



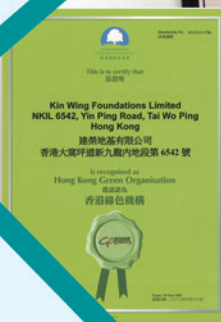
2019

Annual Report

K 建榮地基
KIN WING

**CHINNEY KIN WING
HOLDINGS LIMITED**
建業建榮控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code : 1556



* for identification purpose only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Yuen-Keung CHAN (*Chairman*)
James Sing-Wai WONG
Wing-Sang YU (*Managing Director*)
Philip Bing-Lun LAM
Hin-Kwong SO

Independent Non-Executive Directors

Siu-Chee KONG
Ivan Ti-Fan PONG
Robert Che-Kwong TSUI

AUDIT COMMITTEE

Siu-Chee KONG (*Chairman*)
Ivan Ti-Fan PONG
Robert Che-Kwong TSUI

REMUNERATION COMMITTEE

Robert Che-Kwong TSUI (*Chairman*)
Ivan Ti-Fan PONG
Yuen-Keung CHAN

NOMINATION COMMITTEE

Ivan Ti-Fan PONG (*Chairman*)
Robert Che-Kwong TSUI
Yuen-Keung CHAN

COMPANY SECRETARY

Eric Wing-Hung YUEN

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
The Bank of East Asia, Limited
Hang Seng Bank Limited
Shanghai Commercial Bank Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited

AUDITOR

Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2308, 23/F
Wing On Centre
111 Connaught Road Central
Hong Kong

STOCK CODE

SEHK 01556

BUSINESS ADDRESSES AND CONTACTS

Chinney Kin Wing Holdings Limited

Room 2308, 23/F
Wing On Centre
111 Connaught Road Central
Hong Kong

Tel : (852) 2877-3307
Fax : (852) 2877-2035
Website : <http://www.chinneykinwing.com.hk>
E-mail : enquiry@chinneykinwing.com.hk

Kin Wing Engineering Company Limited

Kin Wing Foundations Limited

Kin Wing Machinery & Transportation Limited

Block A&B, 9th Floor
Hong Kong Spinners Industrial Building, Phase VI
481-483 Castle Peak Road
Kowloon
Hong Kong

Tel : (852) 2415-6509
Fax : (852) 2490-0173
Website : <http://www.kinwing.com.hk>
E-mail : kwecoltd@kinwing.com.hk

Kinwing Engineering (Macau) Company Limited

Alameda Dr. Carlos D'Assumpção
n°s 411-417, Praça Wong Chio
5° andar D-G
em Macau

Tel : (853) 2871-5564
(853) 2871-5718
Fax : (853) 2871-3948

DrilTech Ground Engineering Limited

DrilTech Geotechnical Engineering Limited

Block A&B, 8th Floor
Hong Kong Spinners Industrial Building, Phase VI
481-483 Castle Peak Road
Kowloon
Hong Kong

Tel : (852) 2371-0008
Fax : (852) 2744-1037
Website : <http://www.driltech.com.hk>
E-mail : driltech@driltech.com.hk

DrilTech Ground Engineering (Macau) Limited

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em Macau

Tel : (853) 2871-5564
(853) 2871-5718
Fax : (853) 2871-3948

DrilTech Ground Engineering (Singapore) Pte. Ltd.

80 Robinson Road
#25-00
Singapore 068898

Tel : (65) 6534-5755
Fax : (65) 6534-5766

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (“AGM”) of Chinney Kin Wing Holdings Limited (the “Company”, collectively with its subsidiaries, the “Group”) will be held on Tuesday, 9 June 2020 at 11:00 a.m. at Full Moon Shanghai Restaurant, Macau Jockey Club, 3/F., East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the following purposes:

1. To receive and consider the audited financial statements of the Company for the year ended 31 December 2019 together with the reports of the directors and the independent auditor thereon.
2. To declare a final dividend for the year ended 31 December 2019.
3. To re-elect directors of the Company (the “Directors”) and to authorise the board of Directors (the “Board”) to fix the directors’ remuneration.
4. To re-appoint auditor and to authorise the Board to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without amendments the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

“THAT:

- (a) subject to paragraph (c) below, a general mandate be and is hereby unconditionally granted to the directors of the Company to exercise during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers;
- (b) the mandate in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the mandate in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares under any option scheme or similar arrangement for the time being adopted and approved by the shareholders of the Company for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) an issue of shares as scrip dividends or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company; or (iv) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed twenty per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said mandate shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (iii) the date of the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

“Rights Issue” means an offer of shares in the Company, or an offer of warrants, options or other securities giving rights to subscribe for shares, open for a period fixed by the directors of the Company to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company, after making enquiry, may deem necessary or expedient in relation to fractional entitlements or having regard to any legal restrictions under the laws of the relevant place, or the requirements of the relevant regulatory body or any stock exchange in that place).”

By Order of the Board
Eric Wing-Hung Yuen
Company Secretary

Hong Kong, 28 April 2020

Notes:

- (1) A shareholder entitled to attend and vote at the AGM (and at any adjournment thereof) is entitled to appoint another person as his proxy to attend and vote instead of the shareholder. The proxy need not be a shareholder of the Company.
- (2) In order to be valid, a form of proxy in the prescribed form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or other authority must be completed, signed and deposited with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 48 hours before the time appointed for holding the AGM (and at any adjournment thereof).
- (3) Where there are joint registered holders of any shares, any one of such joint holders may vote at the AGM (and at any adjournment thereof), either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

NOTICE OF ANNUAL GENERAL MEETING

Notes: (continued)

- (4) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), any vote of shareholders at a general meeting must be taken by poll and the Company must announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The chairman of the meeting will therefore put each of the resolutions to be proposed at the AGM to be voted by way of a poll pursuant to the Company's Bye-laws. An announcement will be made by the Company following the conclusion of the AGM to inform the results of the AGM.
- (5) With regard to resolution 3 in this notice, Mr. Wing-Sang Yu ("Mr. Yu"), Mr. Hin-Kwong So ("Mr. So") and Mr. Ivan Ti-Fan Pong ("Mr. Pong") will retire by rotation at the AGM in accordance with bye-law 84 of the Bye-laws of the Company. All Mr. Yu, Mr. So and Mr. Pong, being eligible, will offer themselves for re-election at the AGM.
- (6) Details of the directors who stand for re-election at the AGM are set out below:

Wing-Sang Yu

Aged 59, was appointed as our executive Director on 9 July 2015 and concurrently serves as the managing director of our Company. Mr. Yu is responsible for formulating corporate development and business strategies and leading and training our core management team. Mr. Yu is a founder of our Group and established Kin Wing Engineering Company Limited ("Kin Wing Engineering") in 1994. In February 2003, he left our Group to pursue his personal interest and re-joined as the managing director in May 2011. Mr. Yu currently also serves as a director of all major subsidiaries of our Group.

Mr. Yu has over twenty years of experience in the foundation industry. He obtained a Bachelor's degree in Engineering from The University of Hong Kong in 1983 and a Master's degree in Arts (Christian Studies) from The Chinese University of Hong Kong in 2009. He has been a corporate member of The Hong Kong Institution of Engineers since May 1992.

Save as disclosed, he has no directorships in other listed companies in the last three years, nor does he hold any other positions with the Company and other members of the Group, nor does he has any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

At the date hereof, Mr. Yu did not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO").

There is a service agreement entered into between the Company and Mr. Yu. His directorship is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. He is entitled to a fixed fee of HK\$200,000 per annum which is based on the Company's remuneration policy adopted for executive Directors. Mr. Yu has an employment contract with the Company which is terminable by either party by serving to another party six months' advance written notice. He is entitled to monthly salary and allowances of HK\$340,000 which has been fixed by reference to his position, his level of responsibilities and the remuneration policy of the Group. In addition, he is also entitled to a discretionary bonus to be determined by the Board and other employment benefits provided by the Group to all eligible staff. He was entitled to a performance-related bonus of HK\$5,000,000 for the year ended 31 December 2019.

Save as disclosed above, there is no information to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules, nor any other matters and information need to be brought to the attention of the shareholders of the Company or required to be disclosed pursuant to any of the requirements of the Listing Rules in respect of Mr. Yu.

NOTICE OF ANNUAL GENERAL MEETING

Notes: (continued)

Hin-Kwong So

Aged 62, was appointed as our executive Director on 11 August 2015 and concurrently serves as the general manager of our Company. He is the Head of our Executive Panel and responsible for the overall management and supervision of operations of our Group, including but not limited to, tendering, project planning, project management, quality assurance and general corporate administration. He is currently a director of Kin Wing Engineering and Kin Wing Foundations Limited ("Kin Wing Foundations").

Mr. So has over thirty years of experience in site supervision, project management and tendering in various types of foundation, substructure and site formation projects. He worked as a joint general manager of Kin Wing Engineering and Kin Wing Foundations since April 2009 and the general manager since January 2012. Mr. So obtained a Bachelor's degree in Civil Engineering from the National Cheng Kung University in Taiwan in June 1982.

Mr. So does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, Mr. So does not hold any other positions in the Company or any members of the Group, and did not hold any directorships in any listed public companies in the past three years. He does not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

There is a service agreement entered into between the Company and Mr. So. His directorship is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. He is entitled to a fixed fee of HK\$200,000 per annum which is based on the Company's remuneration policy adopted for executive Directors. Mr. So has an employment contract with the Company which is terminable by either party by serving to another party six months' advance written notice. He is entitled to monthly salary and allowances of HK\$217,000 which has been fixed by reference to his position, his level of responsibilities and the remuneration policy of the Group. In addition, he is also entitled to a discretionary bonus to be determined by the Board and other employment benefits provided by the Group to all eligible staff. He was entitled to a performance-related bonus of HK\$1,300,000 for the year ended 31 December 2019.

Save as disclosed above, there is no information to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules, nor any other matters and information need to be brought to the attention of the shareholders of the Company or required to be disclosed pursuant to any of the requirements of the Listing Rules in respect of Mr. So.

Ivan Ti-Fan Pong

Aged 60, was appointed as our independent non-executive Director on 20 October 2015. He is also the chairman of the nomination committee of the Company. Mr. Pong obtained his Bachelor's degree in Economics (with Honours) from the University of Essex, U.K. in July 1983 and obtained his Master's degree in Business Administration from the EMBA Program of The Chinese University of Hong Kong in December 1999. He became a fellow of Hong Kong Institute of Directors (FHKIoD) since January 2020.

Mr. Pong has over thirty years of experience in the real estate investment market in Hong Kong and the People's Republic of China. Mr. Pong worked for Hon Kwok Land Investment Company, Limited (stock code: 160, "Hon Kwok") and its affiliated companies from January 1984 to October 1988 and was responsible for property development, property investments and project acquisitions for the Hon Kwok group. Mr. Pong worked at Chesterton Petty Ltd. as a senior agency manager in 1988. He joined Richard Ellis Ltd. as a senior manager in 1989 and promoted as an associate director in 1991. During the periods from 1992 to 1994 and from 1994 to 2000, Mr. Pong was a director of Metrobase Surveyors Limited and Cosmo Surveyors Limited respectively and completed a number of property investment and acquisition projects. He is currently a director of Metroland Property Consultants Limited.

NOTICE OF ANNUAL GENERAL MEETING

Notes: (continued)

Ivan Ti-Fan Pong (continued)

Mr. Pong does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Pong does not hold any other positions in the Company or any members of the Group, and did not hold any directorships in any listed public companies in the past three years. He does not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

There is a service agreement entered into between the Company and Mr. Pong. His directorship is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. He is entitled to a fixed fee of HK\$200,000 per annum which is based on the Company's remuneration policy adopted for independent non-executive Directors.

Save as disclosed above, there is no information to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules, nor any other matters and information need to be brought to the attention of the shareholders of the Company or required to be disclosed pursuant to any of the requirements of the Listing Rules in respect of Mr. Pong.

(7) Taking into account of the recent development of the pandemic caused by the novel coronavirus ("COVID-19"), the Company will implement the following prevention and control measures at the AGM to protect the shareholders from the risk of infection:

- (i) Compulsory body temperature check will be conducted for every shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue;**
- (ii) Every shareholder or proxy is required to wear surgical facial mask throughout the meeting;**
- (iii) Hand sanitizer will be provided; and**
- (iv) No refreshment will be served.**

Furthermore, the Company strongly encourages the shareholders, particularly those who are unwell or subject to quarantine in relation to COVID-19, to appoint the chairman of the AGM as a proxy to vote on the resolutions instead of attending the AGM in person.

- (8) Due to the constantly evolving situation relating to the COVID-19 pandemic in Hong Kong, the Company may implement further precautionary measures or may be required to change the AGM arrangements at short notice. Shareholders should visit the websites of the Company at "<http://www.chinneykinwing.com.hk>" and HKEXnews at "<http://www.hkexnews.hk>" for future announcements and updates on the AGM arrangements.**
- (9) At the date hereof, the Board comprises of eight Directors, of which five are executive Directors, namely Mr. Yuen-Keung Chan, Mr. James Sing-Wai Wong, Mr. Wing-Sang Yu, Mr. Philip Bing-Lun Lam and Mr. Hin-Kwong So; and three are independent non-executive Directors, namely Mr. Siu-Chee Kong, Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui.

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of Chinney Kin Wing Holdings Limited (the "Company"), I am pleased to present to our shareholders the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2019. The Group's revenue was increased by 4.9% to HK\$1,304 million for the year ended 31 December 2019 (2018: HK\$1,243 million). The profit and total comprehensive income for the year 2019 and 2018 was maintained at HK\$57.6 million.

The increase of the Group's revenue was primarily due to increased revenue contribution from DrilTech "Down-the-hole" projects in the reporting year, together with steady revenue contributions from major foundation contracts actively in progress during 2019. Intense competition amongst foundation market players had suppressed the bidding prices and increasing direct material costs and labour wages further deteriorated the industry's already slim contract profits. With the Group's persistent and stringent control on administrative expenditures, we were able to minimise further reduction of our gross profit to maintain the Group's net profit for the reporting year at the same level as that of the previous corresponding year. Despite the many challenges presented in 2019, the Group remained financially sound and debt-free throughout the year.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2019 to the shareholders of the Company whose names appear on the Company's register of members on 18 June 2020. Subject to approval by the shareholders on the forthcoming annual general meeting, the dividend cheques are expected to be despatched to the shareholders on or before 7 July 2020.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on 9 June 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 4 June 2020 to 9 June 2020 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 3 June 2020.

CLOSURE OF REGISTER OF MEMBERS FOR DIVIDEND

The proposed final dividend for the year ended 31 December 2019 is subject to the approval by the shareholders of the Company at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 16 June 2020 to 18 June 2020 (both days inclusive), during which period no share transfers will be registered. The last day for dealing in the Company's share cum entitlements to the proposed final dividend will be 11 June 2020. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 15 June 2020.

CHAIRMAN'S STATEMENT

PROSPECTS

The uncertain economic and political environment in Hong Kong and worldwide will no doubt continue to pose significant challenges for our Group. The foundation industry remained highly competitive in 2019 due to a large number of active contractors in the market, resulting in overall tender prices, both in the public and private sectors, being conservative in order to win contracts. Moreover, demanding contract requirements and increasing contract complexities will result in extra construction costs and likely deteriorate slim contract profits further. To cope with these challenges, the Group will continue to sharpen its edges by implementing a number of strategic improvements: from improved cost control measures on projects, to strengthening project management teams, to optimising our design capabilities and flexibility, and to increasing our production efficiency.

The Group management will continue to closely monitor all developments in the Hong Kong economy and foundation industry and accordingly adjust our marketing strategies as needed. With our long-established reputation, listing platform and healthy financial position, we are optimistically confident in the long-term development of the foundation industry and our Group's sustainable growth in the future.

A NOTE OF THANKS & APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my appreciation to our staff and workforce for their continued dedication and professionalism. Foundation work is a tough industry and our project teams consistently perform to a high standard.

Our many stakeholders and business partners are important to our business and we give our thanks for their tremendous support and loyalty.

In addition, I would like to extend my deep thanks to our shareholders for your unwavering support. With our unique blend of operational excellence and expertise in the field, we are poised to create significant shareholder value in the future.

Yuen-Keung Chan
Chairman

Hong Kong, 26 March 2020

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Yuen-Keung Chan

Aged 65, joined our Group in September 1994. He was appointed as our executive Director on 9 July 2015 and concurrently serves as the chairman of our Board. Mr. Chan is responsible for strategic planning, overall corporate and business development of our Group. He also serves as a director of all major subsidiaries of our Group.

Mr. Chan has over thirty years of experience in the construction industry. He is a member of the Chartered Institute of Building.

Currently, Mr. Chan is an executive director, the vice chairman and the managing director of Chinney Alliance Group Limited (stock code: 385, "CAGL") and an executive director, the vice chairman and the managing director of Chinney Investments, Limited (stock code: 216, "Chinney Investments"). Chinney Investments and CAGL are both listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

James Sing-Wai Wong

Aged 56, was appointed as our executive Director on 2 September 2016. He graduated from the University of Washington with a Bachelor's degree with honors in Economics. He also holds a Juris Doctor degree from the University of California Hastings College of Law, and a Master's degree in Systems Engineering and Information Systems from the Florida Institute of Technology. He is licensed to practice law in the United States of America and the State of California, where he also holds a Real Estate Broker's License. He has accumulated over thirty years of experience in economics, law, management, and information systems in Hong Kong, United States, Canada, the United Kingdom and the Mainland China.

Mr. Wong is currently the director of all major subsidiaries of our Group.

He is an executive director of CAGL (stock code: 385), being a controlling shareholder of the Company. He is an executive director of Chinney Investments (stock code: 216) and Hon Kwok Land Investment Company, Limited (stock code: 160, "Hon Kwok"). CAGL, Hon Kwok and Chinney Investments are listed on the Main Board of the Stock Exchange. He is the son of Dr. James Sai-Wing Wong, the Chairman and substantial shareholder of CAGL and Chinney Investments and a controlling shareholder of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(continued)*

Wing-Sang Yu

Aged 59, was appointed as our executive Director on 9 July 2015 and concurrently serves as the managing director of our Company. Mr. Yu is responsible for formulating corporate development and business strategies and leading and training our core management team. Mr. Yu is a founder of our Group and established Kin Wing Engineering Company Limited ("Kin Wing Engineering") in 1994. In February 2003, he left our Group to pursue his personal interest and re-joined as the managing director in May 2011. Mr. Yu currently also serves as a director of all major subsidiaries of our Group.

Mr. Yu has over twenty years of experience in the foundation industry. He obtained a Bachelor's degree in Engineering from The University of Hong Kong ("HKU") in 1983 and a Master's degree in Arts (Christian Studies) from The Chinese University of Hong Kong in 2009. He has been a corporate member of The Hong Kong Institution of Engineers since May 1992.

Philip Bing-Lun Lam

Aged 77, was appointed as our executive Director on 2 September 2016. Mr. Lam began his career in 1963 with Hang Seng Bank Limited for eleven years, and then joined HKU in 1975 as an Assistant Finance Director. He then worked as the Chief Accountant and Comptroller in Overseas Bank (Canada) in Vancouver for three years from 1982 to 1985. In 1985, Mr. Lam re-joined HKU and had served as the Director of Finance from 1990 until his retirement on 30 June 2012. He was then asked by the Vice-Chancellor of HKU to be his Senior Advisor for financial, investment and fund-raising matters until June 2014, and since then, he had been the Honorary Advisor to the Chairman of The University of Hong Kong Foundation for Educational Development and Research up to end of 2019.

Mr. Lam obtained a diploma in management studies from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in July 1974. He is a fellow of The Chartered Institute of Management Accountants (UK), the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors and an associate of The Certified Management Accountants (Canada), The Institute of Chartered Secretaries and Administrators (UK) and The Chartered Institute of Bankers (UK).

Mr. Lam is active in community affairs and had served as a member on the Board of Review (Inland Revenue Ordinance) Hong Kong for three years from 1995 to 1998. He had been a member of the Establishment and Finance Committee of the Prince Philip Dental Hospital from early 1990s until his retirement in June 2012. Currently he is a member of the Board of Governors of the Canadian International School of Hong Kong, and a member of the Board of Governors of the Centennial College, a subsidiary of HKU.

Mr. Lam is an executive director of CAGL (stock code: 385). He was appointed an executive director of Hon Kwok (stock code: 160) in April 2019. CAGL and Hon Kwok are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Oriental University City Holdings (H.K.) Limited (stock code: 8067), which is listed on the GEM of the Stock Exchange.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(continued)*

Hin-Kwong So

Aged 62, was appointed as our executive Director on 11 August 2015 and concurrently serves as the general manager of our Company. He is the Head of our Executive Panel and responsible for the overall management and supervision of operations of our Group, including but not limited to, tendering, project planning, project management, quality assurance and general corporate administration. He is currently a director of Kin Wing Engineering and Kin Wing Foundations Limited ("Kin Wing Foundations").

Mr. So has over thirty years of experience in site supervision, project management and tendering in various types of foundation, substructure and site formation projects. He worked as a joint general manager of Kin Wing Engineering and Kin Wing Foundations since April 2009 and the general manager since January 2012. Mr. So obtained a Bachelor's degree in Civil Engineering from the National Cheng Kung University in Taiwan in June 1982.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Siu-Chee Kong

Aged 73, was appointed as our independent non-executive Director on 20 October 2015. He is also the chairman of the audit committee of the Company.

Mr. Kong received an MBA degree from The Chinese University of Hong Kong in December 1980, and received a diploma in Banking from the Chartered Banker Institute in London in December 1973.

Mr. Kong began his career in 1969 with Standard Chartered Bank, where he served in various managerial positions for twenty-four years. He was a director of Champion Technology Holdings Limited (stock code: 0092) from 1993 to 1994 and a director of Kantone (UK) Limited from 1994 to 1996. From 1999 to 2005, he served as an executive vice-president, director, and alternate chief executive officer of CITIC Ka Wah Bank Limited, and was an executive director of CITIC International Financial Holdings Limited (formerly known as CITIC Ka Wah Bank Limited). He has been appointed as an independent non-executive director of China New Town Development Company Limited (stock code: 1278) since November 2006. He was an independent non-executive director of Harbin Bank Co., Ltd (stock code: 6138) from October 2013 to October 2019 and DIGITALHONGKONG.COM (stock code: 8007, now known as Global Strategic Group Limited) from 28 March 2014 to 26 October 2014.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Ivan Ti-Fan Pong

Aged 60, was appointed as our independent non-executive Director on 20 October 2015. He is also the chairman of the nomination committee of the Company. Mr. Pong obtained his Bachelor's degree in Economics (with Honours) from the University of Essex, U.K. in July 1983 and obtained his Master's degree in Business Administration from the EMBA Program of The Chinese University of Hong Kong in December 1999. He became a fellow of Hong Kong Institute of Directors (FHKIoD) since January 2020.

Mr. Pong has over thirty years of experience in the real estate investment market in Hong Kong and the People's Republic of China. Mr. Pong worked for Hon Kwok and its affiliated companies from January 1984 to October 1988 and was responsible for property development, property investments and project acquisitions for the Hon Kwok group. Mr. Pong worked at Chesterton Petty Ltd. as a senior agency manager in 1988. He joined Richard Ellis Ltd. as a senior manager in 1989 and promoted as an associate director in 1991. During the periods from 1992 to 1994 and from 1994 to 2000, Mr. Pong was a director of Metrobase Surveyors Limited and Cosmo Surveyors Limited respectively and completed a number of property investment and acquisition projects. He is currently a director of Metroland Property Consultants Limited.

Robert Che-Kwong Tsui

Aged 66, was appointed as our independent non-executive Director on 20 October 2015. He is also the chairman of the remuneration committee of the Company. He graduated from the University of Buckingham with a Bachelor's degree of Laws in February 1981. Mr. Tsui was admitted to the Law Society of Hong Kong in 1985 and qualified to practice law in Singapore in 1994 and in Anguilla, Caribbean in 2005.

Mr. Tsui has over thirty years of experience as practicing solicitor in Hong Kong. He is the founder and owner of Robert C.K. Tsui & Co., Solicitors, a law firm established in 1990. Mr. Tsui was an executive director of Landing International Development Limited (stock code: 0582, formerly known as "Greenfield Chemical Holdings Limited", a company listed on the Main Board of the Stock Exchange) from November 2007 to November 2009. He was also an independent non-executive director of APAC Resources Limited (stock code: 1104, formerly known as "Shanghai Merchants Holdings Limited", a company listed on the Main Board of the Stock Exchange) from July 2004 to November 2007, Gome Finance Technology Co., Ltd. (stock code: 0628, formerly known as "Sino Credit Holdings Limited", a company listed on the Main Board of the Stock Exchange) from August 2004 to July 2009 and Eagle Legend Asia Limited (stock code: 0936), a company listed on the Main Board of the Stock Exchange from December 2014 to November 2019.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Hon-Man Wai

Aged 46, has been the deputy general manager of our Group since January 2020. Mr. Wai is also a director of Kin Wing Engineering, Kin Wing Foundations, DrillTech Ground Engineering Limited ("DrillTech Ground") and DrillTech Geotechnical Engineering Limited ("DrillTech Geotechnical"). He is primarily responsible for site management and implementation of foundation construction and ancillary services projects of our Group.

Mr. Wai has over twenty-three years of experience in supervising and managing various foundation piling projects. He obtained a Bachelor's degree in Environmental Engineering from The Hong Kong Polytechnic University in November 1996. After graduation, he joined our Group as an assistant engineer in September 1996.

Hoi-Fan Lam

Aged 46, has been the general manager of our Group since April 2019. Mr. Lam is also a director of DrillTech Ground and DrillTech Geotechnical. He is the Head of our safety department and DrillTech and responsible for the overall management and operations of our drilling and site investigation business.

Mr. Lam has over twenty-four years of experience in performing and supervising various site investigation works. He joined DrillTech Ground in February 1997 as a senior technician. He obtained a Bachelor's degree in Civil Engineering from Chu Hai College of Higher Education in July 2009.

Clement Tze-Loong Lee

Aged 55, has been the assistant general manager (project management) of our Group since January 2020. He is the Head of our project management department and responsible for the overall project planning and management of our foundation construction and ancillary services business.

Mr. Lee has over thirty-three years of experience in supervising and managing foundation and site formation projects. Prior to joining our Group, he worked as contracts manager at Vibro (HK) Ltd. for twelve years. He is currently a member of Hong Kong Institute of Construction Managers. He obtained a Bachelor's degree in Civil Engineering from The University of London, Imperial College, United Kingdom in 1986.

Ka-Wah Chan

Aged 52, has been the assistant general manager (project) of our Group since January 2012. Mr. Chan is also a director of Kin Wing Engineering, Kin Wing Foundations, DrillTech Ground and DrillTech Geotechnical. He is responsible for the overall project planning and management of our foundation construction and ancillary services business.

Mr. Chan has over twenty-five years of experience in supervising and managing foundation and site formation projects. Prior to joining our Group, he worked as a graduate/assistant engineer at Leighton-Bruckner Foundation Engineering Ltd. from August 1990 to April 1992 and a site engineer at Chee Shing Foundation Limited from April 1993 to July 1994. Mr. Chan joined our Group in 1994. He obtained a Bachelor's degree in Civil and Structural Engineering from HKU in 1990.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(continued)*

Man-Fu Tang

Aged 53, has been the assistant general manager of DrillTech since January 2020. He is the Deputy Head of DrillTech and primarily responsible for site management and implementation of foundation construction and ancillary services projects of our Group.

Mr. Tang has over twenty-six years of experience in project and site management. He obtained a Master's degree in Project Management from The University of South Australia in April 2004 and a Master's degree in Civil Engineering from The Hong Kong Polytechnic University in November 2010. He was admitted as a member of Australian Institute of Project Management in November 2004. Mr. Tang joined our Group as a site agent in January 2000.

Jason Kin-Leung Ngai

Aged 61, has been the general manager of our Group since April 2020. He is the Head of Everest and mainly responsible for the overall project planning of our foundation construction for pile cap and site formation.

Mr. Ngai have over thirty-seven years of experience in pile cap and site formation construction. He obtained a Bachelor's degree in Civil Engineering from the National Cheng Kung University in Taiwan in 1982 and a Master's degree in Construction Management from the City University of Hong Kong in 2001.

Shui-Yung Tang

Aged 53, has been the assistant general manager of our Group since January 2012. Mr. Tang is also a director of Kin Wing Engineering, Kin Wing Foundations and DrillTech Ground. He is the Head of our plant department and responsible for managing the overall plant resources planning, depot operation and maintenance of our machinery and equipment.

Mr. Tang has over thirty-one years of experience in foundation engineering and construction site management. He obtained a Bachelor's degree in Civil Engineering from The Hong Kong Polytechnic University in October 1995.

Eric Wing-Hung Yuen

Aged 55, is the company secretary and financial controller of our Group and is responsible for the financial and accounting matters of our Group. He joined Chinney Construction Company, Limited in September 1992 and worked for our Group since September 1994. Mr. Yuen has about thirty-one years of experience in accounting field. He obtained a diploma in accountancy from Shue Yan College in July 1988 and was admitted as a member of the Hong Kong Institute of Certified Public Accountants in July 1993 and a fellow member of the Association of Chartered Certified Accountants in December 1997.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving the standards of corporate conduct and to place importance on its corporate governance systems so as to ensure greater transparency, accountability and protection of shareholders' interests.

This report describes the Company's corporate governance practices and structures that were in place during the financial year, with specific reference to the principles and guidelines of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") issued by the Stock Exchange. In developing and reviewing its corporate governance policies and practices, the Company has sought to adopt a balanced approach.

Throughout the year ended 31 December 2019, in the opinion of the Directors, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, except A.1.1, which is discussed in this report.

CORPORATE GOVERNANCE STRUCTURE

The Board believes that a well-balanced corporate governance structure will enable the Company to better manage its business risks and thereby ensure the Company is run in the best interests of its shareholders and other stakeholders. The Board is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. At the same time, it is also charged with the duty to enhance the effectiveness of the corporate governance practices of the Group. Under the Board, there are currently three board committees, namely Audit Committee, Remuneration Committee and Nomination Committee. All the Committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

BOARD OF DIRECTORS

Members of the Board are collectively responsible for overseeing the business and affairs of the Group that aims to enhancing the Company's value for stakeholders. Roles of the Board include reviewing and guiding corporate strategies and policies; monitoring financial and operating performance; ensuring the integrity of the Group's accounting and financial reporting systems; and setting appropriate policies in managing risks of the Group while the day-to-day management is delegated to the executive Directors. The biographical details of the Directors are set out in the section "Biographies of Directors and Senior Management" on pages 11 to 16 of this Annual Report.

The Board currently comprises of five executive Directors and three independent non-executive Directors. The Directors during the financial year and up to the date of the report are currently as follows:

Executive Directors

Yuen-Keung Chan (*Chairman*)

James Sing-Wai Wong

Wing-Sang Yu (*Managing Director*)

Philip Bing-Lun Lam

Hin-Kwong So

Independent Non-executive Directors

Siu-Chee Kong

Ivan Ti-Fan Pong

Robert Che-Kwong Tsui

BOARD OF DIRECTORS *(continued)*

Independent non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings.

The Board considers that each independent non-executive Director of the Company is independent in character and judgment. The Company has received from each independent non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

Board meetings of the Company were held twice during the year on a regular basis, which deviated from code provision A.1.1 which stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

In view of the simplicity of the Group's businesses, regular board meetings have not been held quarterly during the year. The interim and annual results together with all corporate transactions happened during the year have been reviewed and discussed amongst the Directors at the full board meetings held in the year.

Draft minutes of board meetings shall be circulated to Directors for comments and the signed minutes are kept by the Company Secretary.

In order to safeguard the interest of individual Director, the Company has also arranged directors' and officers' liability insurance for the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the Chairman and the management executives.

Mr. Yuen-Keung Chan, Chairman of the Company, is responsible for the management of the Board. The Group's business namely Foundation Division and Drilling Division are managed by its divisional managing directors and/or general managers.

Throughout the year, there was a clear division of responsibilities between the Chairman and the management executives.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and every executive and non-executive Director is subject to retirement by rotation and re-election at the Company's annual general meeting by shareholders every three years under the provision of the Bye-laws of the Company (the "Bye-laws").

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities.

Directors are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors. According to the training records maintained by the Company, the training received by each of the Directors during the year ended 31 December 2019 is summarized as follows:

Name of Director	Type of trainings
Executive Directors	
Yuen-Keung Chan	A, B
James Sing-Wai Wong	A, B
Wing-Sang Yu	A, B
Philip Bing-Lun Lam	A, B
Hin-Kwong So	B
Independent Non-Executive Directors	
Siu-Chee Kong	B
Ivan Ti-Fan Pong	B
Robert Che-Kwong Tsui	A, B

A: attending seminars/conferences/workshops/forums

B: reading newspapers, journals and updates relating to the economy, environmental protection business or director's duties and responsibilities etc.

CORPORATE GOVERNANCE FUNCTION

The Board is collectively responsible for performing the corporate governance duties including:

- to develop, review and update the Company's policy and practices on corporate governance;
- to review and monitor the training and continuous professional development of directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review the Company's compliance with the CG Code and disclosure in the "Corporate Governance Report"; and
- to perform such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board is responsible.

DIRECTORS' SECURITIES TRANSACTIONS

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.

On specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the section "Report of the Directors" in pages 27 to 36 of this Annual Report.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 20 October 2015 and it currently comprises two independent non-executive Directors namely Mr. Robert Che-Kwong Tsui (as Chairman) and Mr. Ivan Ti-Fan Pong and an executive Director namely Mr. Yuen-Keung Chan.

The terms of reference of the Remuneration Committee are available on the Stock Exchange's website and the Company's website. The principal functions include, but not limited to:

- reviewing and approving the management's remuneration proposals with reference to the Board's goals and objectives; and
- as the Board shall direct, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The Remuneration Committee consults the chairman of the Board and an executive Director about their remuneration proposals for other executive Directors and senior management.

Details of remuneration packages of the executive Directors during the year are set out under heading "Directors' Remuneration" on pages 82 and 83 in this Annual Report.

In 2019, two meetings of the Remuneration Committee were held during which the remuneration packages of all executive Directors and senior management for the year have been reviewed individually and the proposal for year 2019 remuneration adjustment and bonus distribution were considered.

NOMINATION COMMITTEE

The Nomination Committee was established on 20 October 2015 and it currently comprises two independent non-executive Directors namely Mr. Ivan Ti-Fan Pong (as Chairman) and Mr. Robert Che-Kwong Tsui and an executive Director namely Mr. Yuen-Keung Chan.

The terms of reference of the Nomination Committee are available on the Stock Exchange's website and the Company's website.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Directors, selecting or making recommendations to the Board on nominations, appointment or re-appointment of Directors and Board succession, and assessing the independence of the independent non-executive Directors.

NOMINATION COMMITTEE *(continued)*

In March 2019, one meeting of the Nomination Committee was held for reviewing the structure, size and composition, and assessing the independence of the independent non-executive Directors of the Board.

In order to maintain a diversity of perspectives among Board members, the Company adopted a Board Diversity Policy which stated that the Company considers a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural background, educational background, professional expertise, industry experience, skills and knowledge, in addition to factors based on the Group's business models and specific needs from time to time.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy. The Nomination Committee will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

AUDIT COMMITTEE

The Audit Committee was established on 20 October 2015 and it currently comprises three independent non-executive Directors namely Mr. Siu-Chee Kong (as Chairman), Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui.

The terms of reference of the Audit Committee are available on the Stock Exchange's website and the Company's website.

The primary duties of the Audit Committee include, but not limited to:

- to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to review the accounting principles and policies adopted by the Company and discuss with management and the external auditor the financial reporting matters;
- to review the financial statements of the Group before their submission to the Board for approval; and
- to review the effectiveness of the internal control and risk management system of the Group.

The Audit Committee met two times during the year under review. In March 2019, one meeting of Audit Committee was held at which the Audit Committee reviewed final results of the Company and its subsidiaries for the year ended 31 December 2018 as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. In August 2019, one meeting of Audit Committee was held at which the Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management and the external auditor the financial reporting matters of the Group for the period ended 30 June 2019.

Draft minutes of the Audit Committee meetings were circulated to members of Audit Committee for comments and the signed minutes are kept by the Company Secretary.

CORPORATE GOVERNANCE REPORT

ATTENDANCE AT MEETINGS OF THE BOARD, REMUNERATION, NOMINATION AND AUDIT COMMITTEES AND ANNUAL GENERAL MEETING

Attended/Eligible to attend
during the year ended 31 December 2019

Name of Director	Board Meetings	Remuneration Committee Meetings	Nomination Committee Meeting	Audit Committee Meetings	Annual General Meeting held on 4 June 2019
Executive Directors					
Yuen-Keung Chan	2/2	2/2	1/1	N/A	1/1
James Sing-Wai Wong	2/2	N/A	N/A	N/A	1/1
Wing-Sang Yu	2/2	N/A	N/A	N/A	1/1
Philip Bing-Lun Lam	2/2	N/A	N/A	N/A	1/1
Hin-Kwong So	2/2	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Siu-Chee Kong	2/2	N/A	N/A	2/2	1/1
Ivan Ti-Fan Pong	2/2	2/2	1/1	2/2	1/1
Robert Che-Kwong Tsui	2/2	2/2	1/1	2/2	1/1

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the Group has engaged its external auditor, Ernst & Young, to provide the following services and their respective fees charged are set out as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	1,299
Non-audit services (review and other services)	90

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining the Group's systems of internal control and reviewing their effectiveness. The internal control systems of the Group are designed to provide reasonable assurance to minimise risk of failure in operational systems, and to assist in the achievement of the Group's goals. The systems are also structured to safeguard the Group's assets, to ensure the maintenance of proper accounting records and compliance with applicable laws, rules and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. The Group has dedicated internal audit function who reviews the effectiveness of the risk management and internal control systems from time to time in order to ensure that they meet with the dynamic and ever changing business environment.

During the year, the Audit Committee has reviewed the Group's internal control system and considered the internal audit report with the Group's executive Directors and financial controller. The review covers all material controls, including financial, operational and compliance controls and risk management of the Group and such systems have been considered reasonably effective and adequate.

The Group regularly reminds the Directors and relevant employees for the compliance of policies regarding the inside information, and provide them with update on the appropriate guidelines or policies to ensure the compliance with regulatory requirements.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The statement of the independent auditor of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 37 to 42.

DIVIDEND POLICY

The Company has adopted a dividend policy (the “Dividend Policy”). Pursuant to which, in considering the declaration and payment of dividends, the Board shall maintain adequate cash reserves for meeting its working capital requirements and future business growth and take into account the following factors of the Group:

- a. financial results;
- b. cash flow situation;
- c. business conditions and strategies;
- d. future operations and earnings;
- e. capital requirements and expenditure plans;
- f. interests of shareholders;
- g. any restrictions on payment of dividends; and
- h. any other factors that the Board may consider relevant.

The Board has discretion to declare and distribute dividends to the shareholders of the Company, subject to the Bye-laws and all applicable laws and regulations. The Board will review the Dividend Policy from time to time and may exercise its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

COMMUNICATION WITH SHAREHOLDERS

The Company has adopted a Shareholders’ Communication Policy on 20 October 2015 reflecting mostly the current practices of the Company for communication with its shareholders. Information will be communicated to shareholders through:

- continuous disclosure to the Stock Exchange of all material information;
- periodic disclosure through the annual and interim reports;
- notices of meetings and explanatory material;
- the annual general meetings and other general meetings; and
- the Company’s website.

Full text of the Shareholders’ Communication Policy is available at the following link of the Company’s website:
http://chinneykinwing.etnet.com.hk/cg_doc/E-communicationpolicy.pdf.

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene a special general meeting

Pursuant to bye-law 58 of the Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981, but any meeting so convened shall not be held after the expiration of three months from the said date.

The requisition must be signed by the requisitionists and deposited at the principal place of business of the Company at Room 2308, 23rd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong (the "Principal Place of Business") for the attention of the Company Secretary.

The requisition will then be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the requisition is proper and in order, the Company Secretary will forward the requisition to the Board.

2. Procedures for shareholders to propose a person for election as a director of the Company

If a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of Director(s), wishes to propose a person for election as a Director at that meeting, he/she shall have to lodge a written notice at the Company's headquarters at Room 2308, 23/F, Wing On Centre, 111 Connaught Road Central, Hong Kong, for the attention of the Company Secretary of the Company.

In order for the Company to inform all shareholders of that proposal, the written notice must state (i) his/her intention to propose such person for election as a Director, and (ii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company and be signed by the shareholder concerned and the person who has been proposed indicating his/her willingness to be elected.

The period for lodgement of the above notice shall be a 7-day period commencing on the day after the despatch of the notice of the general meeting appointed for such election of Director(s) and ending on the date falling 7 days after the despatch of the said notice of the general meeting.

Upon receipt of the above notice from a shareholder which is received after publication of the notice of general meeting, the Company shall, prior to the general meeting, publish an announcement or issue a supplementary circular disclosing the particulars of the proposed Director pursuant to Rule 13.51(2) of the Listing Rules.

Full text of the procedures for shareholders to propose a person for election as a director of the Company is available at the following link of the Company's website:

http://chinneykinwing.etnet.com.hk/cg_doc/E-proceduresforshareholders.pdf.

SHAREHOLDERS' RIGHTS *(continued)*

3. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Principal Place of Business and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

4. The procedures for putting forward proposals at shareholders' meetings

To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to bye-law 59(1) of the Bye-laws:

- (a) for an annual general meeting and any special general meeting at which the passing of a special resolution is to be considered, it shall be called by not less than twenty-one clear days' notice (the notice period must include twenty clear business days under the Listing Rules' requirement); and
- (b) for all other special general meetings, they may be called by not less than fourteen clear days' notice (the notice period must include ten clear business days under the Listing Rules' requirement).

The directors of the Company (the “Directors”) herein present their report of the Company and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activities of its subsidiaries includes foundation construction and drilling and site investigation works for both public and private sectors in Hong Kong and overseas. Details of the subsidiaries and their activities are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group’s business, can be found in the Chairman’s Statement on page 9 and 10 of this Annual Report and the Management Discussion and Analysis set out on pages 28 to 30 of this Report of the Directors.

In the opinion of the Directors, Chinney Alliance Group Limited (“CAGL”), a company incorporated in Bermuda with limited liability and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), is the ultimate holding company of the Company.

CAGL and its subsidiaries, but excluding the Group, are hereafter collectively referred to as the “Remaining Group”.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2019 and the Group’s financial position as at that date are set out in the financial statements on pages 43 to 108.

The board of Directors (“the Board”) recommends the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2019 to the shareholders of the Company whose names appear on the Company’s register of members on 18 June 2020. Subject to approval by the shareholders at the forthcoming annual general meeting, the dividend cheques are expected to be despatched to the shareholders on or before 7 July 2020.

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

During the year under review, the Group had completed 8 and 27 projects with contract sum of approximately HK\$642 million and HK\$75 million in the foundation construction and ancillary services (the "Foundation Division") and drilling and site investigation (the "Drilling Division") respectively.

As at 31 December 2019, the Group had 10 and 44 projects in progress with contract sum of approximately HK\$3,105 million and HK\$378 million in the Foundation Division and the Drilling Division respectively.

Revenue

Set out below is the breakdown of revenue of the Group during the current and previous year:

	2019 HK\$'000	2018 HK\$'000
Foundation Division	1,075,296	1,073,054
Drilling Division	228,347	169,902
	1,303,643	1,242,956

The Group's revenue for the year under review was HK\$1,303.6 million (2018: HK\$1,243.0 million), representing an increase of 4.9% from the previous year. The increase of revenue in the reporting year was attributed to the contribution of Drilling Division from previous corresponding year of HK\$169.9 million to current reporting year of HK\$228.3 million, together with the stabilised revenue contribution of approximately HK\$1,070 million from the Foundation Division in both years of 2019 and 2018.

Gross profit and gross profit margin

The Group's total gross profit was HK\$250.4 million (2018: HK\$253.4 million), representing a slightly decrease of 1.2% from the previous year. The Group's gross profit margin also decreased from previous year of 20.4% to current reporting year of 19.2%. The decrease of both the gross profit and the gross profit margin was due to the continuing weak and competitive foundation market which had suppressed the contract price of those awarded contracts and the contract profits contributed therefrom. The increase of direct material costs and labour wages further deteriorated the gross profit and gross profit margin to some certain extent.

Administrative expenses

The Group's administrative expenses were stabilised at the reporting year of HK\$184.4 million as compared with the previous corresponding year of HK\$186.0 million. The stabilised administrative expenses were due to the Group's stringent and persistent control of the administrative overheads.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS AND OPERATION REVIEW *(continued)*

Net profit

The Group's net profit was maintained at HK\$57.6 million in both years of 2019 and 2018. The impact of the decrease in gross profit for the reporting year of HK\$3.1 million was set-off in aggregate by the decrease of administrative expenses of HK\$1.6 million and the tax saving of HK\$1.6 million.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2019, the Group had unpledged cash and bank balances of HK\$54.6 million as compared with that of HK\$193.7 million at 31 December 2018. The decrease was mainly due to the payment of 2018 final dividend of HK\$30.0 million to our shareholders as well as a cash payment of HK\$44.9 million for investments in our machinery fleets. In addition, net cash had been expended for certain sizeable projects before the end of the reporting year and certification of progress payments were still pending from our customers. The Group had a total of HK\$715.5 million undrawn facilities extended from banks and financial institutions at year-end available for its working capital, trade finance and issue of performance/surety bonds. Overall, the Group maintained a sound financial position during the year under review.

Funding and treasury policy

The Group adheres to a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Contingent liabilities

As at 31 December 2019, the Group provided corporate guarantees and indemnities to certain banks and an insurance company for an aggregate amount of HK\$200.5 million (2018: HK\$167.5 million) for the issue of performance bonds in its ordinary course of business.

Employees and remuneration policies

Our continued success depends on the efforts of our immensely professional foundation and drilling contracting teams. As at 31 December 2019, the Group employed 531 staff in Hong Kong. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

OUTLOOK AND FUTURE PLANS

The year of 2019 was full of challenges. The political and social issues in Hong Kong have created additional uncertainty in the economy and the foundation market had undoubtedly be adversely affected. In early 2019, there was a slight albeit short upturn in the foundation market, with our Group being awarded several sizeable private foundation contracts. However, the foundation market remained competitive during most of the year and keen competition amongst the market players persisted. Bidding prices of the foundation contracts, in both the public and private sectors of the foundation industry, continued to be conservative. In addition, maintaining the high index of direct material costs and labour wages, together with the demanding contract requirements from the employers, positioned foundations contractors in a difficult situation in the short to medium term.

To cope with the increasing complexities and demanding contract requirements of the foundation contracts, the Group will further sharpen its competitive edge by allocating adequate resources toward recruiting different levels of competent staffs and capital investment in modernising the machinery fleets. As a key market player in the foundation industry, the Group will compete against other competitors in the market by continuing adoption of the "3P Enhancement Program", namely Project management system, Production efficiency and Plant modernisation, which has significantly enhanced the Group's revenue and profit contribution over the years.

Our Drilling Division, DrilTech, with specialised technology in ground investigation, instrumentation and Down-the-hole projects continued to perform satisfactorily with record high revenue and profit in the reporting year. Tender opportunities for DrilTech were increasing as its name is included in the tenderer list of various key Hong Kong property developers and Architects. DrilTech had also applied for admission to other categories of specialist contractors of the Development Bureau so as to broaden the business opportunities to work for the public sector of the construction industry. Adequate resources will be deployed to DrilTech for the further development of its business line of instrumentation and monitoring in the ground investigation field works. Based on this strategy, we expect that DrilTech will further expand its scope of services and in turn enhance the revenue and profit contribution to the Group in the coming years.

With the Group's long established reputation in the foundation industry, together with our competitive strength and talented staff led by a committed Execution Panel, we are confident that the Group's business and our client base will continue to expand even within the existing challenging environment. We are conservatively optimistic as to the long term demands in the construction industry especially in view of the housing supply target of 430,000 housing units in Hong Kong from both the public and private sectors in the next decade as well as the Government's policies to launch large scale of infrastructure projects in medium term.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below.

RESULTS

	Year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
REVENUE	1,303,643	1,242,956	1,190,441	1,386,125	1,518,926
PROFIT FOR THE YEAR	57,573	57,636	81,606	102,028	140,499

ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
TOTAL ASSETS	897,114	941,912	1,014,202	1,034,827	1,042,458
TOTAL LIABILITIES	(444,451)	(516,822)	(589,882)	(632,113)	(696,772)
	452,663	425,090	424,320	402,714	345,686

The information set out above does not form part of the audited financial statements.

The Group has adopted HKFRS 16 *Leases* using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

PRE-EMPTIVE RIGHTS

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group throughout the year.

DISTRIBUTABLE RESERVES

Under the laws of Bermuda, the Company's reserves available for distribution to shareholders amounted to HK\$49,607,000 as at 31 December 2019, of which HK\$22,500,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$63,628,000, may be distributed to shareholders of the Company in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein amount to 19%. Purchases from the Group's five largest suppliers accounted for 34% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers nor suppliers.

DIRECTORS

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

Executive Directors:

Yuen-Keung Chan (*Chairman*)
James Sing-Wai Wong
Wing-Sang Yu (*Managing Director*)
Philip Bing-Lun Lam
Hin-Kwong So

Independent Non-Executive Directors:

Siu-Chee Kong
Ivan Ti-Fan Pong
Robert Che-Kwong Tsui

The Company has received written annual confirmations of independence from Mr. Siu-Chee Kong, Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited (the "Listing Rules") and the Company is of the view that all independent non-executive Directors are independent.

RE-ELECTION OF RETIRING DIRECTOR

In accordance with bye-law 84 of the Bye-laws of the Company, Mr. Wing-Sang Yu, Mr. Hin-Kwong So and Mr. Ivan Ti-Fan Pong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The nomination committee of the Company (the "Nomination Committee") has reviewed the structure, size and composition of the Board, the confirmations and disclosures given by the Directors, the qualifications, skills and experience, time commitment and contribution of the retiring Directors with reference to the nomination principles and criteria set out in the board diversity policy of the Company and the independence of all independent non-executive Directors. The Nomination Committee has recommended to the Board on re-election of all the retiring Directors including the aforesaid independent non-executive Director who is due to retire at the annual general meeting. The Company considers that the retiring independent non-executive Director is independent in accordance with the independence criteria as set out in Rule 3.13 of the Listing Rules and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and diversity.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 16 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director has a service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' remuneration is subject to shareholders' approval at general meetings. The remuneration of the Directors is reviewed by the Remuneration Committee having regard to the Company's operating results, individual performance of the Directors and comparable market statistics. Details of the Directors' remuneration are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in the section "Connected transaction" below and note 29 to the financial statements, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2019, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following interests and short positions of 5% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1	Interest through controlled corporations	1,117,500,000	74.50%
Chinney Alliance Group Limited		Beneficial owner	1,117,500,000	74.50%
Enhancement Investments Limited	1, 2	Interest through a controlled corporation	1,117,500,000	74.50%

Notes:

1. Dr. James Sai-Wing Wong and Enhancement Investments Limited are deemed to be interested in the same parcel of the 1,117,500,000 shares by virtue of Section 316 of the SFO; and
2. Enhancement Investments Limited is beneficially owned by Dr. James Sai-Wing Wong.

Save as disclosed above, as at 31 December 2019, no person had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION

Kin Chuen Street

On 20 September 2016, Gold Famous Development Limited ("Gold Famous"), an indirect wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok") and an indirect non wholly-owned subsidiary of Chinney Investments, Limited ("Chinney Investments"), entered into a framework agreement (the "Framework Agreement") with Kin Wing Foundations Limited ("KWF"), an indirect wholly-owned subsidiary of the Company and an indirect non wholly-owned subsidiary of CAGL, as a contractor for the construction of piling foundation, pipe piling, bored pile wall works at K.C.T.L. 495, Kin Chuen Street, Kwai Chung, New Territories, Hong Kong (the "Land") at a contract sum of HK\$210 million (the "Foundation Construction Works"). The contract sum was arrived at after arm's length negotiations between Gold Famous and KWF by reference to prevailing market rate. KWF offered a quotation to Gold Famous after considering the geological condition of the Land, the complexity and difficulty of the Foundation Construction Works and estimated project costs. The entering into the Framework Agreement constituted a connected transaction of each of Chinney Investments, Hon Kwok, CAGL and the Company under the Listing Rules. As the applicable percentage ratio of the connected transaction is more than 5% and the contract sum is more than HK\$10 million, it constituted non-exempt connected transaction under Chapter 14A of the Listing Rules and was subject to the reporting, announcement, and independent shareholders' approval under Chapter 14A of the Listing Rules. On 7 November 2016, at the extraordinary general meetings held by each of Chinney Investments and Hon Kwok and at the special general meetings held by each of CAGL and the Company, the transaction was approved by the independent shareholders of each of Chinney Investments, Hon Kwok, CAGL and the Company.

Details of the transaction was set out in the Company's announcement dated 20 September 2016 and circular dated 21 October 2016. During the year ended 31 December 2019, the total amount of contracting income from Gold Famous under the Framework Agreement was approximately HK\$9,823,000. Further detail of the transaction is included in note 29(a)(iii) to the financial statements.

The Foundation Construction Works is a one-off transaction entered into by KWF. Such transaction does not constitute a continuing connected transaction of the Group under Chapter 14A of the Listing Rules, and is not subject to further requirements under the Listing Rules.

Save as disclosed above, during the year under review, there was no transaction or arrangement needed to be disclosed as a connected transaction in accordance with the Listing Rules. The other related party transactions as set out in note 29 to the financial statements are connected transactions/continuing connected transactions exempted from disclosure and independent shareholders' approval requirements under the Listing Rules.

NON-COMPETITION UNDERTAKING

To ensure that there is a clear delineation between the business of the Remaining Group and that of the Group, CAGL, Dr. James Sai-Wing Wong and the Company entered into a Deed of Non-competition (the "Deed") on 20 October 2015. Pursuant to the Deed, CAGL and Dr. James Sai-Wing Wong undertakes that the Remaining Group would not, inter alia, engage in any foundation business that is or is likely to be in competition with that of the Group. For details about the above-mentioned Deed, please refer to section headed "Relationship with Controlling Shareholders" in the Prospectus dated 30 October 2015.

CAGL and Dr. James Sai-Wing Wong had confirmed to the Company of its compliance with the Deed. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed have been complied with by CAGL and Dr. James Sai-Wing Wong and duly enforced for the year ended 31 December 2019.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to build an environmental-friendly corporation with the aim to conserve natural resources. The Group has taken initiatives to reduce energy consumption and water usage and encourage recycle of office supplies and other materials. The Group will continue to review and promote its environmental policies.

During the year ended 31 December 2019, there were no material breach of or non-compliance with applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group's relationships with its employees are set out in the Management Discussion and Analysis section above.

The Group recognises the importance of maintaining good relationships with business partners, customers, suppliers and sub-contractors to achieve its long-term business growth and development. Accordingly, the Group has kept good communications and shared business updates with them when appropriate.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 33 to the financial statements.

AUDITOR

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Wing-Sang Yu
Managing Director

Hong Kong, 26 March 2020



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To the shareholders of Chinney Kin Wing Holdings Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Chinney Kin Wing Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 108, 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 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter

Revenue recognition for construction services

For the year ended 31 December 2019, the Group recognised revenue from construction contracting businesses amounting to HK\$1,303,643,000. The Group has recognised revenue from the provision of construction services over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total contract costs incurred and forecasts in relation to costs to complete.

Relevant disclosures are included in notes 4, 5 and 6 to the financial statements.

How our audit addressed the key audit matter

We evaluated the significant judgements made by management, through an examination of project documentation, key contracts and variation orders, and discussion of the status of projects under construction with management, finance, and technical personnel of the Group. We tested the controls of the Group over its processes to record contract revenue and contract costs. Our testing also included checking the payment certificates issued by the architects employed by contract customers, payment applications from subcontractors and invoices from suppliers and a comparison of the actual costs incurred with the estimated total costs for satisfaction of the construction services to assess the status of the projects on a sampling basis.

KEY AUDIT MATTERS *(continued)*

Key audit matter

Impairment assessment of trade receivables

As at 31 December 2019, the Group recorded trade receivables of HK\$257,327,000.

The credit period granted by the Group to the customers is generally one month. Management performs periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considers forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. Given the significant management judgements and estimations involved, impairment assessment of trade receivables is identified as a key audit matter.

Relevant disclosures are included in notes 4 and 15 to the financial statements.

How our audit addressed the key audit matter

We assessed and tested the Group's processes and controls relating to the monitoring of trade receivables. We evaluated the expected credit loss provisioning methodology, key data inputs and the assumptions, including both historical and forward-looking information, used to determine the expected credit losses by taking into account factors such as the payment history, ageing of the trade receivables, the subsequent settlement of the trade receivables and other relevant information on a sampling basis.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter

Recoverability of contract assets for construction services

The Group performs construction work by transferring construction services to customers before the customers pay consideration or before payments are due, contract assets are recognised for the earned considerations that are conditional. Contract assets are stated at cost less impairment. In assessing the recoverability of the contract assets, the Group regularly reviews and, where appropriate, adjusts the financial budget of each construction work based on the work progress and latest available information (including correspondence with contract customers), and estimates the amount of foreseeable losses or attributable profits of each construction contract. When it is probable that total contract costs will exceed total contract revenue which indicates an impairment, the expected loss is recognised as an expense immediately. Management also considers forward-looking information that may impact the recoverability of contract assets.

As at 31 December 2019, the Group recognised contract assets of HK\$279,223,000. The recoverability assessment of these contract assets involves significant estimations and judgements made by management when management prepares financial budgets of each construction work.

Relevant disclosures are included in notes 4 and 16 to the financial statements.

How our audit addressed the key audit matter

We selected material construction contracts, reviewed their financial budgets and interviewed the Group's project managers regarding the preparation and approval processes of financial budgets of construction contracts and the progress of work certification by contract customers. Our testing also included a review of correspondence between the Group and contract customers in respect of construction work performed, checking the payment certificates issued by the architects employed by contract customers, payment applications from subcontractors and invoices from suppliers and a comparison of the actual costs incurred with the estimated total costs for satisfaction of the construction services to assess the status of the projects, and evaluating the expected credit loss provisioning methodology, key data inputs and the assumptions, including both historical and forward-looking information, used to determine the expected credit losses on a sampling basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT *(continued)*

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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Sau Pik.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	6	1,303,643	1,242,956
Cost of construction		(1,053,291)	(989,526)
Gross profit		250,352	253,430
Other income and gains	6	2,831	2,565
Administrative expenses		(184,386)	(186,026)
Finance costs	26(b)	(524)	–
PROFIT BEFORE TAX	7	68,273	69,969
Income tax expense	10	(10,700)	(12,333)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		57,573	57,636
Profit and total comprehensive income attributable to: Equity holders of the Company		57,573	57,636
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12	HK3.84 cents	HK3.84 cents
Basic and diluted			

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	256,002	277,290
Right-of-use assets	14	9,752	–
Total non-current assets		265,754	277,290
CURRENT ASSETS			
Trade receivables	15	257,327	157,730
Contract assets	16	279,223	270,895
Prepayments, deposits and other receivables	17	25,139	18,772
Due from a fellow subsidiary	21	1,790	1,790
Due from a related company	22	5,250	10,500
Tax recoverable		8,024	11,274
Cash and cash equivalents	18	54,607	193,661
Total current assets		631,360	664,622
CURRENT LIABILITIES			
Trade and retention monies payables	19	174,288	169,395
Other payables and accruals	20	203,798	297,906
Tax payable		14,673	4,381
Lease liabilities	14	9,060	–
Total current liabilities		401,819	471,682
NET CURRENT ASSETS		229,541	192,940
TOTAL ASSETS LESS CURRENT LIABILITIES		495,295	470,230
NON-CURRENT LIABILITIES			
Lease liabilities	14	866	–
Deferred tax liabilities	23	41,766	45,140
Total non-current liabilities		42,632	45,140
Net assets		452,663	425,090

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
EQUITY			
Equity attributable to holders of the Company			
Issued capital	24	150,000	150,000
Reserves		302,663	275,090
Total equity		452,663	425,090

On behalf of the Board
Yuen-Keung Chan
Director

On behalf of the Board
Wing-Sang Yu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Issued capital <i>HK\$'000</i>	Share premium* <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i>	Merger reserve* <i>HK\$'000</i>	Retained profits* <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2018	150,000	63,628	(1)	20,002	178,825	412,454
Profit and total comprehensive income for the year	–	–	–	–	57,636	57,636
2017 final dividend declared	–	–	–	–	(45,000)	(45,000)
At 31 December 2018 and 1 January 2019	150,000	63,628	(1)	20,002	191,461	425,090
Profit and total comprehensive income for the year	–	–	–	–	57,573	57,573
2018 final dividend declared (note 11)	–	–	–	–	(30,000)	(30,000)
At 31 December 2019	150,000	63,628	(1)	20,002	219,034	452,663

The merger reserve of the Group represents the capital contribution from the equity holders of a subsidiary now comprising the Group before the completion of the Reorganisation.

* These reserve accounts comprise the consolidated reserves of HK\$302,663,000 (2018: HK\$275,090,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		68,273	69,969
Adjustments for:			
Bank interest income	6	(379)	(1,141)
Finance costs		524	–
Depreciation of property, plant and equipment	7	62,612	62,948
Depreciation of right-of-use assets	7	8,916	–
Impairment of goodwill	7	–	398
Transfer of items of property, plant and equipment to contract costs		3,197	10,048
Loss on disposal of items of property, plant and equipment		330	1,117
		143,473	143,339
Increase in contract assets		(8,328)	(41,229)
Increase in trade receivables		(99,597)	(45,607)
Increase in prepayments, deposits and other receivables		(6,367)	(1,246)
Increase in trade and retention monies payables		4,893	49,406
Decrease in other payables and accruals		(94,108)	(131,387)
Decrease in an amount due from a related company		5,250	26,782
		(54,784)	58
Cash generated from/(used in) operations		–	(26,067)
Hong Kong profits tax paid		(532)	(730)
		(55,316)	(26,739)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		379	1,141
Purchases of items of property, plant and equipment	13	(44,881)	(30,626)
Acquisition of a subsidiary	25	–	(389)
Proceeds from disposal of items of property, plant and equipment		30	–
Decrease in pledged time deposits		–	3,598
		(44,472)	(26,276)
Net cash flows used in investing activities		(44,472)	(26,276)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(30,000)	(45,000)
Principal portion of lease payments	26(b)	(9,266)	–
Net cash flows used in financing activities		(39,266)	(45,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(139,054)	(98,015)
Cash and cash equivalents at beginning of year		193,661	291,676
CASH AND CASH EQUIVALENTS AT END OF YEAR		54,607	193,661
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	54,607	103,661
Non-pledged time deposits with original maturity of less than three months when acquired	18	–	90,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		54,607	193,661

1. CORPORATE INFORMATION

Chinney Kin Wing Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda on 29 May 2015. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Room 2308, 23/F, Wing On Centre, 111 Connaught Road Central, Hong Kong.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 11 November 2015.

The Company is an investment holding company. During the year, the Company’s subsidiaries were principally involved in foundation construction and drilling and site investigation works for both public and private sectors in Hong Kong and overseas.

In the opinion of the Directors, as at 31 December 2019, Chinney Alliance Group Limited (“CAGL”), a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange, is the ultimate holding company of the Company.

Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kin Wing Chinney (BVI) Limited	British Virgin Islands	US\$208	100	–	Investment holding
DrilTech Geotechnical Engineering Limited	Hong Kong	HK\$10,000	–	100	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering Limited	Hong Kong	HK\$20,000,000	–	100	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering (Macau) Limited	Macau	MOP1,000,000	–	100	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering (Singapore) Pte. Ltd.*	Singapore	S\$25,000	–	100	Drilling, site investigation and related ground engineering construction
Everest Engineering Company Limited	Hong Kong	HK\$10,000	–	100	Basement construction work

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kin Wing Engineering Company Limited	Hong Kong	HK\$20,000,000	–	100	Foundation piling
Kin Wing Foundations Limited	Hong Kong	HK\$10,000	–	100	Foundation piling
Kin Wing Machinery & Transportation Limited	Hong Kong	HK\$100	–	100	Equipment and machinery leasing
Kinwing Engineering (Macau) Company Limited	Macau	MOP1,000,000	–	100	Foundation piling
LabTech Testing Limited	Hong Kong	HK\$10,000	–	100	Construction material testing

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) (continued)

As a lessee – Leases previously classified as operating leases*Nature of the effect of adoption of HKFRS 16*

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	HK\$'000
Assets	
Increase in right-of-use assets and total assets	18,668
Liabilities	
Increase in lease liabilities and total liabilities	18,668

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK\$'000
Operating lease commitments as at 31 December 2018	19,548
Weighted average incremental borrowing rate as at 1 January 2019	3.57%
Discounted operating lease commitments and lease liability as at 1 January 2019	18,668

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered that the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> 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 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Fair value measurement** *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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 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;
- or
- (b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);
 - (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;
 - (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms or 10% – 33 $\frac{1}{3}$ %
Plant and machinery	6% – 25%
Motor vehicles	25%
Furniture, fixtures and equipment	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leased buildings	3 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately presented in the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Group as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments and other financial assets** *(continued)**Subsequent measurement of financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Financial liabilities***Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, retention monies payable, lease liabilities and financial liabilities included in other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Income tax** *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, 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 between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Revenue recognition** *(continued)**Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Macau are required to participate in a central pension scheme operated by the Macau Government. The subsidiaries are required to contribute a fixed amount of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies** *(continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition for construction services

For the year ended 31 December 2019, the Group recognised revenue from construction contracting businesses amounting to HK\$1,303,643,000. The Group has recognised revenue from the provision of construction services over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total contract costs incurred and forecasts in relation to costs to complete.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group assesses at the end of the reporting period whether there is an indication that property, plant and equipment may be impaired. If any indication exists, the Group estimates the recoverable amount of the property, plant and equipment. The Group measures the recoverable amount of the property, plant and equipment with reference to their value-in-use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from property, plant and equipment and a suitable discount rate in order to calculate the present value. The net carrying amount of property, plant and equipment at 31 December 2019 was approximately HK\$256,002,000 (2018: HK\$277,290,000).

Impairment assessment of trade receivables

As at 31 December 2019, the Group recorded trade receivables of HK\$257,327,000 (2018: HK\$157,730,000). The credit period granted by the Group to the customers is generally one month (2018: one month). Management performs periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considers forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

At 31 December 2019, the directors reviewed and assessed the Group's trade receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact were considered insignificant to the Group.

Recoverability of contract assets for construction services

The Group performs construction work by transferring construction services to customers before the customers pay consideration or before payments are due, contract assets are recognised for the earned considerations that are conditional. Contract assets are stated at cost less impairment. In assessing the recoverability of the contract assets, the Group regularly reviews and, where appropriate, adjusts the financial budget of each construction work based on work progress and latest available information (including correspondence with contract customers), and estimates the amount of foreseeable losses or attributable profits of each construction contract. When it is probable that total contract costs will exceed total contract revenue which indicates an impairment, the expected loss is recognised as an expense immediately. Management also considers forward-looking information that may impact the recoverability of contract assets.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Recoverability of contract assets for construction services (continued)

As at 31 December 2019, the Group recognised contract assets of HK\$279,223,000 (2018: HK\$270,895,000). The recoverability assessment of these contract assets involves significant estimations and judgements made by management when management prepares financial budgets of each construction work. The directors reviewed and assessed the Group's contract assets for impairment using reasonable and supportable information that is available without undue cost or effort. The results of the assessment and the impact were considered insignificant to the Group.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- Foundation construction and ancillary services; and
- Drilling and site investigation

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs as well as unallocated corporate gains and expenses are excluded from this measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Foundation construction and ancillary services HK\$'000	Drilling and site investigation HK\$'000	Total HK\$'000
Segment revenue (note 6):			
Sales to external customers	1,075,296	228,347	1,303,643
Intersegment sales	–	86,587	86,587
Other revenue			
Rental income from leasing of machinery	2,100	–	2,100
Others	374	357	731
	1,077,770	315,291	1,393,061
<i>Reconciliation:</i>			
Elimination of intersegment sales			(86,587)
Other revenue			(2,831)
Revenue			1,303,643
Segment results	40,211	36,206	76,417
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(7,999)
Interest income			379
Finance costs			(524)
Profit before tax			68,273
Segment assets	722,918	172,470	895,388
<i>Reconciliation:</i>			
Corporate and other unallocated assets			1,726
Total assets			897,114
Segment liabilities	286,679	154,168	440,847
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			3,604
Total liabilities			444,451
Other segment information:			
Depreciation of property, plant and equipment	52,893	566	53,459
Depreciation of right-of-use assets	8,916	–	8,916
Capital expenditure*	29,357	15,524	44,881

* Capital expenditure represents additions to property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Foundation construction and ancillary services HK\$'000	Drilling and site investigation HK\$'000	Total HK\$'000
Segment revenue (note 6):			
Sales to external customers	1,073,054	169,902	1,242,956
Intersegment sales	–	80,939	80,939
Other revenue			
Rental income from leasing of machinery	600	–	600
Others	1,102	863	1,965
	1,074,756	251,704	1,326,460
<i>Reconciliation:</i>			
Elimination of intersegment sales			(80,939)
Other revenue			(2,565)
Revenue			1,242,956
Segment results	49,095	26,114	75,209
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(6,381)
Interest income			1,141
Profit before tax			69,969
Segment assets	718,980	221,410	940,390
<i>Reconciliation:</i>			
Corporate and other unallocated assets			1,522
Total assets			941,912
Segment liabilities	350,214	161,900	512,114
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			4,708
Total liabilities			516,822
Other segment information:			
Depreciation of property, plant and equipment	54,650	234	54,884
Impairment of goodwill	398	–	398
Capital expenditure*	28,204	2,422	30,626

* Capital expenditure represents additions to property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
Hong Kong	1,300,349	1,233,471
Macau and Singapore	3,294	9,485
	1,303,643	1,242,956

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019 HK\$'000	2018 HK\$'000
Hong Kong	265,754	277,290

The non-current asset information above is based on the locations of the assets.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the Group's revenue, is set out below:

	2019 HK\$'000	2018 HK\$'000
Customer A ¹	246,954	146,191
Customer B ²	198,366	222,000
Customer C ²	163,282	*

* Less than 10%

¹ Revenue of HK\$216,909,000 (2018: HK\$146,191,000) and HK\$30,045,000 (2018: Nil) were derived from foundation construction and ancillary services, and drilling and site investigation, respectively.

² Revenue were derived from foundation construction and ancillary services.

6. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Construction services	1,303,643	1,242,956

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments

	Foundation construction and ancillary services HK\$'000	Drilling and site investigation HK\$'000	Total HK\$'000
Type of services			
Construction services	1,075,296	228,347	1,303,643
Geographical markets			
Hong Kong	1,075,296	225,053	1,300,349
Singapore	–	3,294	3,294
Total revenue from contracts with customers	1,075,296	228,347	1,303,643
Timing of revenue recognition			
Services transferred over time	1,075,296	228,347	1,303,643

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

Revenue from contracts with customers			
External customers	1,075,296	228,347	1,303,643
Intersegment sales	–	86,587	86,587
	1,075,296	314,934	1,390,230
Elimination of intersegment sales	–	(86,587)	(86,587)
Total revenue from contracts with customers	1,075,296	228,347	1,303,643

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments

	Foundation construction and ancillary services HK\$'000	Drilling and site investigation HK\$'000	Total HK\$'000
Type of services			
Construction services	1,073,054	169,902	1,242,956
Geographical markets			
Hong Kong	1,068,993	164,478	1,233,471
Macau and Singapore	4,061	5,424	9,485
Total revenue from contracts with customers	1,073,054	169,902	1,242,956
Timing of revenue recognition			
Services transferred over time	1,073,054	169,902	1,242,956

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

Revenue from contracts with customers			
External customers	1,073,054	169,902	1,242,956
Intersegment sales	–	80,939	80,939
	1,073,054	250,841	1,323,895
Elimination of intersegment sales	–	(80,939)	(80,939)
Total revenue from contracts with customers	1,073,054	169,902	1,242,956

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligation satisfied in previous periods:

	2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Construction services	44,514	67,129
Revenue recognised from performance obligations satisfied in previous periods:		
Construction services not previously recognised due to constraints on variable consideration	32,028	66,109

(ii) Performance obligations

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. A certain percentage of payment is retained by customer until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 HK\$'000	2018 HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	1,947,114	940,813
After one year	480,570	335,074
	2,427,684	1,275,887

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to construction services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	2019 HK\$'000	2018 HK\$'000
Bank interest income	379	1,141
Rental income from leasing of machinery	2,100	600
Foreign exchange differences, net	352	111
Others	–	713
	2,831	2,565

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019 HK\$'000	2018 HK\$'000
Cost of construction	1,053,291	989,526
Depreciation of property, plant and equipment	62,612	62,948
Less: Amount included in cost of construction	(9,153)	(8,064)
	53,459	54,884
Depreciation of right-of-use assets	8,916	–
Staff costs (including directors' remuneration (note 8)):		
Salaries, wages and allowances	293,942	261,498
Pension scheme contributions	13,294	11,035
	307,236	272,533
Less: Amount included in cost of construction	(234,111)	(197,299)
	73,125	75,234
Auditor's remuneration	1,339	1,427
Minimum lease payments under operating leases	–	9,790
Lease payments not included in the measurement of lease liabilities	2,001	–
Loss on disposal of items of property, plant and equipment, net	330	1,117
Impairment of goodwill [#]	–	398
Foreign exchange differences, net	(352)	(111)

[#] This expense item is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' REMUNERATION

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

	2019 HK\$'000	2018 HK\$'000
Fees	1,400	1,238
Other emoluments:		
Salaries, allowances and benefits in kind	7,144	5,560
Performance related bonuses*	10,567	8,900
Pension scheme contributions	548	414
	19,659	16,112

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to profit for the year of the Group.

(a) Independent Non-Executive Directors

The fees paid to independent non-executive Directors during the year were as follows:

	2019 HK\$'000	2018 HK\$'000
Siu-Chee Kong	175	150
Ivan Ti-Fan Pong	175	150
Robert Che-Kwong Tsui	175	150
	525	450

There were no other emoluments payable to the independent non-executive Directors during the year (2018: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019					
Yuen-Keung Chan	175	–	2,900	–	3,075
James Sing-Wai Wong	175	447	600	–	1,222
Wing-Sang Yu	175	3,940	5,000	363	9,478
Philip Bing-Lun Lam	175	381	767	–	1,323
Hin-Kwong So	175	2,376	1,300	185	4,036
	875	7,144	10,567	548	19,134
2018					
Herman Man-Hei Fung (retired on 1 April 2018)	38	–	400	–	438
Yuen-Keung Chan	150	–	1,900	–	2,050
James Sing-Wai Wong	150	–	400	–	550
Wing-Sang Yu	150	3,550	4,400	327	8,427
Philip Bing-Lun Lam	150	–	400	–	550
Hin-Kwong So	150	2,010	1,400	87	3,647
	788	5,560	8,900	414	15,662

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2018: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: two) non-director highest paid employees for the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Basic salaries, housing allowances and other benefits in kind	2,784	2,649
Bonuses paid and payable	490	920
Pension scheme contributions	170	117
	3,444	3,686

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
HK\$1,500,001 to HK\$2,000,000	2	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 HK\$'000	2018 HK\$'000
Current – Hong Kong		
Charge for the year	14,330	15,024
Overprovision in prior years	–	(381)
Current – Elsewhere		
Charge for the year	266	1,237
Overprovision in prior years	(522)	–
Deferred (note 23)	(3,374)	(3,547)
Total tax charge for the year	10,700	12,333

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates to the tax charge for the year at the effective tax rate is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	68,273	69,969
Tax at the statutory tax rate	11,265	11,545
Effect of different rates for companies operating in other jurisdictions	33	(174)
Adjustment in respect of current tax of previous periods	(522)	(381)
Expenses not deductible for tax	5	5
Income not subject to tax	(121)	(208)
Tax losses utilised from previous periods	(1,469)	(7)
Tax losses not recognised	1,712	1,544
Others	(203)	9
Tax charge for the year at the effective rate of 15.7% (2018: 17.6%)	10,700	12,333

11. DIVIDEND

	2019 HK\$'000	2018 HK\$'000
Proposed final dividend of HK1.5 cents (2018: HK2.0 cents) per ordinary share	22,500	30,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$57,573,000 (2018: HK\$57,636,000) and the number of ordinary shares of 1,500,000,000 (2018: 1,500,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
31 December 2019					
At 31 December 2018 and 1 January 2019:					
Cost	2,941	759,531	8,650	9,301	780,423
Accumulated depreciation	(2,296)	(483,894)	(7,875)	(9,068)	(503,133)
Net carrying amount	645	275,637	775	233	277,290
At 1 January 2019, net of accumulated depreciation	645	275,637	775	233	277,290
Additions	4,855	39,079	947	–	44,881
Disposals	–	(360)	–	–	(360)
Transfers to costs of construction contracts	–	(3,197)	–	–	(3,197)
Depreciation provided during the year	(499)	(61,370)	(622)	(121)	(62,612)
At 31 December 2019, net of accumulated depreciation	5,001	249,789	1,100	112	256,002
At 31 December 2019:					
Cost	7,796	792,468	9,075	9,301	818,640
Accumulated depreciation	(2,795)	(542,679)	(7,975)	(9,189)	(562,638)
Net carrying amount	5,001	249,789	1,100	112	256,002

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
31 December 2018					
At 1 January 2018:					
Cost	2,941	743,895	8,650	9,301	764,787
Accumulated depreciation	(2,102)	(426,201)	(6,816)	(8,891)	(444,010)
Net carrying amount	839	317,694	1,834	410	320,777
At 1 January 2018, net of accumulated depreciation	839	317,694	1,834	410	320,777
Additions	–	30,626	–	–	30,626
Disposals	–	(1,117)	–	–	(1,117)
Transfers to costs of construction contracts	–	(10,048)	–	–	(10,048)
Depreciation provided during the year	(194)	(61,518)	(1,059)	(177)	(62,948)
At 31 December 2018, net of accumulated depreciation	645	275,637	775	233	277,290
At 31 December 2018:					
Cost	2,941	759,531	8,650	9,301	780,423
Accumulated depreciation	(2,296)	(483,894)	(7,875)	(9,068)	(503,133)
Net carrying amount	645	275,637	775	233	277,290

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

14. LEASES

The Group as a lessee

The Group has lease contracts for properties used in its operations. Leases of properties generally have lease terms of three years. Other properties generally have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options, which are further discussed below.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movement during the year are as follows:

	Leased buildings HK\$'000
At 1 January 2019	18,668
Depreciation charge	(8,916)
As at 31 December 2019	9,752

(b) Lease liabilities

The carrying amount of lease liabilities and the movement during the year are as follows:

	2019 HK\$'000
Carrying amount at 1 January	18,668
Accretion of interest recognised during the year	524
Payments	(9,266)
Carrying amount at 31 December	9,926
Analysed into:	
Current portion	9,060
Non-current portion	866

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

14. LEASES *(continued)**The Group as a lessee (continued)*

- (c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest on lease liabilities	524
Depreciation charge of right-of-use assets	8,916
Expense relating to short-term leases (included in administrative expenses)	2,001
	<hr/>
Total amount recognised in profit or loss	11,441

- (d) The total cash outflow for leases is disclosed in note 26(c), to the financial statements.

The Group as a lessor

The Group leases its machinery in Hong Kong under operating lease arrangement. Rental income recognised by the Group during the year was HK\$2,100,000 (2018: HK\$600,000), details of which are included in note 6 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

15. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	257,327	157,730

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. At 31 December 2019, the Group had a certain concentration of risk that may arise from the exposure to the largest customer and five largest customers, which accounted for 36% and 79% (2018: 23% and 71%) of the Group's total trade receivables balance, respectively.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2019 HK\$'000	2018 HK\$'000
Current to 30 days	166,549	118,572
31 to 60 days	82,750	29,111
61 to 90 days	160	2,259
Over 90 days	7,868	7,788
	257,327	157,730

15. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2019 HK\$'000	2018 HK\$'000
Neither past due nor impaired	185,520	111,439
Less than 31 days past due	63,779	36,244
31 to 90 days past due	160	2,417
Past due over 90 days	7,868	7,630
	257,327	157,730

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The expected credit loss rate for the Group's trade receivables is minimal for all the above bands of trade receivables.

At 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

16. CONTRACT ASSETS

	Notes	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Unbilled revenue	(a)	113,874	92,155	60,980
Retention monies receivable	(b)	165,349	178,740	168,686
		279,223	270,895	229,666

Notes:

- (a) Unbilled revenue is initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as unbilled revenue are reclassified to trade receivables.
- (b) Retention monies receivable are part of the consideration that the customers retain which is payable on successful completion of the contracts in order to provide the customers with assurance that the Group will complete its obligation satisfactorily under the contracts, rather than to provide financing to the customers.

The increase in contract assets in 2019 and 2018 was the result of the increase in the ongoing provision of construction services at the end of each of the years.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	240,238	92,155
After one year	38,985	178,740
Total contract assets	279,223	270,895

The Group's trading terms and credit policy with customers are disclosed in note 15 to the financial statements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

At 31 December 2019 and 2018, loss allowance for contract assets was assessed to be minimal.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Prepayments	1,101	1,012
Deposits and other receivables	24,038	17,760
	25,139	18,772

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

18. CASH AND CASH EQUIVALENTS

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	54,607	103,661
Time deposits	–	90,000
	54,607	193,661

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

19. TRADE AND RETENTION MONIES PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	133,802	139,960
Retention monies payable	40,486	29,435
	174,288	169,395

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

19. TRADE AND RETENTION MONIES PAYABLES (continued)

An ageing analysis of the trade and retention monies payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 HK\$'000	2018 HK\$'000
Trade payables		
Current to 30 days	106,820	125,209
31 to 60 days	19,579	11,187
61 to 90 days	5,927	153
Over 90 days	1,476	3,411
	133,802	139,960
Retention monies payable	40,486	29,435
	174,288	169,395

The trade and retention monies payables are non-interest-bearing. Trade payables are normally settled on 30-day terms. Retention monies payable had repayment terms ranging from one to two years.

20. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK\$'000	2018 HK\$'000
Contract liabilities	(a)	99,483	44,514
Other payables	(b)	705	1,016
Accruals		103,610	252,376
		203,798	297,906

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Short-term advances received from customers			
Construction services	99,483	44,514	67,129

Contract liabilities include short-term advances received to deliver construction services. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction services at the end of the year.

(b) Other payables are non-interest-bearing and payable on demand.

21. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary was unsecured, interest-free and repayable on demand.

22. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company represented construction contracting income certified from Gold Famous Development Limited ("Gold Famous"). Gold Famous is an indirect wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok") of which Dr. James Sai-Wing Wong, a controlling shareholder of the Company, is also a director of and has a beneficial interest in. Mr. James Sing-Wai Wong and Mr. Philip Bing-Lun-Lam are common directors of the Company and Hon Kwok.

The amount due from a related company was unsecured, interest-free and repayable within 30 days.

23. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation <i>HK\$'000</i>
At 1 January 2018	49,954
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	(4,814)
At 31 December 2018 and 1 January 2019	45,140
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	(2,466)
Gross deferred tax liabilities as at 31 December 2019	42,674

Deferred tax assets

	Tax losses <i>HK\$'000</i>
At 1 January 2018	1,267
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	(1,267)
At 31 December 2018 and 1 January 2019	–
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	908
Gross deferred tax assets as at 31 December 2019	908

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

23. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2019 HK\$'000	2018 HK\$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	41,766	45,140

The Group has estimated tax losses arising in Hong Kong of approximately HK\$16,584,000 (2018: HK\$7,642,000), that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has estimated tax losses arising in Macau of approximately HK\$258,000 (2018: HK\$131,000) that can be used to offset against future taxable profits of the companies in which the losses arose for a maximum of three years. As at 31 December 2019, deferred tax assets of approximately HK\$1,712,000 (2018: HK\$1,544,000) have not been recognised in respect of these losses as in the opinion of the Company's directors, it is uncertain whether taxable profits will be available against which the tax losses can be utilised.

24. SHARE CAPITAL

	2019 HK\$'000	2018 HK\$'000
Authorised: 3,000,000,000 ordinary shares of HK\$0.1 each	300,000	300,000
Issued and fully paid: 1,500,000,000 ordinary shares of HK\$0.1 each	150,000	150,000

There was no movement in the share capital of the Company during the year (2018: Nil).

25. BUSINESS COMBINATION

On 5 January 2018, the Group acquired a 100% interest in Everest Engineering Company Limited ("Everest") from a third party. Everest is engaged in basement construction works. The acquisition was made to expand the foundation services of the Group. The purchase consideration for the acquisition was in the form of cash, with HK\$400,000 paid at the acquisition date.

25. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Everest as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$'000
Cash and cash equivalents	11
Other payables	(9)
	<hr/>
Total identifiable net assets at fair value	2
Goodwill on acquisition	398
	<hr/>
	400
	<hr/>
Satisfied by:	
Cash	400
	<hr/>

An analysis of the cash flows in respect of the acquisition of Everest was as follows:

	HK\$'000
Cash consideration	(400)
Cash and cash equivalents acquired	11
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(389)
	<hr/>

The goodwill was impaired in the year of acquisition and the impairment of goodwill was not deductible for income tax purpose.

Since the acquisition, Everest did not contribute any revenue and had incurred a loss of HK\$404,000 to the Group's consolidated profit for the year ended 31 December 2018.

Had the combination taken place at 1 January 2018, the revenue and profit of the Group would not have changed during that year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$9,752,000 and HK\$9,926,000, respectively, in respect of lease arrangements for leased buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Lease liabilities HK\$'000
At 1 January 2019	18,668
Changes from financing cash flows	(9,266)
Interest expense	524
At 31 December 2019	9,926

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 HK\$'000
Within operating activities	2,525
Within financing activities	9,266
	11,791

27. CONTINGENT LIABILITIES

The Group provided corporate guarantees and indemnities to certain banks and an insurance company for an aggregate amount of approximately HK\$200,509,000 (2018: HK\$167,448,000) for the issue of performance bonds in its ordinary course of business.

28. OPERATING LEASE ARRANGEMENTS

Operating lease commitments as at 31 December 2018

The Group leases its warehouses and offices under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	9,288
In the second to fifth years, inclusive	10,260
	<hr/>
	19,548
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29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the reporting year.

		2019 HK\$'000	2018 HK\$'000
	Notes		
Rent paid to fellow subsidiaries	(i)	1,849	1,545
Rent paid to a related company	(i)	194	194
Purchases from fellow subsidiaries	(ii)	1,328	846
Contracting income from a related company	(iii)	(9,823)	(93,987)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

29. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

- (i) Rents paid to fellow subsidiaries and a related company are based on the market prices.
- (ii) In the opinion of the directors, the above transactions were made according to the published prices and conditions similar to those offered to other major customers and suppliers.
- (iii) The contracting income received from a related company was negotiated between the concerned parties by reference to prevailing market rates. The transaction constitutes a connected transaction of the Group and was approved by the independent shareholders of the Company at a special general meeting held on 7 November 2016.

The related party transactions in respect of items (i) and (ii) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Since the amounts in respect of items (i) and (ii) are below de minimis threshold for the purposes of Rule 14A.76 of the Listing Rules, items (i) and (ii) are fully exempt from shareholders' approval, annual review and all disclosure requirements under the Listing Rules. Furthermore, the related party transaction in respect of item (iii) above constitutes a connected transaction but it is one-off transaction entered into. Such transaction does not constitute a continuing connected transaction under Chapter 14A of the Listing Rules, and is not subject to a further requirement under the Listing Rules.

- (b) Outstanding balances with related parties:
Details of the Group's balances with a fellow subsidiary and a related company as at the end of the reporting period are included in notes 21 and 22 to the financial statements.
- (c) Compensation of key management personnel of the Group:
The key management personnel of the Group are the directors of the Company. Details of their remuneration are disclosed in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

**Financial
assets at
amortised cost
HK\$'000**

Trade receivables
Financial assets included in prepayments, deposits and other receivables
Due from a fellow subsidiary
Due from a related company
Cash and cash equivalents

257,327
24,038
1,790
5,250
54,607

343,012

Financial liabilities

**Financial
liabilities at
amortised cost
HK\$'000**

Lease liabilities
Trade and retention monies payables
Financial liabilities included in other payables and accruals

9,926
174,288
39,132

223,346

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

Financial assets

	Financial assets at amortised cost HK\$'000
Trade receivables	157,730
Financial assets included in prepayments, deposits and other receivables	18,772
Due from a fellow subsidiary	1,790
Due from a related company	10,500
Cash and cash equivalents	193,661
	<hr/>
	382,453

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and retention monies payables	169,395
Financial liabilities included in other payables and accruals	57,070
	<hr/>
	226,465

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade and retention monies payables, financial assets included in prepayments, deposits and other receivables, lease liabilities, financial liabilities included in other payables and accruals, an amount due from a fellow subsidiary and an amount due from a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the non-current portion of lease liabilities has been calculated by discounting the expected future cash flows using rate currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

As at 31 December 2019, the Group did not have any financial assets and liabilities measured at fair value (2018: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade and retention monies payables, lease liabilities, financial liabilities included in other payables and accruals, an amount due from a fellow subsidiary and an amount due from a related company, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The directors meet periodically to analyse and formulate measures to manage each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties and group companies. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Contract assets*	–	–	–	279,223	279,223
Trade receivables*	–	–	–	257,327	257,327
Financial assets included in prepayments, deposits and other receivables					
– Normal**	24,038	–	–	–	24,038
Due from a fellow subsidiary	1,790	–	–	–	1,790
Due from a related company	5,250	–	–	–	5,250
Cash and cash equivalents					
– Not yet past due	54,607	–	–	–	54,607
	85,685	–	–	536,550	622,235

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Contract assets*	–	–	–	270,895	270,895
Trade receivables*	–	–	–	157,730	157,730
Financial assets included in prepayments, deposits and other receivables					
– Normal**	18,772	–	–	–	18,772
Due from a fellow subsidiary	1,790	–	–	–	1,790
Due from a related company	10,500	–	–	–	10,500
Cash and cash equivalents					
– Not yet past due	193,661	–	–	–	193,661
	224,723	–	–	428,625	653,348

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 15 and 16 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and lease liabilities. The Group's policy is to maintain the Group at a net current asset position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
2019				
Lease liabilities	–	9,266	870	10,136
Trade and retention monies payables	–	174,288	–	174,288
Financial liabilities included in other payables and accruals	39,132	–	–	39,132
	39,132	183,554	870	223,556
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
2018				
Trade and retention monies payables	–	169,395	–	169,395
Financial liabilities included in other payables and accruals	57,070	–	–	57,070
	57,070	169,395	–	226,465

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to holders of the Company, comprising issued capital, reserves and retained profits as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risk associated with each class of capital. Based on recommendations of the directors, the Group will balance the overall capital structure of the Group through the payment of dividends, issue of new shares as well as the raising of new bank loans.

33. EVENT AFTER THE REPORTING PERIOD

The recent escalation of the novel coronavirus ("COVID-19") pandemic has an adverse impact on market sentiments and poses challenge to the whole world. The Group continues to closely monitor the development of the pandemic and takes all possible and reasonable measures to mitigate the effect on the Group's operations.

NOTES TO THE FINANCIAL STATEMENTS

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSET		
Investment in a subsidiary	2	2
CURRENT ASSETS		
Amounts due from subsidiaries	410,676	420,477
Cash and cash equivalents	1,634	1,422
Total current assets	412,310	421,899
CURRENT LIABILITIES		
Other payables and accruals	2,917	4,498
Amounts due to subsidiaries	145,535	148,835
Tax payable	624	148
Total current liabilities	149,076	153,481
NET CURRENT ASSETS	263,234	268,418
Net assets	263,236	268,420
EQUITY		
Issued capital	150,000	150,000
Reserves (note)	113,236	118,420
Total equity	263,236	268,420

NOTES TO THE FINANCIAL STATEMENTS

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium HK\$'000	Capital reserve* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2018	63,628	1	68,374	132,003
Total comprehensive income for the year	–	–	31,417	31,417
2017 final dividend declared	–	–	(45,000)	(45,000)
At 31 December 2018 and 1 January 2019	63,628	1	54,791	118,420
Total comprehensive income for the year	–	–	24,816	24,816
2018 final dividend declared (note 11)	–	–	(30,000)	(30,000)
At 31 December 2019	63,628	1	49,607	113,236

* Capital reserve represented the contributed surplus with respect to the Company's share allotment of 9,999 new shares at par value of HK\$0.1 each in the acquisition of the entire issued share capital of Kin Wing Chinney (BVI) Limited amounting to HK\$1,622 from Chinney Construction Group Limited on 15 October 2015.

35. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.