive Directors

Mr. Chen Zhi *(Chairman) (Appointed as chairman of the Board on 15 January 2019)*
Mr. Qiu Dong *(Appointed on 15 January 2019)*
Mr. Yau Kin Wing Sino *(Ceased to act as chairman of the Board and appointed as Chief Executive Officer on 15 January 2019)*
Mr. Kung Ho Man *(Resigned on 15 January 2019)*
Ms. Tang Ka Wa Danise *(Resigned on 15 January 2019)*

### Independent Non-Executive Directors

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

In accordance with Article 108(a) of the Articles, Mr. Yau Kin Wing Sino, Mr. Fung Chi Kin and Mr. Chan Tsang Mo will retire by rotation and, being eligible, offer themselves for re-election as Directors at the Company's forthcoming AGM.

## DIRECTORS' SERVICE CONTRACT

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

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

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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management of the Group are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" on pages 13 to 15 in this annual report.

## MANAGEMENT CONTRACTS

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which have been (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) which, pursuant to Section 352 of the SFO, have been entered in the register referred to therein; or (iii) pursuant to the Model Code as set out in Appendix 10 of the Listing Rules as a code of conduct of the Company for Directors' securities transaction, notified to the Company and the Stock Exchange were as follows:

### Long position in the Shares

| Name of Director | Capacity/Nature of interest | No. of shares held/ interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Chen Zhi | Interests in a controlled corporation *(note)* | 920,480,000 | 54.79% |

*Note:* 920,480,000 Shares are held by Star Merit Global Limited ("**Star Merit**"), representing approximately 54.79% of the entire issued share capital of the Company. Star Merit is wholly and beneficially owned by Mr. Chen Zhi. Therefore, Mr. Chen Zhi is deemed to be interested in all the Shares held by Star Merit by virtue of Part XV of the SFO.

Save as disclosed above and so far as is known to the Directors, as at 31 December 2019, none of the Directors nor the chief executives of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange under the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, so far as is known to the Directors, the following entity (other than a Director and the chief executive of the Company) had, or was deemed to have, interests or short positions (directly or indirectly) in shares or underlying shares or debentures which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

**Long position in the Shares**

| Name of Shareholder | Capacity/Nature of interest | No. of Shares held/interested in | Approximate percentage of shareholding |
|---|---|---|---|
| Star Merit | Beneficial owner | 920,480,000 | 54.79% |

Save as disclosed above and so far as is known to the Directors, as at 31 December 2019, the Directors were not aware of any other entity which or person other than a Director and the chief executive of the Company who had, or was deemed to have an interest or a short position in the shares or the underlying shares or debentures of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTION SCHEME" in this annual report, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save for the related party and continuing connected transactions disclosed in note 27 to the Consolidated Financial Statements and the section headed "CONTINUING CONNECTED TRANSACTIONS" in this annual report, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interests, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

## CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS OF SIGNIFICANCE

Save for the related party and continuing connected transactions disclosed in note 27 to the Consolidated Financial Statements and the section headed "CONTINUING CONNECTED TRANSACTIONS" in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party, and in which the controlling shareholders of the Company or any of its subsidiaries had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

## CONTINUING CONNECTED TRANSACTIONS

### The First Property Management Consultancy Agreement

On 12 August 2019, Nova Management Services Limited ("**Nova**") (as the consultant), an indirect wholly-owned subsidiary of the Company, entered into a property management consultancy services agreement (the "**First Property Management Consultancy Agreement**") with Cheer Capital Limited ("**Cheer Capital**") (as the property owner), a company indirectly and wholly-owned by Mr. Chen Zhi, the chairman of the Board, an executive Director and the controlling shareholders of the Company, in relation to the provision of property management consultancy services for a commercial property in Hong Kong owned by Cheer Capital (the "**Property**") during the period from 12 August 2019 to 31 December 2019. The total amount in respect of the services provided under such agreement amounted to approximately HK$1,765,000. The transactions contemplated under the First Property Management Consultancy Agreement are de minimis continuing connected transactions under Chapter 14A of the Listing Rules and exempt from the requirements of reporting, announcement and approval of independent Shareholders.

### The Second Property Management Consultancy Agreement and the Leasing Agency Agreement

On 27 December 2019, Nova (as the consultant) entered into another property leasing and management consultancy agreement (the "**Second Property Management Consultancy Agreement**") with Cheer Capital (as the property owner) in relation to the provision of property management consultancy services for the Property for a term of three years commencing from 1 January 2020 to 31 December 2022.

On the same date, Nova (as the agent) also entered into a property leasing agency agreement (the "**Leasing Agency Agreement**") with Cheer Capital (as the property owner) in relation to the provision of property leasing agency services in relation to the Property for prospective tenants referred by Cheer Capital or existing tenants of the Property (collectively the "**Agency Tenant(s)**"). Such services include handling enquires and introductions, negotiation on leasing terms and conditions, site visit(s) arrangement and preparation and execution of formal agreement(s) with the Agency Tenants, for a term of three years commencing from 1 January 2020 to 31 December 2022.

For each of the years ending 31 December 2020, 31 December 2021 and 31 December 2022, the aggregated annual caps comprising the consultancy fee pursuant to the Second Property Management Consultancy Agreement and the agency fee pursuant to the Leasing Agency Agreement shall be approximately HK$5,731,000, HK$5,275,000 and HK$6,876,000, respectively. Through the engagements of the Second Property Management Consultancy Agreement and the Leasing Agency Agreement which are of a recurrent nature, it enables a more diversified revenue base and securing stable cash inflow for the Group.

The transactions contemplated under the Second Property Management Consultancy Agreement and the Leasing Agency Agreement are de minimis continuing connected transactions under Chapter 14A of the Listing Rules which are subject to reporting, annual review and announcement requirements but exempt from the requirements of circular and approval of independent Shareholders.

Further details of the Second Property Management Consultancy Agreement and the Leasing Agency Agreement were disclosed in the announcement of the Company dated 27 December 2019.

Details of other continuing connected transactions or related party transactions are set out in note 27 to the Consolidated Financial Statements in this annual report.

## COMPETING INTERESTS

Based on the confirmations received from each of the Directors, none of the Directors, controlling shareholder of the Company nor their respective close associates (as defined in the Listing Rules) had interests in any business which competes or is likely to compete, directly or indirectly, with the Group's businesses during the year ended 31 December 2019 (or in respect of former Directors, up to their resignation date), and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance coverage for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising from corporate activities. Such permitted indemnity provision has been in force throughout the year ended 31 December 2019 and at the time of approval of this annual report.

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

## SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 21 September 2017 (the "**Share Option Scheme**") and effective for a period of ten years to 20 September 2027. It is a share incentive scheme established to recognise and acknowledge the contributions that the eligible participants have or may have made to the Group. Pursuant to the Share Option Scheme, the Board may, as its discretion, offer to grant an option to any director, employee (full-time and part-time), advisor, consultant, supplier, customer, distributor, contractor, agent, business partner or service providers of the Group and to promote the success of the business of the Group.

Pursuant to the terms of the Share Option Scheme and in compliance with the provisions in Chapter 17 of the Listing Rules, the maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and all share option schemes of the Company shall not exceed 140,000,000 shares, being 10% of the 1,400,000,000 shares in issue as at 12 October 2017, being the date the Shares were listed on the Stock Exchange. The Company may issue a circular to the Shareholders and seek approval from the Shareholders in general meeting for refreshing the 10% limit such that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes shall not exceed 10% of the total number of Shares in issue as at the date of the approval from the Shareholders.

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

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

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

The total number of securities available for issue under the Share Option Scheme , and all other share option schemes of the Company must not exceed 140,000,000 Shares, representing 8.33% of the total number of Shares as at this annual report.

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

There were no options outstanding as at 31 December 2019 (31 December 2018: nil) and no share options were granted, exercised, cancelled or lapsed during the year ended 31 December 2019. For further details of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to the prospectus of the Company dated 28 September 2017.

## DONATIONS

The Group's charitable donations during the year ended 31 December 2019 amounted to approximately HK$30,000 (2018: approximately HK$55,000).

## EQUITY LINKED AGREEMENTS

Save as disclosed in this annual report in relation to the Share Option Scheme, no equity-linked agreements were entered into for the year ended 31 December 2019.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the percentage of the Group's total revenue attributable to the Group's largest customer and the five largest customers respectively in aggregate accounted for approximately 43.6% and 87.9% (2018: approximately 57.5% and 81.3%). The percentage of the Group's total purchases from the Group's largest supplier and the five largest suppliers respectively in aggregate accounted for approximately 23.8% and 70.9% (2018: approximately 29.8% and 77.6%) for the year ended 31 December 2019.

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

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

### Employees

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

### Customers

The Group has established stable business relationship with major customers who are mostly Government departments including Civil Engineering and Development Department of the Government, Water Supplies Department and Highways Department. Among the five largest customers (in terms of revenue) during the year ended 31 December 2019, the Group has been providing services to most of them for a period ranging from two to nineteen years.

A majority of the Group's five largest customers have long-standing business relationship with the Group for a period ranging from approximately two to nineteen years. The Group will therefore endeavor to accommodate their demands for the Group's services to the extent that the Group's resources allow in order to capture more opportunities for larger scale projects in the future. The Group's experience as a quality contractor in construction and engineering industry provides the Group's customers certain business advantages to ensure that their projects are executed in accordance with quality standards.

### Suppliers and subcontractors

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

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

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

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

## RETIREMENT SCHEME

The Group participates in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Save as the aforesaid, the Group did not participate in any other pension schemes during the year ended 31 December 2019.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient level of public float for its Shares as required under the Listing Rules during the year ended 31 December 2019 and up to the date of this annual report.

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

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries during the year ended 31 December 2019.

## PRE-EMPTIVE RIGHTS

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

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

Details of the emoluments of the Directors and the five highest paid individuals of the Group during the year ended 31 December 2019 are set out in note 12(a) and 12(b) to the Consolidated Financial Statements.

## CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company are set out in the section headed "CORPORATE GOVERNANCE REPORT" on pages 16 to 29 in this annual report.

## DIVIDEND POLICY

Information on a dividend policy adopted by the Company are set out in the section headed "CORPORATE GOVERNANCE REPORT" on pages 16 to 29 in this annual report.

## FINAL DIVIDEND

The Board did not recommend any payment of final dividend for the year ended 31 December 2019 (2018: nil).

## AUDIT COMMITTEE

The Audit Committee had reviewed, together with the management and external auditor, the accounting principles and policies adopted by the Group and the audited Consolidated Financial Statements for the year ended 31 December 2019.

## AUDITORS

The Consolidated Financial Statements of the Company for the year ended 31 December 2019 have been audited by Grant Thornton, who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM of the Company. A resolution for the re-appointment of Grant Thornton as auditor of the Company is to be proposed at the forthcoming AGM. There is no change in auditor of the Company since the date of the Listing.

On behalf of the Board
**Chen Zhi**
*Chairman and Executive Director*

Hong Kong, 31 March 2020

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

We have audited the consolidated financial statements of Geotech Holdings Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 57 to 126, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (continued)

**Accounting for construction contracts**

Refer to the summary of significant accounting policies in note 2.14, note 4a and note 5 to the consolidated financial statements.

**Key Audit Matter**

The Group recognised revenue and costs from construction contracts amounted to approximately HK$353,292,000 and HK$342,776,000 respectively for the year ended 31 December 2019.

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

These transactions require the management's estimation and judgement of the contract revenue, direct cost and variation works which may have an impact on the accounting for construction contract and corresponding profit margin, we therefore identified such as a key audit matter.

**How our audit addressed the Key Audit Matter**

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

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

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

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

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

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

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2019 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 March 2020

**Chan Tze Kit**
Practising Certificate No.: P05707

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **355,307** | 257,413 |
| Direct costs | | **(344,436)** | (233,062) |
| **Gross profit** | | **10,871** | 24,351 |
| Other income | 6 | **5,242** | 4,238 |
| Administrative expenses | | **(29,392)** | (22,567) |
| Finance costs | 7 | **(205)** | (252) |
| **(Loss)/profit before income tax** | 8 | **(13,484)** | 5,770 |
| Income tax credit/(expense) | 9 | **986** | (433) |
| **(Loss)/profit for the year** | | **(12,498)** | 5,337 |
| **Other comprehensive (expense)/income, net of tax** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Fair value gain/(loss) on financial assets at fair value through other comprehensive income | | **102** | (130) |
| **Total comprehensive (expense)/income for the year** | | **(12,396)** | 5,207 |
| | | **HK cents** | HK cents |
| **(Loss)/earnings per share attributable to equity holders of the Company** | | | |
| Basic and diluted | 11 | **(0.81)** | 0.38 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in equity as an adjustment to the opening balance of retained earnings for the current year (refer to note 3 for details).

The notes on pages 62 to 126 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2019*

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 5,176 | 6,976 |
| Financial assets at fair value through other comprehensive income ("**FVOCI**") | 15 | 1,253 | 1,151 |
| Finance lease receivables | 16 | 963 | – |
| Deferred tax assets | 22 | 889 | 560 |
| | | 8,281 | 8,687 |
| **Current assets** | | | |
| Trade and other receivables | 17 | 125,675 | 97,700 |
| Contract assets | 18 | 40,452 | 56,008 |
| Finance lease receivables | 16 | 1,995 | – |
| Tax recoverable | | 1,817 | 2,143 |
| Cash and bank balances | 19 | 143,299 | 82,347 |
| | | 313,238 | 238,198 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 44,099 | 50,159 |
| Lease liabilities/Obligation under finance leases | 21 | 4,428 | 1,474 |
| Contract liabilities | 18 | 1,801 | 1,670 |
| | | 50,328 | 53,303 |
| **Net current assets** | | 262,910 | 184,895 |
| **Total assets less current liabilities** | | 271,191 | 193,582 |
| **Non-current liabilities** | | | |
| Lease liabilities/Obligation under finance leases | 21 | 2,992 | 942 |
| Deferred tax liabilities | 22 | 199 | 948 |
| | | 3,191 | 1,890 |
| **Net assets** | | 268,000 | 191,692 |

The notes on pages 62 to 126 are an integral part of these consolidated financial statements.

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 23 | **16,800** | 14,000 |
| Reserves | 24 | **251,200** | 177,692 |
| **Total equity** | | **268,000** | 191,692 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in equity as an adjustment to the opening balance of retained earnings for the current year (refer to note 3 for details).

**Mr. Chen Zhi**
*Director*

**Mr. Yau Kin Wing Sino**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2019*

| | Share capital HK$'000 (Note 23) | Share premium* HK$'000 (Note 24) | Capital reserve* HK$'000 (Note 24) | Financial assets fair value reserve* HK$'000 (Note 24) | Retained earnings* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2018 | 14,000 | 81,362 | 10,011 | 160 | 80,952 | 186,485 |
| Profit for the year | – | – | – | – | 5,337 | 5,337 |
| Other comprehensive income, net of tax: | | | | | | |
| *Items that will not be classified subsequently to profit or loss* | | | | | | |
| – Fair value loss on financial assets at FVOCI | – | – | – | (130) | – | (130) |
| Total comprehensive income for the year | – | – | – | (130) | 5,337 | 5,207 |
| Balance as at 31 December 2018 and 1 January 2019 | 14,000 | 81,362 | 10,011 | 30 | 86,289 | 191,692 |
| Loss for the year | – | – | – | – | (12,498) | (12,498) |
| Other comprehensive income, net of tax: | | | | | | |
| *Items that will not be classified subsequently to profit or loss* | | | | | | |
| – Fair value gain on financial assets at FVOCI | – | – | – | 102 | – | 102 |
| Total comprehensive expenses for the year | – | – | – | 102 | (12,498) | (12,396) |
| Transaction with owners: | | | | | | |
| Issuance of ordinary shares by placing *(note 23)* | 2,800 | 85,904 | – | – | – | 88,704 |
| **Balance as at 31 December 2019** | **16,800** | **167,266** | **10,011** | **132** | **73,791** | **268,000** |

* The reserves accounts comprise the Group's reserves of HK$251,200,000 (31 December 2018: HK177,692,000) as at 31 December 2019 in the consolidated statement of financial position.

The notes on pages 62 to 126 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2019*

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| (Loss)/profit before income tax | **(13,484)** | 5,770 |
| Adjustments for: | | |
| Depreciation | **2,095** | 3,095 |
| Finance costs | **205** | 252 |
| Impairment loss on trade and other receivables | **755** | – |
| Impairment loss on contract assets | **305** | – |
| Interest income | **(1,819)** | (510) |
| Loss/(gain) on disposal of property, plant and equipment | **46** | (190) |
| Operating (loss)/profit before working capital changes | **(11,897)** | 8,417 |
| Increase in trade and other receivables | **(23,343)** | (37,348) |
| Decrease/(increase) in contract assets | **15,251** | (6,063) |
| (Decrease)/increase in trade and other payables | **(6,060)** | 19,871 |
| Increase in contract liabilities | **131** | 420 |
| Cash used in operations | **(25,918)** | (14,703) |
| Interest paid | **(361)** | (252) |
| Income tax refunded/(paid) | **234** | (296) |
| *Net cash used in operating activities* | **(26,045)** | (15,251) |
| **Cash flow from investing activities** | | |
| Interest received | **1,819** | 510 |
| Purchase of property, plant and equipment | **(357)** | (1,606) |
| Proceeds from disposal of property, plant and equipment | **1,769** | 630 |
| Increase in amount due from joint operator | **(99)** | – |
| *Net cash generated from/(used in) investing activities* | **3,132** | (466) |
| **Cash flow from financing activities** | | |
| Net proceeds from issuance of share capital by placing | **88,704** | – |
| Repayment of bank loans | **–** | (10,000) |
| Payment of lease/finance lease liabilities | **(4,839)** | (1,322) |
| *Net cash generated from/(used in) financing activities* | **83,865** | (11,322) |
| Net increase/(decrease) in cash and cash equivalents | **60,952** | (27,039) |
| Cash and cash equivalents at the beginning of year | **82,347** | 109,386 |
| **Cash and cash equivalents at end of year represented by cash and bank balances *(note 19)*** | **143,299** | 82,347 |

The notes on pages 62 to 126 are an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

Geotech Holdings Ltd. (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands, and its principal place of business is Units 1920, 19/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

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

The Company's immediate and ultimate holding company is Star Merit Global Limited ("**Star Merit**"), a company incorporated in the British Virgin Islands (the "**BVI**") and wholly owned by Mr. Chen Zhi ("**Mr. Chen**"). The ultimate controlling shareholder of the Company is Mr. Chen.

These consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors (the "**Directors**") of the Company on 31 March 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### 2.2 Basis of consolidation

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

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

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

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

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

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

### 2.3 Joint operations

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances. The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation. Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss. When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Foreign currency translation

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

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

### 2.5 Property, plant and equipment

Property, plant and equipment other than cost of right-of-use assets (as described in note 2.11) are initial recognized at acquisition cost, includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. They are subsequently stated at cost less accumulated depreciation and impairment losses. Depreciation commences when the assets are ready for their intended use.

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

| | |
|---|---|
| Plant and machinery | 30% |
| Motor vehicles | 20% to 30% |
| Furniture and fixtures | 20% |
| Leasehold improvement | 33 1/3% to 50% |
| Computer and software | 20% to 30% |

Before the application of HKFRS 16, assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Upon the application of HKFRS 16, accounting policy for depreciation of right-of-use assets is set out in note 2.11.

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Financial instruments

#### *a) Financial assets*

**Recognition and derecognition**

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

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

**Classification and initial measurement of financial assets**

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

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

– amortised cost;

– FVTPL; or

– FVOCI.

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Financial instruments (continued)

#### *a) Financial assets (continued)*

***Subsequent measurement of financial assets***

*Debt investments*

Financial assets at amortised cost

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

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

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

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

*Equity investments*

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Financial instruments (continued)

#### *b) Financial liabilities*

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

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

**Classification and measurement of financial liabilities**

The Group's financial liabilities include borrowings, lease liabilities/finance lease liabilities and trade and other payables.

Financial liabilities (other than lease liabilities/finance lease liabilities) are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value and where applicable, adjusted for transaction costs. Subsequently, financial liabilities (other than lease liabilities/finance lease liabilities) are measured at amortised cost using the effective interest method. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.17).

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

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

Accounting policy for lease liabilities are set out in note 2.11.

*Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.11).

*Borrowings*

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Financial instruments (continued)

***b) Financial liabilities (continued)***

**Classification and measurement of financial liabilities (continued)**

*Trade and other payables*

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

### 2.7 Impairment of financial assets and contract assets

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

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

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

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Impairment of financial assets and contract assets (continued)

***Trade receivables, finance lease receivables, retention receivables and contract assets***

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

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

***Other financial assets measured at amortised cost***

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Impairment of financial assets and contract assets (continued)

***Other financial assets measured at amortised cost (continued)***

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

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

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

Detailed analysis of ECL assessment of trade receivables, retention receivables, contract asset, finance lease receivables and other financial assets at amortised cost are set out in note 30.4.

### 2.8 Impairment of non-financial assets

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

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

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent 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 reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.14) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.7 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.6).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.14). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.6).

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

### 2.10 Cash and cash equivalents

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

### 2.11 Leases

***a) The Group as a lessee***

**(Policy applicable from 1 January 2019)**

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

– the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

– the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Leases (continued)

#### *a) The Group as a lessee (continued)*

**(Policy applicable from 1 January 2019) (continued)**

– the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices for certain classes of assets if the non-lease components were material.

*Measurement and recognition of leases as a lessee*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Leases (continued)

#### *a) The Group as a lessee (continued)*

**(Policy applicable from 1 January 2019) (continued)**

*Measurement and recognition of leases as a lessee (continued)*

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of twelve month or less.

On the consolidated statement of financial position, right-of-use assets have been included in "property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

**(Policy applicable before 1 January 2019)**

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Leases (continued)

***a) The Group as a lessee (continued)***

**(Policy applicable before 1 January 2019) (continued)**

***Classification of assets leased to the Group***

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

***Assets acquired under finance leases***

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

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

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

***Operating lease charges as the lessee***

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Leases (continued)

***b) The Group as a lessor***

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Upon initial application of HKFRS 16, when the Group is an intermediate lessor, it accounts for the head lease and the sub-leases as two separate contracts. The sub-leases are classified as a finance or operating lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If the head lease is a short-term lease to which the Group applies the short-term lease exemption, then the Group classifies the sub-lease as an operating lease.

The Group sub-leases some of its premises and the sub-lease contracts are classified as finance lease.

**Assets leased out under operating leases as the lessor**

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

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

### 2.12 Provisions, contingent liabilities and contingent assets

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Provisions, contingent liabilities and contingent assets (continued)

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

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

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

### 2.13 Share capital

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

### 2.14 Revenue recognition

Revenue arises mainly from the contracts for the construction services.

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

1. Identifying the contract with a customer;

2. Identifying the performance obligations;

3. Determining the transaction price;

4. Allocating the transaction price to the performance obligations; and

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Revenue recognition (continued)

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

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

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

***Construction contracts***

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

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

***Interest income***

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

***Rental income***

Accounting policies for rental income are set out in note 2.11.

***Property management consultancy service income***

Property management consultancy service income's performance obligation are satisfied over time. Revenue is recognised progressively over time according to the terms of the contracts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Government grants

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

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

### 2.16 Employee benefits

**Retirement benefits**

Retirement benefits to employees are provided through defined contribution plans.

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

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

**Short-term employee benefits**

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

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

### 2.17 Borrowing costs

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 Borrowing costs (continued)

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

### 2.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Accounting for income taxes (continued)

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

– income or loss excluding reversals of temporary differences; and

– reversals of existing temporary differences.

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

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

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

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

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

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

   (i) the same taxable entity; or

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major services lines.

During the year, the Group commences its business in property-related services segment, with the objective to diversify its revenue base and generate property management and property agency income in the property market in Hong Kong.

The Group has identified the following reporting segments:

(a) Construction and engineering services; and

(b) Property-related services.

Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies that the Group used for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that the following items are not included in arriving at the operating results of the operating segment:

– income tax; and

– corporate income and expenses which are not directly attributable to the business activities of any operating segment.

Segment assets include all assets but financial assets at FVOCI and corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

## 3. ADOPTION OF NEW AND AMENDED HKFRSs

**New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2019**

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and consolidated financial statements and effective for the annual period beginning on 1 January 2019:

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

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

***HKFRS 16 "Leases"***

The Group has applied HKFRS 16 and the related consequential amendments to other HKFRSs which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 16, the Group has applied the new standard retrospectively with the cumulative effect of initial application recognised at 1 January 2019. In addition, the Group elects to use the practical expedient of the HKFRS 16 by not applies this accounting model to short-term leases (i.e. where the lease term is twelve months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. The Group also elects to use the practical expedient for not to perform a full review of existing leases and applies HKFRS 16 only to new contracts.

Furthermore, the Group elects to use the practical expedient to account for leases for which the lease term only within twelve months from the date of initial application as short term lease using the optional exemptions to not recognise right-of-use assets but to account for the lease expense on straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (continued)

### New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2019 (continued)

***HKFRS 16 "Leases" (continued)***

The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor, except for certain sub-lease. When the Group is an intermediate lessor, the sublease is classified as a finance or operating lease with reference to the underlying right-of-use asset. Because of these changes, the Group has reclassified certain of its sublease agreements as finance leases. When the Group enters into sublease arrangement classified as finance lease, the Group will derecognise the right-of-use assets relating to the head lease that it transfers to the sub-lessee and recognises the net investment in the sublease, presented as "finance lease receivables" in the consolidated statement of financial position. Any difference between the right-of-use asset and the net investment in the sublease is recognised in consolidated statement of profit or loss and other comprehensive income.

On initial application of HKFRS 16 as at 1 January 2019, the Group has elected to measure the right-of-use assets of an amount equal to the lease liabilities adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The following is a reconciliation of total operating lease commitments as at 31 December 2018 to total lease liabilities recognised as at 1 January 2019 upon the initial application of HKFRS 16:

| | HK$'000 |
|---|---|
| Total operating lease commitments disclosed as at 31 December 2018: | 3,228 |
| Recognition exemption – leases with remaining lease term of less than 12 months | (779) |
| Operating leases liabilities before discounting | 2,449 |
| Discounting using incremental borrowing rate as at 1 January 2019 | (82) |
| Operating leases liabilities *(note)* | 2,367 |
| Obligation under finance leases | 2,416 |
| Total lease liabilities recognised under HKFRS 16 as at 1 January 2019 | 4,783 |
| Of which are: | |
| Current lease liabilities | 3,009 |
| Non-current lease liabilities | 1,774 |
| | 4,783 |

*Note:* The corresponding finance lease receivables were recognised under the sublease arrangement.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (continued)

### New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2019 (continued)

***HKFRS 16 "Leases" (continued)***

In summary, the following adjustment was made to the amounts recognised in the consolidated statement of financial position as at 1 January 2019 upon the initial application of HKFRS 16:

| | As at 31 December 2018 HK$'000 | Effect on initial application of HKFRS 16 HK$'000 | As at 1 January 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Finance lease receivables | – | 832 | 832 |
| **Current assets** | | | |
| Finance lease receivables | – | 1,535 | 1,535 |
| **Current liabilities** | | | |
| Lease liabilities | – | 3,009 | 3,009 |
| Obligation under finance leases | 1,474 | (1,474) | – |
| **Non-current liabilities** | | | |
| Lease liabilities | – | 1,774 | 1,774 |
| Obligation under finance leases | 942 | (942) | – |

On transition to HKFRS 16, the Group has applied the practical expedient for applying a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 4.25%.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (continued)

### Issued but not yet effective HKFRSs

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| 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] |

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 Effective date to be determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (continued)

### Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

– introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;

– clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and

– clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to HKAS 1 and HKAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The Directors expect that the amendments have no material impact on these consolidated financial statements.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Critical accounting judgements

***Construction contracts***

As explained in note 2.14, revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts, with reference to the progress certificates issued by the customers and their agents. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs by comparing the budgeted amounts to the actual costs incurred. When the outcome of a construction contract cannot be estimated reliably (uncertified work or unagreed income), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (a) Critical accounting judgements (continued)

***Determination of the lease term in lease contracts and discount rate***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension options, or not exercise a termination option. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);

- the extent of leasehold improvements undertaken by the Group; and

- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs);

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated), which in turn affect the carrying amounts of lease liabilities and corresponding right-of-use assets.

During the year ended 31 December 2019, most extension options in leases of offices have not been included in the lease liability because the amount of payments in the optional periods is not favourable compare to market rates.

In determining the discount rate, the Group is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and effective date of the modification.

### (b) Estimate uncertainty

***Estimation of impairment of trade and other receivables and contract assets within the scope of ECL***

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.7. As at 31 December 2019, the aggregate carrying amounts of trade and other receivables and contract assets amounted to HK$125,675,000 (net of impairment loss of HK$755,000) (31 December 2018: HK$97,700,000) and HK$40,452,000 (net of impairment loss of HK$305,000) (31 December 2018: HK$56,008,000) respectively. Details of the trade and other receivables and contract assets are disclosed in note 17 and note 18 respectively.

## 5. REVENUE AND SEGMENT INFORMATION

### (a) Revenue

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

Revenue recognised for the years ended 31 December 2019 and 2018 are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Construction and engineering services | **353,292** | 257,413 |
| Property-related services | **2,015** | – |
| | **355,307** | 257,413 |

All performance obligations of revenue of the Group are satisfied over time.

### (b) Segment information

The Group's operating activities are attributable to construction and engineering services and property-related services which has been newly engaged in 2019. The Group organised into business units based on its segment purposes and the internal management reports are prepared in accordance with accounting policies which conform to HKFRSs as further described in note 2.19, that is regularly reviewed by the executive Directors, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance. The CODM monitors the revenue from the engagement with no discrete information available to the CODM. The CODM reviews the profit or loss for the period of the Group as a whole for performance assessment.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment information (continued)

**For the year ended 31 December 2019**

| | Construction and engineering services HK$'000 | Property-related services HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Reportable segment revenue** | | | |
| – From external customers | 353,292 | 2,015 | 355,307 |
| **Reportable segment results** *(note)* | (6,390) | (503) | (6,893) |
| Unallocated corporate income | | | 831 |
| Unallocated corporate expenses | | | (7,422) |
| Loss before income tax | | | (13,484) |

*Note:*

| | Construction and engineering services HK$'000 | Property-related services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Amounts included in the measure of segment results | | | | |
| – Bank interest income | 826 | – | 831 | 1,657 |
| – Depreciation of non-financial assets | (2,093) | – | (2) | (2,095) |
| – Impairment loss on trade and other receivables | (755) | – | – | (755) |
| – Impairment loss on contract assets | (305) | – | – | (305) |
| – Loss on disposal of property, plant and equipment | (46) | – | – | (46) |
| – Finance costs | (205) | – | – | (205) |
| **Other segment item** | | | | |
| Additions to non-current segment assets | 2,096 | – | 14 | 2,110 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (b) Segment information (continued)

**For the year ended 31 December 2019 (continued)**

| | Construction and engineering services HK$'000 | Property-related services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Reportable segment assets | 255,668 | 1,689 | 64,162 | 321,519 |
| Reportable segment liabilities | 52,170 | 11 | 1,338 | 53,519 |

### Geographical information

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

### Information about major customers

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Construction and engineering services segment | | |
| Customer A | 155,034 | 148,043 |
| Customer B | 79,645 | N/A* |
| Customer C | 41,351 | 32,013 |

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

## 6. OTHER INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Consultancy fee income | **285** | 290 |
| Rental income from lease of machinery | **1,044** | 1,127 |
| Safety consultancy income | **691** | 485 |
| Bank interest income | **1,657** | 510 |
| Interest income from finance lease receivables *(note 16)* | **162** | – |
| Gain on disposal of property, plant and equipment | **–** | 190 |
| Exchange gain | **–** | 315 |
| Other | **1,403** | 1,321 |
| | **5,242** | 4,238 |

## 7. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank loan and overdrafts interest | **–** | 211 |
| Finance charge on lease liabilities (2018: obligation under finance lease) | **205** | 41 |
| | **205** | 252 |

## 8. (LOSS)/PROFIT BEFORE INCOME TAX

| | | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| (Loss)/profit before income tax is stated after charging/(crediting): | | | |
| (a) | **Staff costs (including Directors' remuneration** *(note 12(a))*) | | |
| | Salaries, fee and allowances | **23,900** | 26,336 |
| | Discretionary bonuses | **2,758** | 3,375 |
| | Retirement scheme contributions | **936** | 905 |
| | Staff costs (including Directors' remuneration) *(note)* | **27,594** | 30,616 |
| (b) | **Other items** | | |
| | Depreciation, included in: | | |
| | Direct costs | | |
| | – Owned assets | **401** | 379 |
| | – Right-of-use assets (2018: leased assets) | **126** | 126 |
| | Administrative expenses | | |
| | – Owned assets | **1,227** | 2,494 |
| | – Right-of-use assets (2018: leased assets) | **341** | 96 |
| | | **2,095** | 3,095 |
| | Impairment loss on trade and other receivables | **755** | – |
| | Impairment loss on contract assets | **305** | – |
| | Operating lease charges in respect of premises | **–** | 1,764 |
| | Short term leases and leases with lease term shorter than 12 months as initial application of HKFRS 16 | **1,256** | – |
| | Subcontracting charges (included in direct costs) | **319,330** | 195,667 |
| | Loss/(gain) on disposal of property, plant and equipment | **46** | (190) |
| | Auditors' remuneration | **1,211** | 1,366 |

## 8. (LOSS)/PROFIT BEFORE INCOME TAX (continued)

*Note:* Staff costs (including Directors' remuneration)

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Direct costs | **11,718** | 20,350 |
| Administrative expenses | **15,876** | 10,266 |
| | **27,594** | 30,616 |

## 9. INCOME TAX (CREDIT)/EXPENSE

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Provision for Hong Kong Profits Tax | | |
| – Current tax | **115** | 1,441 |
| – Over provision in respect of prior years | **(23)** | (357) |
| | **92** | 1,084 |
| Deferred tax *(note 22)* | **(1,078)** | (651) |
| Total income tax (credit)/expense | **(986)** | 433 |

For the year ended 31 December 2019, Hong Kong Profits Tax was calculated at a flat rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

For the year ended 31 December 2018, Geotech Engineering Limited, a subsidiary of the Group, is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK$2 million will be taxed at 16.5%.

No provision for overseas profit tax has been made as the Group had no assessable profits generated in overseas operation during the year ended 31 December 2019 (2018: nil).

## 9. INCOME TAX (CREDIT)/EXPENSE (continued)

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| (Loss)/profit before income tax | **(13,484)** | 5,770 |
| Tax at Hong Kong Profits Tax rates of 16.5% | **(2,225)** | 952 |
| Tax effect of expense not deductible for tax purpose | **1,481** | 626 |
| Tax effect of non-taxable income | **(136)** | (136) |
| Tax losses not recognised | **(81)** | – |
| Over provision in respect of prior years | **(23)** | (357) |
| Effect of the two-tiered profits tax rates regime | **–** | (165) |
| Tax effect of recognition of tax losses previously not recognised | **–** | (560) |
| Other | **(2)** | 73 |
| Income tax (credit)/expense for the year | **(986)** | 433 |

## 10. DIVIDENDS

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

## 11. (LOSS)/EARNINGS PER SHARE

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **(Loss)/earnings** | | |
| (Loss)/profit for the year attributable to equity holders of the Company | **(12,498)** | 5,337 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares | **1,551,890** | 1,400,000 |

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2019 representing the weighted average of ordinary shares of 1,551,890,000 in issue during the year ended 31 December 2019 which includes (i) 1,400,000,000 ordinary shares in issue as at 1 January 2019; and (ii) 280,000,000 new ordinary shares issued pursuant to the placing (note 23) on 17 June 2019, as if all these shares had been in issue throughout the year ended 31 December 2019.

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018 and therefore, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

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

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

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

| | Fee HK$'000 | Salaries, allowances and benefits HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | |
| *Executive Directors:* | | | | | |
| Mr. Chen *(note i)* | – | 1,200 | – | 19 | 1,219 |
| Mr. Qiu Dong *(note ii)* | – | 577 | – | 18 | 595 |
| Mr. Yau Kin Wing Sino *(note iii)* | – | 1,314 | 107 | 18 | 1,439 |
| Mr. Kung Ho Man *(note iv)* | – | 136 | – | 2 | 138 |
| Mr. Tang Ka Wa Danise *(note v)* | – | 90 | – | 2 | 92 |
| *Independent non-executive Directors:* | | | | | |
| Mr. Chan Tsang Mo *(note ii)* | 173 | – | – | – | 173 |
| Mr. Fung Chi Kin | 360 | – | – | – | 360 |
| Mr. Shen Zejing *(note ii)* | 231 | – | – | – | 231 |
| Mr. So Wai Man *(note i)* | 180 | – | – | – | 180 |
| Mr. Cheung Wai Lun Jacky *(note vi)* | 7 | – | – | – | 7 |
| Mr. Chow Chun To *(note vi)* | 7 | – | – | – | 7 |
| Mr. Wei Qianjing *(note vii)* | 7 | – | – | – | 7 |
| | 965 | 3,317 | 107 | 59 | 4,448 |

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

### (a) Directors' and chief executive's emoluments (continued)

| | Fee HK$'000 | Salaries, allowances and benefits HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2018 | | | | | |
| *Executive Directors:* | | | | | |
| Mr. Chen *(note i)* | – | 16 | – | – | 16 |
| Mr. Yau Kin Wing Sino *(note iii)* | – | 1,262 | 241 | 18 | 1,521 |
| Mr. Cheung Ting Kam *(note viii)* | – | 103 | – | 2 | 105 |
| Mr. Kung Ho Man *(note iv)* | – | 1,055 | 438 | 23 | 1,516 |
| Ms. Tang Ka Wa Danise *(note v)* | – | 723 | 250 | 24 | 997 |
| *Independent non-executive Directors:* | | | | | |
| Mr. Fung Chi Kin | 360 | – | – | – | 360 |
| Mr. Cheung Wai Lun Jacky *(note vi)* | 180 | – | – | – | 180 |
| Mr. Chow Chun To *(note vi)* | 180 | – | – | – | 180 |
| Mr. So Wai Man *(note i)* | 2 | – | – | – | 2 |
| Mr. Wei Qianjing *(note vii)* | 64 | – | – | – | 64 |
| | 786 | 3,159 | 929 | 67 | 4,941 |

*Notes:*

(i) Appointed on 27 December 2018.

(ii) Appointed on 15 January 2019.

(iii) Appointed on 6 June 2016 and redesignated as a Chief Executive Officer on 15 January 2019, the remuneration for Chief Executive Officer is also included.

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

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

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

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

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

For the year ended 31 December 2019 and 2018, no emoluments were paid by the Group to the above Directors as an inducement to join or upon joining the Group.

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

### (b) Five highest paid individuals

The five highest paid individuals of the Group include two Directors for the year ended 31 December 2019 (2018: three), whose emoluments are disclosed in note 12(a). The aggregate of the emoluments in respect of the remaining three (2018: two) individuals are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, fee and allowances | **2,654** | 1,471 |
| Discretionary bonuses | **384** | 176 |
| Retirement scheme contributions | **54** | 36 |
| | **3,092** | 1,683 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2019** | 2018 |
| Emolument bands: | | |
| Nil – HK$1,000,000 | **2** | 2 |
| HK$1,000,001 – HK$1,500,000 | **1** | – |

For the year ended 31 December 2019, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as a Director or management of any members of the Group (2018: nil).

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Premises held under leases *(note)* HK$'000 | Plant and machinery HK$'000 | Motor vehicles *(note)* HK$'000 | Furniture and fixtures HK$'000 | Leasehold improvement HK$'000 | Computer and software HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 1 January 2018 | – | 2,005 | 11,509 | 2,732 | 1,930 | 1,656 | 19,832 |
| Additions | – | 405 | 290 | 359 | 851 | 1 | 1,906 |
| Disposals | – | (146) | (1,160) | (616) | (971) | (591) | (3,484) |
| As at 31 December 2018 | – | 2,264 | 10,639 | 2,475 | 1,810 | 1,066 | 18,254 |
| As at 1 January 2019 | – | 2,264 | 10,639 | 2,475 | 1,810 | 1,066 | 18,254 |
| Additions | 1,423 | 5 | 316 | 225 | 117 | 24 | 2,110 |
| Disposals | – | – | (2,617) | (1,059) | (588) | (378) | (4,642) |
| **As at 31 December 2019** | 1,423 | 2,269 | 8,338 | 1,641 | 1,339 | 712 | 15,722 |
| **Accumulated depreciation** | | | | | | | |
| As at 1 January 2018 | – | (952) | (6,023) | (1,652) | (1,350) | (1,250) | (11,227) |
| Charge for the year | – | (401) | (1,670) | (343) | (519) | (162) | (3,095) |
| Depreciation written back upon disposals | – | 31 | 967 | 514 | 946 | 586 | 3,044 |
| As at 31 December 2018 | – | (1,322) | (6,726) | (1,481) | (923) | (826) | (11,278) |
| As at 1 January 2019 | – | (1,322) | (6,726) | (1,481) | (923) | (826) | (11,278) |
| Charge for the year | (163) | (324) | (1,007) | (99) | (456) | (46) | (2,095) |
| Depreciation written back upon disposals | – | – | 1,993 | 256 | 377 | 201 | 2,827 |
| **As at 31 December 2019** | (163) | (1,646) | (5,740) | (1,324) | (1,002) | (671) | (10,546) |
| **Net book value** | | | | | | | |
| **As at 31 December 2019** | 1,260 | 623 | 2,598 | 317 | 337 | 41 | 5,176 |
| As at 31 December 2018 | – | 942 | 3,913 | 994 | 887 | 240 | 6,976 |

*Note:* As at 31 December 2019, the carrying amounts of the Group's right-of-use assets in relation to premises and motor vehicles are HK$1,260,000 and HK$1,141,000 respectively. The depreciation charge for the year ended 31 December 2019 of the Group's right-of-use assets in relation to premises and motor vehicles are HK$163,000 and HK$304,000 respectively. As at 31 December 2019, the carrying amounts of the Group's motor vehicles of HK$1,141,000 (31 December 2018: HK$1,129,000) are pledged under leases.

## 14. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2019 and 2018 are as follows:

| Company name | Place of incorporation/ establishment | Type of legal entity | Issued and paid up capital/ Registered capital | Equity interest attributable to the Group 2019 | Equity interest attributable to the Group 2018 | Principal activities |
|---|---|---|---|---|---|---|
| **Indirectly held** | | | | | | |
| Geotech Engineering Limited | Hong Kong | Limited liability company | 10,000,000 ordinary shares | **100%** | 100% | Provision of construction and engineering services |
| GeoResources Limited | Hong Kong | Limited liability company | 10,000 ordinary shares | **100%** | 100% | Provision of trading, design and engineering services |
| Richway Construction Engineering Limited | Hong Kong | Limited liability company | 1 ordinary share | **100%** | 100% | Provision of construction and engineering services |
| Yau Wing Construction & Engineering Limited | Hong Kong | Limited liability company | 1 ordinary share | **100%** | 100% | Provision of construction and engineering services |
| Nova Management Services Limited | Hong Kong | Limited liability company | 1 ordinary share | **100%** | – | Provision of property-related services |
| Chen Xu Jian Zhu Construction Decoration Engineering (Cambodia) Co., Ltd. | Kingdom of Cambodia | Limited liability company | 55,000 shares | **100%** | – | Provision of construction and decoration services |

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Unlisted securities – Unit Trust Fund | **1,253** | 1,151 |

The fair value of the Group's financial assets at FVOCI has been measured as described in note 30.6.

## 16. FINANCE LEASE RECEIVABLES

The maturity analysis of the undiscounted lease payments receivables from finance leases as at 31 December 2019 are as follows:

| | 2019<br>HK$'000 |
|---|---|
| Total undiscounted lease payments receivables: | |
| Within one year | 2,077 |
| After one year but within two years | 981 |
| | 3,058 |
| Unearned interest income | (100) |
| Present value of the finance lease receivable | 2,958 |
| Present value of the finance lease receivables: | |
| Within one year | 1,995 |
| After one year but within two years | 963 |
| | 2,958 |
| Less: portion due within one year included under current assets | (1,995) |
| Portion due after one year included under non-current assets | 963 |

**Movements in finance lease receivables during the year ended 31 December 2019**

| | 2019<br>HK$'000 |
|---|---|
| Balance as at 1 January | – |
| Adjustments upon initial application of HKFRS 16 | 2,367 |
| Addition | 2,991 |
| Receipts | (2,562) |
| Interest income from finance lease receivables *(note 6)* | 162 |
| Balance as at 31 December | 2,958 |

The finance lease receivables represent the sublease arrangement entered by the Group with sub-contractors in respect of premises typically run for an initial period of two years to three years. The leases do not include contingent rentals and variable lease payments. The subleases are entered with the same terms of the respective head-leases and no gain or loss recognised from the deemed disposal of the right-of-use assets from the head-leases.

## 17. TRADE AND OTHER RECEIVABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | 27,801 | 29,458 |
| Less: impairment loss | (208) | – |
| | 27,593 | 29,458 |
| Retention receivables | 21,237 | 18,876 |
| Other receivables and prepayment | 74,669 | 47,541 |
| Utility and other deposits | 2,624 | 1,825 |
| Less: impairment loss | (547) | – |
| | 97,983 | 68,242 |
| Amount due from joint operator *(note)* | 99 | – |
| | 125,675 | 97,700 |

*Note:* The amount is unsecured, interest-free and repayable on demand.

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

**Trade receivables**

Based on the invoice dates, the ageing analysis of the trade receivables, net of impairment loss, was as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0-30 days | 24,728 | 26,854 |
| 31-60 days | 339 | 1,959 |
| 61-90 days | 135 | 16 |
| Over 90 days | 2,391 | 629 |
| | 27,593 | 29,458 |

## 17. TRADE AND OTHER RECEIVABLES (continued)

**Retention receivables**

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

The retention receivables were expected to be recovered/settled as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Due within one year | 2,313 | 7,556 |
| Due after one year | 18,924 | 11,320 |
| | 21,237 | 18,876 |

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

At the end of the reporting date, the Group reviewed trade receivables, retention receivables and other receivables for evidence of impairment on collective basis. Based on ECL assessment, impairment loss of HK$755,000 has been recognised as at 31 December 2019 (31 December 2018: nil). For detail of the ECL assessment, please refer to note 30.4.

The movement in the impairment loss on trade receivables is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Balance as at 1 January | – | – |
| Impairment loss recognised during the year | 208 | – |
| Balance as at 31 December | 208 | – |

## 17. TRADE AND OTHER RECEIVABLES (continued)

The movements in the impairment loss on retention receivables and other receivable is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Balance as at 1 January | – | – |
| Impairment loss recognised during the year | 547 | – |
| Balance as at 31 December | 547 | – |

## 18. CONTRACT ASSETS AND CONTRACT LIABILITIES

### 18.1 Contract assets

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Contract assets arising from construction contracts | 40,757 | 56,008 |
| Less: impairment loss | (305) | – |
| | 40,452 | 56,008 |

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

At the end of the reporting date, the Group reviewed contract assets for evidence of impairment on collective basis. Based on ECL assessment, impairment loss of HK$305,000 has been recognised as at 31 December 2019 (31 December 2018: nil). For detail of the ECL assessment, please refer to note 30.4.

The movements in the impairment loss on contract assets are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Balance as at 1 January | – | – |
| Impairment loss recognised during the year | 305 | – |
| Balance as at 31 December | 305 | – |

## 18. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

### 18.2 Contract liabilities

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Contract liabilities arising from construction contracts from billings in advance of performance | **1,801** | 1,670 |

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

**Movements in contract liabilities**

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Balance as at 1 January | **1,670** | 1,250 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(1,623)** | (1,171) |
| Increase in contract liabilities as a result of billing in advance of construction activities | **1,754** | 1,591 |
| Balance as at 31 December | **1,801** | 1,670 |

## 18. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

### Unsatisfied long-term construction contracts

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within one year | 325,914 | 344,724 |
| More than one year | 269,961 | 366,962 |
| | 595,875 | 711,686 |

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

## 19. CASH AND BANK BALANCES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Cash at bank *(note 27 (b))* | 143,148 | 82,236 |
| Cash on hand | 151 | 111 |
| | 143,299 | 82,347 |

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

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

## 20. TRADE AND OTHER PAYABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade payables *(note (i))* | 19,576 | 27,353 |
| Retention payables *(note (ii))* | 15,440 | 12,922 |
| Accruals and other payables | 9,083 | 9,884 |
| | 44,099 | 50,159 |

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

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0-30 days | 15,931 | 24,213 |
| 31-60 days | 2,199 | 1,650 |
| 61-90 days | 406 | 569 |
| Over 90 days | 1,040 | 921 |
| | 19,576 | 27,353 |

*Notes:*

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

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

## 21. LEASE LIABILITIES/OBLIGATION UNDER FINANCE LEASES

The analysis of the Group's lease liabilities (2018: obligation under finance lease*) is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Total minimum lease payments: | | |
| Within one year | 4,654 | 1,547 |
| After one year but within two years | 2,875 | 658 |
| After two years but within three years | 182 | 315 |
| | 7,711 | 2,520 |
| Future finance charges | (291) | (104) |
| Present value of lease obligation | 7,420 | 2,416 |
| Present value of minimum lease payment: | | |
| Within one year | 4,428 | 1,474 |
| After one year but within two years | 2,812 | 632 |
| After two years but within three years | 180 | 310 |
| | 7,420 | 2,416 |
| Less: portion due within one year included under current liabilities | (4,428) | (1,474) |
| Portion due after one year included under non-current liabilities | 2,992 | 942 |

The Group has entered into lease arrangements (2018: finance leases) for motor vehicles. These lease periods are for two to three years. At the end of the lease term, the Group has the option to purchase the leased motor vehicles at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. None of the leases including contingent rentals.

As at 31 December 2019, leases of motor vehicles amounted to HK$2,742,000 (31 December 2018: HK$1,715,000) are held by the Group in trust but used by and belong to subcontractors or their nominators.

During the year ended 31 December 2019, the Group entered into three lease agreements for use of office or workshop premises for two to three years. The Group makes fixed payments during the contract periods. One of the lease agreements contains an option for further extending the lease period from three years to four years by giving a notice to landlord before the end of the lease. The Group considered the option would not be exercised at the lease commencement date.

* The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach

## 21. LEASE LIABILITIES/OBLIGATION UNDER FINANCE LEASES (continued)

During the year ended 31 December 2019, the Group entered into a lease arrangement for subleasing to subcontractors (refer to note 16) in respect of premises run for an initial period of two years. The lease does not include contingent rentals and variable lease payments.

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

During the year ended 31 December 2019, the total cash outflows for the leases are HK$6,456,000.

## 22. DEFERRED TAXATION

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

| | **Accelerated tax depreciation** | **Tax losses** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2018 | 1,039 | – | 1,039 |
| Credited to profit or loss *(note 9)* | (91) | (560) | (651) |
| As at 31 December 2018 and 1 January 2019 | 948 | (560) | 388 |
| Credited to profit or loss *(note 9)* | (596) | (482) | (1,078) |
| **As at 31 December 2019** | **352** | **(1,042)** | **(690)** |

## 22. DEFERRED TAXATION (continued)

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Deferred tax assets | **889** | 560 |
| Deferred tax liabilities | **(199)** | (948) |
| | **690** | (388) |

At 31 December 2019 and 2018, the Group has no unrecognised deferred tax assets in respect of cumulative tax losses.

## 23. SHARE CAPITAL

| | 2019 Number of shares | 2019 HK$'000 | 2018 Number of shares | 2018 HK$'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| **As at 1 January and 31 December** | **4,000,000,000** | **40,000** | 4,000,000,000 | 40,000 |
| **Issued and fully paid:** | | | | |
| As at 1 January | **1,400,000,000** | **14,000** | 1,400,000,000 | 14,000 |
| Issuance of ordinary shares pursuant to the placing *(note)* | **280,000,000** | **2,800** | – | – |
| As at 31 December | **1,680,000,000** | **16,800** | 1,400,000,000 | 14,000 |

*Note:* On 17 June 2019, 280,000,000 new ordinary shares with par value of HK$0.01 each of the Company were allotted and issued at a price of HK$0.32 per share by way of placing. The proceeds of HK$2,800,000 representing the par value of these ordinary shares, were credited to the Company's share capital. The remaining proceeds after deducting placing commission directly attributable to the issue of shares amounted to HK$85,904,000, were credited to the Company's share premium account. The issued and fully paid share capital of the Company was then increased to HK$16,800,000 divided into 1,680,000,000 shares of HK$0.01 each.

## 24. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

As at 31 December 2019, the aggregate amount of reserves available for distribution to shareholders of the Company was HK$152,493,000 (31 December 2018: HK$73,137,000).

### Share premium

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

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

### Capital reserve

The capital reserve of the Group as at 31 December 2019 and 2018 represents the share capital of entities comprising the Group prior to the Group's reorganisation of the Company in connection with the listing of its shares on the Stock Exchange (the "**Reorganisation**") and the reserves arising from the Reorganisation.

### Financial assets fair value reserve

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

## 25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current asset** | | | |
| Interests in subsidiaries | 14 | 86,067 | 86,067 |
| Property, plant and equipment | | 12 | – |
| Loan to a subsidiary | | 99,900 | 99,900 |
| | | 185,979 | 185,967 |
| **Current assets** | | | |
| Other receivables | | 1,059 | 1,601 |
| Amounts due from subsidiaries | | 6,398 | 190 |
| Cash and cash equivalents | | 63,261 | 91 |
| | | 70,718 | 1,882 |
| **Current liabilities** | | | |
| Accruals | | 1,338 | 1,419 |
| Amounts due to subsidiaries | | –* | 13,226 |
| | | 1,338 | 14,645 |
| **Net current assets/(liabilities)** | | 69,380 | (12,763) |
| **Net assets** | | 255,359 | 173,204 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 23 | 16,800 | 14,000 |
| Reserves *(note)* | | 238,559 | 159,204 |
| **Total equity** | | 255,359 | 173,204 |

* The amount is less than HK$1,000

**Mr. Chen Zhi**
*Director*

**Mr. Yau Kin Wing Sino**
*Director*

## 25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

| | Share premium HK$'000 | Capital reserve* HK$'000 | Accumulated losses HK$'000 | Total HK$000 |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 81,362 | 86,067 | (4,510) | 162,919 |
| Loss and total comprehensive expense for the year | – | – | (3,715) | (3,715) |
| Balance as at 31 December 2018 | 81,362 | 86,067 | (8,225) | 159,204 |
| Issuance of ordinary shares pursuant to placing (note 23) | 85,904 | – | – | 85,904 |
| Loss and total comprehensive expense for the year | – | – | (6,549) | (6,549) |
| **Balance as at 31 December 2019** | **167,266** | **86,067** | **(14,774)** | **238,559** |

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

## 26. LEASE COMMITMENTS

### As lessee

As at 31 December 2019, the lease commitments for short term leases (31 December 2018: the total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Within one year | 116 | 2,426 |
| In the second to fifth years inclusive | – | 802 |
| | 116 | 3,228 |

As at 31 December 2019, the Group's leases in respect of premises with a lease period of one year or remaining lease period less than twelve months upon initial recognition of HKFRS 16 which are qualified to be accounted for under short term leases exemption under HKFRS 16.

As at 31 December 2018, the Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of one to two years. The leases do not include contingent rentals.

## 27. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

### (a) Key management personnel remuneration

The emoluments of the Directors and senior management of the Company, who represent the key management personnel during the years ended 31 December 2019 and 2018 are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, fee and allowances | 5,033 | 4,681 |
| Discretionary bonuses | 183 | 1,023 |
| Retirement scheme contributions | 77 | 85 |
| | 5,293 | 5,789 |

The above emoluments in relation to service contracts of Directors are exempt continuing connected transactions under Chapter 14A of the Listing Rules.

### (b) Related party transactions

Summary of the related party transactions carried out by the Group during the year are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Property management consultancy services income from Cheer Capital Limited *(note i)* | 1,765 | – |
| Rental expenses paid to Keen Forever Limited *(note ii)* | (34) | – |
| Bank deposits to Prince Bank Plc. *(note iii)* | | |
| – balance as at 31 December | 2,211 | – |
| – maximum balance during the year ended 31 December | 2,416 | – |

The above related party transactions are de minimis continuing connected transactions under Chapter 14A of the Listing Rules.

*Notes:*

(i) A company indirectly and wholly-owned by Mr. Chen, an executive Director and the controlling shareholder of the Company.

(ii) A company directly and wholly-owned by Mr. Yau Kin Wing Sino, an executive Director and chief executive officer of the Company.

(iii) A company directly controlled by Mr. Chen, an executive Director and the controlling shareholder of the Company.

The above transactions are exempt from the requirements of reporting, announcement and approval of independent Shareholders under Chapter 14A of the Listing Rules. The Directors confirm that the Group has no other connected transaction or continuing connected transaction which are required to be disclosed under Chapter 14A of the Listing Rules.

## 28. CONTINGENT LIABILITIES

At 31 December 2019 and 2018, the Group has been involved in a number of claims, litigations and potential claims against the Group regarding the employees' compensation and common law personal injury. The Directors are of the opinion that the claims and litigations are not expected to have a material impact on the consolidated financial statements, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the consolidated financial statements.

## 29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | **Bank loans** | **Lease liabilities/ Obligation under finance leases** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2019 | – | 2,416 | 2,416 |
| Impact on initial application of HKFRS 16 *(note 3)* | – | 2,367 | 2,367 |
| As at 1 January 2019 (adjusted) | – | 4,783 | 4,783 |
| **Cash-flows:** | | | |
| – Capital element of lease rentals paid | – | (4,839) | (4,839) |
| – Interest element of lease rentals paid | – | (361) | (361) |
| **Non-cash:** | | | |
| – Entering into new leases *(note 31)* | – | 7,632 | 7,632 |
| – Interest expenses* | – | 205 | 205 |
| **As at 31 December 2019** | – | 7,420 | 7,420 |
| As at 1 January 2018 | 10,000 | 923 | 10,923 |
| **Cash-flows:** | | | |
| – Repayment | (10,000) | (1,322) | (11,322) |
| **Non-cash:** | | | |
| – Acquisition *(note 31)* | – | 2,815 | 2,815 |
| **As at 31 December 2018** | – | 2,416 | 2,416 |

* The amount represents net amount after recharge to subcontractors.

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

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

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

### 30.1 Categories of financial assets and liabilities

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortised cost: | | |
| – Trade and other receivables | 105,716 | 79,937 |
| – Finance lease receivables | 2,958 | – |
| – Cash and bank balances | 143,299 | 82,347 |
| | 251,973 | 162,284 |
| Financial assets at FVOCI | 1,253 | 1,151 |
| | 253,226 | 163,435 |
| **Financial liabilities** | | |
| At amortised costs: | | |
| – Trade and other payables | (44,099) | (50,159) |
| – Lease liabilities (2018: obligation under finance leases) | (7,420) | (2,416) |
| | (51,519) | (52,575) |

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its cash at bank denominated in United Stated Dollars ("**US$**") and amounted to approximately of HK$38,793,000 as at 31 December 2019 (31 December 2018: HK$40,995,000), which is not the functional currency of the relevant group entities. Since HK$ are pegged to US$ under the Linked Exchange Rate System, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between HK$ and US$.

### 30.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from lease liabilities (2018: obligation under finance leases). Lease liabilities (2018: obligation under finance leases) bearing fixed rate expose the Group to fair value interest rate risk and the exposure to the Group is considered immaterial.

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

### 30.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at 31 December 2019 and 2018 as summarised in note 30.1.

As at 31 December 2019, for trade receivables, the Group usually provide customers with a credit term of 21 to 30 days (31 December 2018: 21 to 30 days). For the settlement of trade receivables from provision of construction services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. For retention receivables, the Group negotiated with customers case by case on the settlement arrangement after the retention period.

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

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.4 Credit risk (continued)

The Group assesses ECL under HKFRS 9 on trade receivables, retention receivables, finance lease receivables and contract assets based on provision matrix, the analysis of credit risk are based on debtors' ageing because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Trade receivables and contract assets are written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. The Directors of the Group reviewed and considered no irrecoverable amounts should be taken account for the overdue trade receivables balances as at 31 December 2019.

At 31 December 2019, the Group has concentration of credit risk as 36% and 85% (31 December 2018: 54% and 86%) of the total trade receivables were due from the Group's largest customer and five largest customers respectively. The aggregate amounts of trade receivables from these customers amounted to HK$9,906,000 and HK$23,768,000 (31 December 2018: HK$15,839,000 and HK$25,359,000) of the Group's total trade receivables at 31 December 2019.

At 31 December 2019, on the above basis, the impairment losses on trade receivables, contract assets, retention receivables and finance leases receivables was determined as HK$208,000, HK$305,000, HK$155,000 and nil respectively. The ECL rate applied for trade receivables is 9.2% if more than 90 days but less than 180 days from invoice days and 100% if over 1 years from invoice date and considered to be insignificant if less than 90 days. The ECL rate applied for contract assets and retention receivables is 0.75%. The ECL rate applied for finance lease receivables are considered to be insignificant.

Based on the judgement of the management of the Group, the exposure to credit risk and ECL for trade receivables, retention receivables and contract assets which are assessed collectively based on provision matrix is negligible at 31 December 2018. With no material past due and default history, the expected loss rate are considered to be insignificant.

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.4 Credit risk (continued)

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

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

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

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

As at 31 December 2019, the credit rating of other receivables were performing. The Group assessed that the ECL for other receivables under the 12 months ECL method. The impairment loss recognised based on 12-month ECL is HK$392,000 (31 December 2018: nil)

### 30.5 Liquidity risk

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

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

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities at 31 December 2019 and 2018. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.5 Liquidity risk (continued)

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

| | On demand or within one year HK$'000 | Over 1 year but within 5 years HK$'000 | Total undiscounted Cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| Trade and other payables | (44,099) | – | (44,099) | (44,099) |
| Lease liabilities | (4,654) | (3,057) | (7,711) | (7,420) |
| | (48,753) | (3,057) | (51,810) | (51,519) |

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

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

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.6 Fair value measurement

#### (a) *Financial assets measured at fair value*

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

| **2019** | **Fair value at 31 December HK$'000** | **Fair value measurement using Level 2 HK$'000** |
|---|---|---|
| Recurring fair value measurement | | |
| Financial assets | | |
| Financial assets at FVOCI: | | |
| Unlisted securities | **1,253** | **1,253** |

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

## 30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (continued)

### 30.6 Fair value measurement (continued)

***(a) Financial assets measured at fair value (continued)***

There were no transfers between categories during the reporting period.

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

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

During the year ended 31 December 2019 and 2018, fair value change of HK$102,000 on securities is recognised in other comprehensive income and included under "Financial assets fair value reserve".

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

The carry amounts of the Group's financial assets and liabilities are not materially different from their fair values at 31 December 2019 and 2018 due to their short maturities.

## 31. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2019, the Group entered into lease arrangements in respect of premises and motor vehicles with a total capital value at the inception of the leases of HK$4,414,000 (2018: nil) for premises and HK$3,218,000 (2018: HK$2,815,000) for motor vehicles which were directly settled by licensed money lenders and banks to the sellers of motor vehicles.

During the year, lease of HK$2,991,000 (2018: nil) are entered for a sublease arrangement to subcontractors and lease of HK$2,888,000 (2018: HK$2,515,000) are entered for acquisition of nine (2018: eight) motor vehicles which are held by the Group in trust but used by and belong to subcontractors or their nominators. The lease of HK$1,423,000 (2018: nil) and HK$330,000 (2018: HK$300,000) are entered for acquisition of three premises (2018: nil) and one (2018: one) motor vehicle respectively held and used by the Group, which are not reflected in the consolidated statement of cash flows.

## 32. CAPITAL MANAGEMENT

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

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the gearing ratio. For this purpose gearing ratio is calculated based on total borrowings divided by the total equity as at the year-end date and multiplied by 100%. Total borrowings of the Group were the lease liabilities (2018: obligation under finance leases). The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The gearing ratio at each reporting date was:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Total borrowings | | |
| Lease liabilities (2018: obligation under finance leases) | **7,420** | 2,416 |
| Total equity | **268,000** | 191,692 |
| Gearing ratio | **2.8%** | 1.3% |

## 33. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) in early 2020 has certain impact to the operations of the Group. In the opinion of the Directors, it is not practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's financial statements.

## RESULTS

| | Notes | 2019 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|---|---|
| | | Year ended 31 December | | | | |
| Revenue | 2 | 355,307 | 257,413 | 275,813 | 344,766 | 391,427 |
| Direct costs | 2 | (344,436) | (233,062) | (232,668) | (295,210) | (331,008) |
| **Gross profit** | | 10,871 | 24,351 | 43,145 | 49,556 | 60,419 |
| Other income | | 5,242 | 4,238 | 2,138 | 3,103 | 1,260 |
| Administrative expenses | 1 | (29,392) | (22,567) | (30,592) | (25,796) | (18,503) |
| Operating (loss)/profit | 1&2 | (13,279) | 6,022 | 14,691 | 26,863 | 43,176 |
| Finance costs | | (205) | (252) | (354) | (358) | (257) |
| **(Loss)/profit before income tax** | 1&2 | (13,484) | 5,770 | 14,337 | 26,505 | 42,919 |
| Income tax credit/(expense) | | 986 | (433) | (4,820) | (6,101) | (7,516) |
| **(Loss)/profit for the year** | 1&2 | (12,498) | 5,337 | 9,517 | 20,404 | 35,403 |
| **Other comprehensive (expense)/income, net of tax** | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | |
| Fair value gain/(loss) on financial assets at fair value through other comprehensive income | 3 | 102 | (130) | – | – | – |
| *Item that may be classified subsequently to profit or loss* | | | | | | |
| Fair value gain/(loss) on available-for-sale financial assets | | – | – | 151 | (9) | (43) |
| **Total comprehensive (expense)/income for year** | | (12,396) | 5,207 | 9,668 | 20,395 | 35,360 |

## ASSETS AND LIABILTIES

| | | As at 31 December | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2017 | 2016 | 2015 |
| | Notes | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Non-current assets** | 1&3 | 8,281 | 8,687 | 9,886 | 6,388 | 11,535 |
| **Current assets** | 1 | 313,238 | 238,198 | 220,099 | 162,530 | 168,180 |
| **Non-current liabilities** | 1 | (3,191) | (1,890) | (1,472) | (519) | (951) |
| **Current liabilities** | 1 | (50,328) | (53,303) | (42,028) | (56,944) | (87,705) |
| **Equity attributable to equity holders of the Company** | | 268,000 | 191,692 | 186,485 | 111,455 | 91,059 |

*Note 1:* As a result of the adoption of HKFRS 16, *Lease*, with effective from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provision of HKFRS 16, the change in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

*Note 2:* As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effective from 1 January 2018, the Group changed its accounting policies in respect of revenue recognition retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, HKFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

*Note 3:* As a result of the adoption of HKFRS 9, *Financial instruments*, with effective from 1 January 2018, the Group applied the accounting policies retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and applied transitional relief and opted not to restate prior periods. Subsequently the Group elected to designate available-for-sale financial assets as financial assets at fair value through other comprehensive income. Fair value changes previously accounted for in available-for-sale financial asset revaluation reserve has transferred to the opening balance of financial assets fair value reserve as at 1 January 2018.