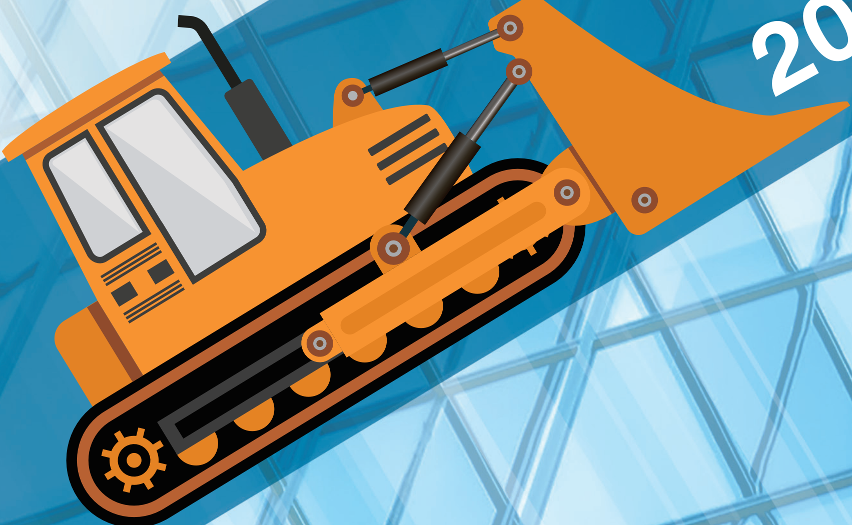
FULLWEALTH CONSTRUCTION HOLDINGS COMPANY LIMITED

富匯建築控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1034

2019 ANNUAL REPORT



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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Law Fu Keung *(Chairman and Chief Executive Officer)*
Ms. Cheng Fung Yi

Independent Non-executive Directors
Ms. Li On Lei
Ms. Shum Wing Ting
Mr. Law Kam Chuen

BOARD COMMITTEES

Audit Committee
Ms. Li On Lei *(Chairman)*
Mr. Law Kam Chuen
Ms. Shum Wing Ting

Remuneration Committee
Mr. Law Kam Chuen *(Chairman)*
Mr. Law Fu Keung
Ms. Cheng Fung Yi
Ms. Li On Lei
Ms. Shum Wing Ting

Nomination Committee
Mr. Law Fu Keung *(Chairman)*
Ms. Cheng Fung Yi
Ms. Li On Lei
Mr. Law Kam Chuen
Ms. Shum Wing Ting

COMPANY SECRETARY

Mr. Chow Chi Keung (appointed on 10 January 2020)
Mr. Woo Yiu Chung (resigned on 10 January 2020)

AUTHORISED REPRESENTATIVES

Mr. Law Fu Keung
Mr. Chow Chi Keung (appointed on 10 January 2020)
Mr. Woo Yiu Chung (resigned on 10 January 2020)

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Shops 11-12, G/F
Leung Choy Building
2-44 Ping Fai Path
Yuen Long
New Territories, Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

COMPLIANCE ADVISER

Frontpage Capital Limited
26th Floor
Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

CFN Lawyers in association with Broad & Bright
Units 4101-4104, 41st Floor
Sun Hung Kai Centre
30 Harbour Road
Wan Chai, Hong Kong

PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited

AUDITOR

Crowe (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

COMPANY'S WEBSITE

www.fullwealth.hk

STOCK CODE

1034

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Fullwealth Construction Holdings Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**", I am pleased to present the annual report of the Group for the year ended 31 December 2019.

The Group is a contractor engaging in civil engineering and building works in Hong Kong. During the year ended 31 December 2019, the Group continued to focus on site formation, excavation and lateral support works and pile cap construction, and roads and drainage and waterworks. The Group also undertook building works this year since it was registered as a Registered General Building Contractor with the Buildings Department in 2017.

2019 was a year full of challenges. During the year ended 31 December 2019, the civil unrest and ongoing demonstrations since June 2019, uncertainties over China–United States trade war together with the risk of Hong Kong economic slowdown had created a challenging business environment for the Group.

The Group's revenue for the year ended 31 December 2019 amounted to approximately HK$553.4 million, representing an increase of 74.8% from that of the corresponding period in 2018. Profit and total comprehensive income for the year ended 31 December 2019 was approximately HK$7.2 million, representing a decrease of 41.3% from that of the corresponding period in 2018. The decline in profit was due to the strategic reduction of tender premium resulting from the uncertainties in the Hong Kong economy and the increase in construction cost.

Looking ahead, the civil engineering industry will remain challenging in the coming year. The ongoing coronavirus disease pandemic, uncertainties of the trade tensions between China and the US, together with no immediate resolution of the social unrest in Hong Kong have posted uncertainties to the Hong Kong economy and impacts to the Group's operation. In view of this, the Group will stay vigilant so as to be able to respond to any adverse impact promptly and will remain prudently optimistic about its prospects for the coming year. The Group will keep focusing on existing projects and at the same time endeavor to bid for new projects. Meanwhile, the Group will also explore other business opportunities to improve returns for shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all our shareholders, customers, subcontractors, suppliers, and other business partners for their continuous support. I would also like to thank our management and staff for their hard work and contribution to the Group in 2019.

Law Fu Keung
Chairman and Executive Director

Hong Kong, 31 March 2020

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

The Group has a long history of undertaking civil engineering works in Hong Kong with operation history since 1997. The Group's civil engineering works can be broadly categorized as (i) site formation; (ii) excavation and lateral support works and pile cap construction; and (iii) roads and drainage and waterworks. The Group is able to undertake civil engineering works as either a main contractor or a subcontractor. Since June 2017, the Group has also been qualified to carry out private sector building works as well as alteration and additions works as a main contractor.

During the year ended 31 December 2019 (the "**Year**"), the Group was awarded 5 projects with total initial contract sum of approximately HK$173.7 million and 11 projects with total initial contract sum of approximately HK$665.2 million were completed. As at 31 December 2019, the Group had 7 projects on hand and the total initial contract sum of which amounted to approximately HK$330.6 million. The 7 projects on hand are building works projects.

For the Year, revenue amounted to approximately HK$553.4 million, representing a significant growth of approximately 75% as compared with approximately HK$316.6 million for the year ended 31 December 2018. The significant increase of the revenue was largely a result of projects awarded in the past year reaching a mature stage, thereby contributing to revenue of the Group.

The overall gross profit margin of the Group decreased from approximately 13.8% for the corresponding period last year to approximately 2.5% for the Year. This was largely due to the strategic reduction of tender premium resulting from the uncertainties in Hong Kong economy starting from the second half of the Year, and also increase in construction costs which undermined the profit margin significantly.

During the Year, the securing of funding approval through the Legislative Council in Hong Kong was proven to be difficult. In 2018, the political issues in Hong Kong and the delay in funding approval for public works led to reduction in Government infrastructure projects resulting in significant reduction of tenders. The limited tendering opportunities increased the competition in the construction industry, which affected the tendering price and profit margin of the projects.

The civil engineering industry will remain challenging in the coming year. The recent outbreak of novel coronavirus in Hong Kong have posted additional uncertainties to the economy and impacts to the Group's operations. Despite the challenges ahead, the Group will pay more attention to tendering and subcontractor considerations such as fluctuating cost factors and project difficulties associated with challenging civil engineering content. The Group will keep focusing on existing projects and at the same time endeavor to bid for new projects. Meanwhile, the Group will also explore other business opportunities to improve returns for shareholders of the Company.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2019 amounted to approximately HK$553.4 million, representing an increase of 74.8% from approximately HK$316.6 million for the year ended 31 December 2018. The increase was mainly attributable to projects awarded in the past year reaching a mature stage.

Gross profit and gross profit margin

The Group's gross profit decreased by 68.5%, from approximately HK$43.6 million for the year ended 31 December 2018 to approximately HK$13.7 million for the year ended 31 December 2019.

Gross profit margin decreased from approximately 13.8% for the year ended 31 December 2018 to approximately 2.5% for the year ended 31 December 2019, which was primarily attributable to (i) certain projects with lower gross profit margin were undertaken during the year as a result of increased competition in the market; and (ii) the increase in construction costs.

Management Discussion and Analysis

Other income

Other income increased by 733% from approximately HK$1.4 million for the year ended 31 December 2018 to approximately HK$11.5 million for the year ended 31 December 2019. The increase in other income was mainly due to the increase in profit from leasing of plant and equipment as increased number of plant and equipment has been rented out during the year ended 31 December 2019.

General and administrative expenses

General and administrative expenses decreased significantly from approximately HK$25.7 million for the year ended 31 December 2018 to approximately HK$14.9 million for the year ended 31 December 2019. It was mainly due to no listing expenses were incurred during the year (2018: HK$17.5 million), which was partially offset by the increase in staff costs (including directors' emoluments during the year).

Finance costs

Finance costs of the Group for the year ended 31 December 2019 was approximately HK$0.8 million, which remained at a similar level to approximately HK$0.9 million for the year ended 31 December 2018.

Profit and total comprehensive income for the year

The Group reported a profit and total comprehensive income for the year ended 31 December 2019 of approximately HK$7.2 million, representing a decrease of 41.3% from approximately HK$12.2 million for the year ended 31 December 2018.

Key financial ratios

		As at/For the year ended 31 December	
	Notes	**2019**	2018
Current ratio (times)	1	**2.8**	2.6
Quick ratio (times)	2	**2.8**	2.6
Gearing ratio	3	**14.3%**	2.0%
Debt to equity ratio	4	**Net cash**	Net cash
Return on equity	5	**3.9%**	6.9%
Return on total assets	6	**2.7%**	4.8%
Interest coverage (times)	7	**13.6**	21.8

Notes:

1. Current ratio is total current assets divided by total current liabilities.
2. Quick ratio is total current assets less inventories divided by total current liabilities.
3. Gearing ratio is total debt (i.e. sum of lease liabilities and bank loans) divided by total equity and multiplied by 100%.
4. Debt to equity ratio is total debt (i.e. sum of lease liabilities and bank loans) less cash and cash equivalents divided by total equity and multiplied by 100%.
5. Return on equity is profit for the year divided by total equity and multiplied by 100%.
6. Return on total assets is profit for the year divided by total assets and multiplied by 100%.
7. Interest coverage is profit before interest and tax divided by finance costs.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations, borrowings and capital contribution from shareholders.

As at 31 December 2019, the Group had cash and cash equivalents of approximately HK$47.5 million (2018: HK$42.3 million). The borrowings (including lease liabilities) of the Group as at 31 December 2019 amounted to approximately HK$26.5 million (2018: HK$3.5 million). The Group's cash and cash equivalents and borrowings (including lease liabilities) are all denominated in HK dollars. 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 at all times.

The shares of the Company were listed on the Main Board of the Stock Exchange on 30 October 2018 and there has been no change in the capital structure of the Group since then.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group, calculated as the total debt divided by the total equity, was approximately 14.3% (2018: 2.0%).

TREASURY POLICY

The Group's financing and treasury activities are centrally managed and controlled at the corporate level. It is the Group's policy not to enter into derivative transactions for speculative purposes.

CHARGES ON ASSETS

The Group's plant and machinery with an aggregate carrying values of approximately HK$43.9 million (2018: HK$3.7 million) as at 31 December 2019 were pledged for the Group's borrowings (include lease liabilities).

As at 31 December 2019, the Group pledged its bank deposits with value of approximately HK$22.2 million (2018: Nil) as collateral to secure certain of the main contractor's performance bonds issued by bank in relation to the Group's construction projects. Save for the above, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE

The Group operates only in Hong Kong and most of the transactions such as revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, the foreign exchange risk is insignificant and therefore the Group has not entered in any derivative contracts for hedging purpose.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 127 (2018: 125) employees (including the executive Directors and independent non-executive Directors). Total staff costs including directors' remuneration for the year ended 31 December 2019 was approximately HK$50.9 million (2018: HK$38.3 million). The remuneration offered to employees generally includes salaries and bonuses and are determined with reference to market norms and individual employees' performance, qualification and experience. The Company has adopted a share option scheme under which options may be granted to Directors and eligible employees as an incentive.

The remuneration of the Directors is decided by the Board upon recommendation from the Remuneration Committee of the Company, taking into account the Group's operating results, responsibilities and individual performance of directors.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the year ended 31 December 2019.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as the Reorganisation of the Group as described in the section "History, Development and Reorganisation" in the Prospectus, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have any other plans for material investments or capital assets as at 31 December 2019.

CONTINGENT LIABILITIES

(a) Guarantees issued

As at 31 December 2019, surety bonds of approximately HK$5,414,000 (2018: HK$8,342,000) were given by an insurance company to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and its customers. The Group has provided guarantees for the above surety bonds. If the Group fails to provide satisfactory performance to its customers to whom surety bonds have been given, such customers may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such insurance company accordingly. The surety bonds will be released upon completion of the contract work. Deposits were placed with an insurance company for issuance of surety bonds, details of which are set out in note 17 to the consolidated financial statements.

At the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Group.

(b) Litigation

In the ordinary course of the Group's contract works business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The directors of the Company are of the opinion that such claims are well covered by insurance and will not result in any material adverse impact on the financial position or results and operations of the Group. No provision has been made in respect of these claims in the consolidated financial statements.

CAPITAL COMMITMENTS

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

SEGMENT INFORMATION

The Group is principally engaged in the civil engineering and building works in Hong Kong. Details of the segment information of the Group are set out in note 4 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 28 to the consolidated financial statements, there is no other material subsequent event undertaken by the Company or the Group after 31 December 2019 and up to the date of this report.

Management Discussion and Analysis

USE OF PROCEEDS

The net proceeds of the share offer received by the Company in relation to the Listing were approximately HK$94.2 million, after deducting listing and related expenses. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed "Future plans and use of proceeds" in the Prospectus. The below table sets out the proposed application and usage of the net proceeds as at 31 December 2019:

	Planned use of net proceeds HK$'million	Utilised amount HK$'million	Unutilised amount HK$' million
Acquisition of machinery and equipment	42.7	28.1	14.6
Financing building construction projects	29.5	29.5	–
Strengthening of project management team	11.1	2.5	8.6
Repayment of lease liabilities	5.3	5.3	–
General working capital	5.6	5.6	–
	94.2	71.0	23.2

The business objectives, future plans and intended use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing and issuing the Prospectus, while the proceeds were applied based on the actual development of the Group's business and the industry. As at 31 December 2019, approximately HK$71.0 million out of the net proceeds from the Listing had been used. The remaining unutilised net proceeds were deposited in licensed banks in Hong Kong. The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Law Fu Keung（羅富強）（"**Mr. Law**"), aged 58, is the Chairman, an executive Director and the chief executive officer of the Company. Mr. Law was appointed as a Director on 19 January 2018 and was redesignated as an executive Director on the same date. As a dedicated leader since the commencement of the Group's operations and a key member of the executive management team, Mr. Law is primarily responsible for the overall management, development and planning of the Group. He is also the chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the remuneration committee of the Company (the "**Remuneration Committee**"). Mr. Law is a director of Civil Link Holdings Company Limited and Ming Shing Construction Engineering Company Limited ("**Ming Shing**"), the subsidiaries of the Company.

Mr. Law has over 39 years of experience in civil engineering and construction field. He began his career as foreman at Yeu Shing Construction Company Limited ("**Yeu Shing**") in June 1979. In August 1981, Mr. Law started to work as a quantity surveyor in the same company, and subsequently joined the apprenticeship programme of Yeu Shing in May 1984. Mr. Law completed his apprenticeship as a construction technician in May 1988 and held his last position at Yeu Shing as a site agent in May 1988. Thereafter, he served Hang Shing Finishing Works Company Limited as a quantity surveyor and site co-ordinator from August 1989 to March 1990. In March 1990, Mr. Law served Dragages et Travaux Publics as a quantity surveyor. Mr. Law founded the Group in 1997.

Mr. Law obtained a higher certificate in building studies from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1988. He obtained a certificate of detection of underground electricity cables/gas pipes from Construction Industry Training Authority (CITA) in March 2002. Mr. Law is currently approved by the Electrical and Mechanical Services Department of the Government as a competent person for locating underground electricity cables.

Mr. Law is the spouse of Ms. Cheng and brother of Mr. Law Fu Kwok.

Ms. Cheng Fung Yi（鄭鳳儀）("**Ms. Cheng**"), aged 59, is an executive Director of the Company. Ms. Cheng was appointed as a Director on 19 January 2018 and was redesignated as an executive Director on the same day. She is also a member of each of the Nomination Committee and the Remuneration Committee. Ms. Cheng joined the Group since August 1999 and is responsible for administrative and compliance matters of the Group. Ms. Cheng is a director of Ming Shing.

Prior to joining the Group, Ms. Cheng gained approximately 14 years of administrative, human resources, customer relation and general accounting experience. She worked for Hutchison Paging Limited since May 1982 and held last position as an assistant supervisor when she left Hutchison Paging Limited in March 1996. Ms. Cheng had been a housewife before joining the Group in August 1999.

Ms. Cheng obtained a diploma in accounting and practical computing from Hong Kong College of Technology in June 1999.

Ms. Cheng is the spouse of Mr. Law.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Li On Lei（李安梨）("Ms. Li"), aged 42, was appointed as an independent non-executive Director on 8 October 2018. She is also the chairman of the audit committee of the Company (the "**Audit Committee**") and a member of each of the Remuneration Committee and the Nomination Committee. Ms. Li is responsible for overseeing the Group's compliance, internal control and corporate governance.

Ms. Li graduated from Leeds Metropolitan University with a Bachelor of Arts (Hons) Degree in Accounting and Finance through distance learning in June 2003. Ms. Li has been a fellow member of the Association of Chartered Certified Accountants since March 2016.

Ms. Li is currently the independent non-executive director of Goal Forward Holdings Limited (Stock Code: 1854) ("**Goal Forward**"), where she is primarily responsible for providing independent judgment and advising on the issues of strategy, performance, resources and standard of conduct of Goal Forward. Ms. Li is also currently the financial controller of Gameone Holdings Limited (Stock Code: 8282) ("**Gameone**"), where she is primarily responsible for the handling and overseeing financial reporting, financial planning, and reviewing internal control of Gameone. Prior to joining Gameone, she had worked in the Audit and Assurance Department of HLB Hodgson Impey Cheng Limited from July 2004 to May 2015, and her last position was senior manager. She has accumulated approximately 14 years of experience in auditing, accounting and financial management.

Ms. Shum Wing Ting（沈詠婷）("Ms. Shum"), aged 31, was appointed as an independent non-executive Director on 8 October 2018. She is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Ms. Shum is responsible for overseeing the Group's compliance, internal control and corporate governance.

Ms. Shum is currently a practicing solicitor in Hong Kong and has experience in general legal practice with specialisation in civil litigation and commercial law. Ms. Shum graduated from The Chinese University of Hong Kong with a bachelor degree in laws (LL.B.) in December 2011 and completed her postgraduate certificate in laws ("**PCLL**") in July 2012. She also obtained her Master of Laws Degree from the University of Hong Kong in 2019.

Ms. Shum commenced her 2-year traineeship in LCP, Solicitors and Notaries after the completion of PCLL and completed such traineeship in August 2014. Ms. Shum was then admitted as a solicitor of Hong Kong in November 2014 and has become an assistant solicitor in LCP, Solicitors and Notaries. Ms. Shum is currently a member of the Law Society of Hong Kong.

Ms. Shum has not served in any public companies the security of which are listed on any securities market in Hong Kong or overseas during the past three years.

Mr. Law Kam Chuen（羅錦全）("Mr. KC Law"), aged 63, was appointed as an independent non-executive Director on 8 October 2018. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr. KC Law is responsible for overseeing the Group's compliance, internal control, corporate governance.

Mr. KC Law obtained a higher certificate in civil engineering from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1983. He later completed a diploma course of training management at The Chinese University of Hong Kong in November 1995. Mr. KC Law then obtained his bachelor degree in business administrative management from the University of South Australia in August 2000 through distance learning. He subsequently obtained the international advanced diploma in administrative management from the Institute of Administrative Management in January 2001 through distance learning. Mr. KC Law has been a member of the Institute of Clerks of Works of Great Britain Incorporated since 1987.

Biographical Details of Directors and Senior Management

Mr. KC Law is a retired chief technical officer of building works in the Government. He has built his career of over 40 years within the Housing Department. Mr. KC Law joined the former Public Works Department as a foreman in April 1977, which position was later retitled as works supervisor II. He was then appointed as a senior foreman (Construction), subsequently redesignated as works supervisor I (Construction) in December 1980 in the Housing Department. In September 1984, Mr. KC Law was appointed as an assistant clerk of works, in which position he served in the next 12 years to 1996. He was subsequently promoted to clerk of works in September 1996 and then to senior clerk of works in October 2006. Mr. KC Law was promoted as a chief technical officer (Building works) since August 2015 and maintained such position until his retirement in September 2017.

Mr. KC Law has not served in any public companies the security of which are listed on any securities market in Hong Kong or overseas during the past three years.

SENIOR MANAGEMENT

Mr. Leung Chi Hung (梁志雄) ("Mr. Leung"), aged 57, is currently a site engineer of the Group. Mr. Leung joined the Group in January 2015, and his duties focus on supervising of waterworks and tendering of contracts. He is recognised by Development Bureau as the technical person responsible for the Group A (Probation) contractor under the waterworks category on the List of Approved Contractors for Public Works. Mr. Leung obtained his Bachelor Degree of Engineering in Civil Engineering from the University of Leeds, the United Kingdom in July 1989.

Mr. Leung has over 20 years of work experience in the construction industry. He joined Dragages et Travaux Publics as a trainee quantity surveyor in December 1989. Mr. Leung then worked in Hop Shing Transport and Construction Company as a site engineer in June 1990. Upon leaving his position at Hop Shing Transport and Construction Company in November 1993, he served as a site engineer at Hop Shing (Hin Kee) Engineering Company Limited until June 1995 and as a site agent from July 1995 to August 1996. After that, Mr. Leung joined Yiu Wing Construction Company Limited as a site agent from August 1996 to July 1999. From August 1999 to November 2000, he served as a site agent at Choi Kee Construction Company. Mr. Leung served Full House Construction & Engineering Company Limited as a technical director from October 1999 to January 2003. Mr. Leung then worked as a project manager for Oops Limited between January 2003 and November 2003. In December 2003, Mr. Leung worked as a consultant in Shing Hing Construction Company Limited until December 2014.

Mr. Leung is qualified as an authorized person to work on/near 25kV Overhead Line Equipment since July 2007 up to July 2010.

Mr. Law Fu Kwok (羅富國) ("Mr. Chris Law"), aged 56, is currently a general manager of the Group. Mr. Chris Law joined the Group in November 2017, and his duties focus on supervising the site activities in all construction projects including site management, coordination and liaison with customers, contractors and sub-contractors. He obtained his bachelor degree of Science in Civil Engineering from the Bulacan State University, Republic of the Philippines in March 2015.

Mr. Chris Law has approximately 29 years of work experience in the construction industry. He commenced as a works supervisor in 1988 to 1989 in Dixon Civil Engineering Limited and became a foreman for Aoki Corporation from January 1990 to October 1991. He then became a site agent for Yuen Cheong Construction Company between October 1991 and April 1993. Mr. Chris Law then secured an employment in the Hong Kong International Construction Investment Management Group, serving three subsidiaries of the group including Tysan Foundation Limited, Tysan Foundation Geotechnical Limited and Tysan Construction (Macau) Limited during February 1995 to November 2017 where his last position in the group was an assistant senior construction manager.

Mr. Chris Law is the brother of Mr. Law.

Biographical Details of Directors and Senior Management

COMPANY SECRETARY

Mr. Woo Yiu Chung (胡耀忠) ("Mr. Woo"), aged 44, has been the chief financial officer and company secretary since April 2019. Mr. Woo is primarily responsible for financial matters of our Group. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Woo has resigned as the chief financial officer, company secretary and authorised representative of the Company with effect from 10 January 2020. Mr. Chow was appointed as the chief financial officer, company secretary and authorised representative of the Company with effect from 10 January 2020.

Mr. Chow Chi Keung (周自強) ("Mr. Chow"), aged 45, was appointed as our chief financial officer and company secretary on 10 January 2020. Mr. Chow is primarily responsible for financial management and control. He is a member of the Hong Kong Institute of Certified Public Accountants and has extensive experience in accounting, auditing and finance.

Corporate Governance Report

The Board is committed to achieving and maintaining high standards of corporate governance as the Board believes that an effective corporate governance framework is fundamental to promoting and safeguarding interests of shareholders and other stakeholders and enhancing shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. Save for the deviation below, the Company has complied with the provisions set out in the CG Code since the Listing Date and up to the date of this annual report.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Law is the Chairman and Chief Executive Officer, responsible for overall strategic development, project management and client management of the Group. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Law has the benefit of ensuring consistent and continuous leadership within the Group and also maximises the effectiveness and efficiency of overall planning and execution of the Group's strategies. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired in light of the diverse background and experience of the independent non-executive Directors, and the composition of the Board which comprises more number of independent non-executive Directors than executive Directors also provides added independence to the Board.

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 as the guidelines for the Directors' dealing in the securities of the Company. Having made specific enquiry of all Directors, the Company confirmed that all Directors have fully complied with the required standard set out in the Model Code since the Listing Date and up to the date of this annual report.

BOARD OF DIRECTORS

Composition of the Board

The Board currently consists of five Directors, which comprises two executive Directors and three independent non-executive Directors.

Executive Directors:
Mr. Law Fu Keung *(Chairman and Chief Executive Officer)*
Ms. Cheng Fung Yi

Independent non-executive Directors:
Ms. Li On Lei
Ms. Shum Wing Ting
Mr. Law Kam Chuen

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

Corporate Governance Report

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") on 8 October 2018. The Company embraced the benefits of having a diverse Board, as such, the Board Diversity Policy aimed to set out the approach to maintain diversity of the Board. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

When determining the composition of the Board, the Company will consider board diversity in terms of, among other things, gender, age, experience, cultural and educational background, expertise, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against selection criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how.

Monitoring, Reporting and Review

The Nomination Committee will disclose the composition of the Board annually in the corporate governance report and monitor the implementation of this Policy.

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

NOMINATION POLICY

The Board adopted a nomination policy (the "**Nomination Policy**") on 29 March 2019 in respect of the selection and appointment of Directors with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives suitable for the Company's business.

Selection Criteria as the Measurable Objective

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to criteria including but not limited to (collectively, the "**Criteria**"):

(a) Skills, knowledge and experience which are relevant to the operations of the Company and its subsidiaries;

(b) Diversity to compliment the existing composition of the Board including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how;

(c) Commitment to ensure the devotion of sufficient time to carry out their duties to attend board meetings and to participate in induction, trainings and other board associated activities, and reasonable consideration against the numbers of their services on other listed and non-listed companies'

(d) Integrity and character that satisfies the Board and the Stock Exchange; and

(e) Independence in particular for independent non-executive Directors as required under the Listing Rule.

Nomination Process

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following respective procedures and process:

(i) For the appointment of new Director, the Nomination Committee may take measures that it considers appropriate in connection with its identification and evaluation of a candidate. Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Board based on the Criteria and such other factors that it considers appropriate.

(ii) For the re-election of Director subject to retirement obligations pursuant to the Company's articles of association ("**Articles**") at general meeting of the Company, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at general meeting; and

(iii) For the appointment through nomination by Shareholders to stand for election as a Director at a general meeting, a Shareholder circular containing, among others, biographical details of such nominated candidate, must be lodged with the company secretary of the Company within the lodgment period, thereafter, a supplementary circular containing particulars of the candidate so proposed will be sent to all Shareholders for information.

Notwithstanding the above, the Board has the final authority on determining suitable candidate for appointment as Director.

Monitoring, Reporting and Review

The Nomination Committee will assess and report annually, in the Corporate Governance Report, on the composition of the Board.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

DIVIDEND POLICY

The Board adopted a dividend policy (the "**Dividend Policy**") on 29 March 2019, the objective of which is to allow shareholders of the Company to participate in the Group's profits whilst retaining adequate reserves to sustain the Group's future growth.

According to the Dividend Policy, the recommendation of the payment of any dividend is at the discretion of the Board, and any declaration and payment of final dividend will be subject to the approval of the shareholders of the Company and all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the relevant laws and the Articles. In proposing any dividend payout, the Board shall also take into account, inter alia, the actual and expected financial performance, cash flow and liquidity position, distributable reserves, debt level, working capital requirements and future expansion plans, general business conditions and strategies, contractual and regulatory restrictions.

Pursuant to the Dividend Policy, except for interim dividend, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at the general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim dividends as appear to the directors to be justified by the profits of the Company available for distribution.

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

Corporate Governance Report

Board meetings

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda of meetings. For all other board meetings, reasonable notice period will be given.

The attendance record of each Director at the board meeting held during the Review Period is set out below:

Name of Directors	Number of meetings attended/held
Mr. Law Fu Keung	4/4
Ms. Cheng Fung Yi	4/4
Ms. Li On Lei	4/4
Ms. Shum Wing Ting	4/4
Mr. Law Kam Chuen	3/4

Minutes of the Board and committee meetings are prepared and kept by the company secretary of the Company and are open for inspection by Directors. Directors may seek external professional advice in appropriate circumstances at the Company's expenses.

Appropriate insurance cover has been arranged by the Company in respect of any legal action against Directors.

Role and responsibilities of the Board and management

The Directors, individually and collectively, must act in good faith, with due diligence and care, to discharge their duties in the best interests of the Company and its shareholders. The Board is responsible for the overall management of the Group's business and affairs by establishing the overall strategies, setting objectives and business development plans.

The Board has delegated its powers to the management for day-to-day management of the Group's operations. Under the leadership of the executive Directors of the Company, the management is responsible for implementing the strategies and plans established by the Board and the implementation of the risk management and internal control systems.

Directors' training and continuous professional development

All directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. All Directors have participated in continuous professional development and the individual training record of each Director received during the year ended 31 December 2019 is as follows:

Name of Directors	Attending seminars/reading materials relevant to the director's duties
Mr. Law Fu Keung	√
Ms. Cheng Fung Yi	√
Ms. Li On Lei	√
Ms. Shum Wing Ting	√
Mr. Law Kam Chuen	√

Each of the Directors complied with code provision A.6.5 of the CG Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have been appointed by the Company for a fixed term of three years commencing from the Listing Date, subject to retirement by rotation and re-election in accordance with the Articles, which may be terminated by either party serving to the other party not less than three months' written notice of termination.

During the Review Period, the Company had three independent non-executive Directors which represent more than one-third of the Board members, and that at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise. The Company has complied with Rules 3.10(1) and (2), and 3.10A of the Listing Rules.

Each of the independent non-executive Directors has given an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules, and the Company has reviewed and considered that all independent non-executive Directors are independent in accordance with the relevant requirements under the Listing Rules.

BOARD COMMITTEES

The Board has established three Board Committees on 8 October 2018, namely the Audit committee, the Remuneration Committee and the Nomination Committee, to oversee specific aspects of the Group's affairs. Each of the Board Committees has its own terms of reference in compliance with the CG Code relating to its authority and duties. All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary. The composition of each of the Committees as at the date of this report is as follows:

Name of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:			
Mr. Law Fu Keung	–	Member	Chairman
Ms. Cheng Fung Yi	–	Member	Member
Independent non-executive Directors:			
Ms. Li On Lei	Chairman	Member	Member
Ms. Shum Wing Ting	Member	Member	Member
Mr. Law Kam Chuen	Member	Chairman	Member

Audit Committee

The Audit Committee consists of three members who are all independent non-executive Directors and is delegated with the authority from the Board primarily to oversee the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. Details of the authority and duties of Audit Committee are set out in the Audit Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

Corporate Governance Report

The individual attendance record of each member at the Audit Committee meetings during the Review Period is set out below:

Name of members	Number of meetings attended/held
Ms. Li On Lei *(Chairman)*	3/3
Ms. Shum Wing Ting	3/3
Mr. Law Kam Chuen	3/3

The following is a summary of the work performed by the Audit Committee during the Review Period:

– approved the 3 years' internal audit plan (2018 to 2020);

– reviewed the adequacy and effectiveness of the Group's internal control systems and its accounting, financial reporting and internal audit functions;

– reviewed the external auditor's independence;

– discussed the scope of 2019 audit with external auditor and approved the audit fees;

– reviewed, with external auditor, the key audit matters as included in the "Independent Auditor's Report";

– reviewed the Group's annual results for the year ended 31 December 2019;

– made recommendations to the Board on the re-appointment of the external auditor; and

– met with the external auditor, in the absence of the management.

Remuneration Committee

The Remuneration Committee consists of five members, which comprises two executive Directors and three independent non-executive Directors and is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. Details of the authority and duties of Remuneration Committee are set out in the Remuneration Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

The individual attendance record of each member at the Remuneration Committee meeting during the Review Period is set out below:

Name of members	Number of meetings attended/held
Mr. Law Kam Chuen *(Chairman)*	0/1
Mr. Law Fu Keung	1/1
Ms. Cheng Fung Yi	1/1
Ms. Li On Lei	1/1
Ms. Shum Wing Ting	1/1

The following is a summary of the work performed by the Remuneration Committee during the Review Period:

– reviewed the remuneration of directors and senior management; and

– made recommendations to the Board on the remuneration of individual directors and senior management.

Nomination Committee

The Nomination Committee consists of five members, which comprises two executive Directors and three independent non-executive Directors and is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and assess independence of independent non-executive Directors. Details of the authority and duties of Nomination Committee are set out in the Nomination Committee's terms of reference which are available on the websites of the Company and the Stock Exchange.

The individual attendance record of each member at the Nomination Committee meeting during the Review Period is set out below:

Name of members	**Number of meetings attended/held**
Mr. Law Fu Keung *(Chairman)*	1/1
Ms. Cheng Fung Yi	1/1
Ms. Li On Lei	1/1
Ms. Shum Wing Ting	1/1
Mr. Law Kam Chuen	0/1

The following is a summary of the work performed by the Nomination Committee during the Review Period:

– reviewed the Board Diversity Policy;

– reviewed the independence of the independent non-executive Directors; and

– discussed and adopted the Nomination Policy.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the Company's auditor, Crowe (HK) CPA Limited, in respect of their audit and non-audit services for the year ended 31 December 2019 was as follows:

	HK$'000
Annual audit services	1,200
Non-audit services	1,000

Corporate Governance Report

Directors' responsibility for the financial statements

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements which give a true and fair view in accordance with the relevant accounting standards and principles and the disclosure requirements under applicable laws and regulations in Hong Kong. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions which may cast doubts upon the Group's ability to continue as a going concern.

The responsibilities of the external auditor are set out in the section headed "Independent Auditor's Report" of this annual report.

COMPANY SECRETARY

The Company has appointed Mr. Woo Yiu Chung ("**Mr. Woo**") as its Company Secretary. On 10 January 2020, Mr. Woo resigned from his role as the company secretary of the Company. Mr. Chow Chi Keung ("**Mr. Chow**") has been appointed as the company secretary of the Company and in replacement of Mr. Woo.

Mr. Chow has confirmed that he has taken not less than 15 hours of relevant professional training during the year ended 31 December 2019 and has complied with Rule 3.29 of the Listing Rules. The biography of Mr. Chow is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene general meeting

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting.

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

Procedures by which enquiries may be put to the board

Shareholders may send their enquiries to the Board. Such enquiries can be addressed to the Company Secretary in writing by post to the Company's principal place of business in Hong Kong at Shops 11-12, G/F, Leung Choy Building, 2-44 Ping Fai Path, Yuen Long, New Territories or by email to headoffice@mscecl.com.

Shareholders may also make enquiries to the Board at the annual general meeting (the "**AGM**") of the Company.

Procedures to put forward proposals at shareholders' meeting

The Company is not aware of any provision in the Articles or the Companies Law of Cayman Islands for shareholders to propose new resolution at a general meeting. Shareholders who wish to put forward proposals may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph headed "Procedures for shareholders to convene general meeting".

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGM and other general meetings. At the AGM, Directors are available to meet shareholders and answer their enquiries.

Significant changes in constitutional documents

The Company adopted an amended memorandum and articles of association of the Company (the "**Constitutional Documents**") on 8 October 2018 which was effective upon Listing. A copy of the Company's updated Constitutional Documents is available on the websites of the Company and the Stock Exchange. During the Review Period, there is no change to the Constitutional Documents of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the ultimate responsibility for evaluating and determining the nature and level of risk tolerance of the Company, establishing and maintaining appropriate and effective risk management and internal control systems. The Board is committed to oversee and review the design, implementation and monitoring of such risk management and internal control systems through the Audit Committee on an ongoing basis so as to safeguard shareholders' interest.

The Group established the risk management and internal control systems with aims to manage rather than eliminate the risk of failure to achieve business objectives, and provided reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities.

The Company has engaged an external consultant to establish an internal audit function during the year ended 31 December 2019. The external consultant has assisted the Audit Committee in carrying out an independent review on the adequacy and effectiveness of the risk management and internal control systems of the Group, and has reported the status of its review to the Audit Committee on a regular basis. The Group has formulated an internal audit charter to define the scope and duties and responsibilities of the internal audit function and its reporting protocol.

The Group has also conducted an annual risk assessment for the year to identify potential strategic risks, operational risks, financial risks and compliance risks of its major business. Each of potential risk was rated at different level under the consideration of internal and external risk factors. Respective internal control measures were proposed to mitigate the consequences of the potential risks to the Group.

Based on the risk assessment results and following a risk based audit approach, a continuous three-year audit plan was proposed which prioritised the risks identified into annual audit projects. An annual audit project was performed by the external consultant according to the audit plan with a view to assisting the Board and the Audit Committee to evaluate the effectiveness of the Group's risk management and internal control systems.

The Company has also formulated policies on handling and dissemination of inside information in accordance with "Guidelines on Disclosure of Inside Information" under the Securities and Future Commission, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

The Board has discussed and reviewed its risk management and internal control systems with the review covered the effectiveness of material controls (including strategical, financial, operational and compliance controls) at entity and operational levels. Based on the result of the review performed by the Company's Audit Committee and the external consultant, the Directors considered that the Group has maintained adequate and effective risk management and internal control systems for the year ended 31 December 2019.

Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the civil engineering and building works in Hong Kong. Details of the principal activities of its subsidiaries are set out in note 13 to the consolidated financial statements.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 19 January 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

In preparation of the Listing, the companies now comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") pursuant to which the Company became the holding company of the Group on 6 February 2018. For details of the Reorganisation, please refer to the section headed "History, Development and Reorganisation" in the Prospectus.

The Company's shares were listed on the Main Board of the Stock Exchange on 30 October 2018.

BUSINESS REVIEW

The business review and outlook together with an analysis of the Group's performance using financial key performance indicators of the Group for the year ended 31 December 2019 are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 8 of this annual report. The financial risk management policies and practices of the Group are set out in note 23 to the consolidated financial statements.

Principal risks and uncertainties

The Group's business and operations is exposed to the following principal risks and uncertainties:

Business risks

Failure to obtain new projects

The Group's business is on a project-by-project basis and secured mainly through direct invitation for tender or quotation by customers which is not recurring in nature. As such, there is no guarantee that the Group will be able to retain its customers upon expiry of the contact period or that they will maintain their current level of business with the Group in the future.

Project cost overruns

The actual time and costs in completing a construction project may be adversely affected by uncontrollable factors such as shortage and cost escalation in materials/labour, difficult geological conditions, delay due to weather conditions etc. These factors can result in unexpected cost overruns which in turn will diminish the margin or overall loss of a project.

Unexpected geological conditions for underground projects

For underground projects, the Group is exposed to inherent project risk that the geological conditions of the sites are difficult to be anticipated and unforeseen problems may occur. Site survey and geotechnical reports may not be sufficient to reveal precisely the actual geological obstructions or identify any antiquities, monuments or structures beneath the site. All of these may lead to additional work procedures and time involved in completing the project and eventually result in cost overruns.

Industry risks

Deterioration in market conditions

The number of projects awarded to the Group depends highly on the prevailing market conditions in the construction industry, including shortage of skilled labour, availability of new projects in private sector, approval for funding proposals for public works contracts etc. If there is any significant deterioration in any of these factors, the Group's operating results and financial conditions will be adversely affected.

For further details of the risks and uncertainties of the Group, please refer to the section headed "Risk Factors"in the Prospectus.

Environmental policies and performance

The Group recognizes the importance of protecting the environment and strives to minimize the impact to the environment by reducing use of energies and other resources. Further information of the environmental policies and performance will be detailed in the Environment, Social and Governance Report of the Company which will be available on the websites of the Company and the Stock Exchange within three months after the publication of this annual report.

Compliance with relevant laws and regulations

During the year ended 31 December 2019, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operation of the Group.

Events after the reporting period

Save as disclosed in note 28 to the consolidated financial statements, there is no other material subsequent event undertaken by the Company or the Group after 31 December 2019 and up to the date of this annual report.

Key relationships with employees, customers, suppliers and others

The Group recognises its employees as its valuable assets and the key to business growth and success. The Group provides competitive remuneration package and benefits to employees to attract and retain competent employees. The Group also provides on-the-job training and development opportunities to employees to enhance their career development.

The Group endeavours to develop and maintain long-term relationship with customers by delivering excellent works and quality services to them. The Group holds regular meeting with customers to receive customers' feedback to understand their needs and expectation.

The Group has strong and stable relationships with suppliers and subcontractors in order to ensure that quality goods and services are provided to the Group. Suppliers and subcontractors are assessed on their performances, safety records, non-compliance track records and environmental awareness on an on-going basis.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years are included in the section headed "Financial Summary" on page 90 of this annual report.

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 8 June 2020 to 11 June 2020, both dates inclusive, during which period no transfer of shares will be registered, in order to ascertain shareholders' entitlement to attend the forthcoming AGM which is scheduled to be held on 11 June 2020. In order to be eligible for attending and voting at the forthcoming AGM, non-registered shareholders must lodge all duly completed and stamped transfer forms accompanied by the relevant shares certificates with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on 5 June 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to the shareholders amounted to approximately HK$93,587,000.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 37 of this annual report.

MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

During the year ended 31 December 2019, the percentage of revenue attributable to the largest customer and the five largest customers of the Group accounted for approximately 30.9% and 88.6% of the Group's total revenue respectively.

During the year ended 31 December 2019, the largest subcontractor and the five largest subcontractors of the Group accounted for approximately 6.9% and 28.1% of the Group's total direct costs respectively.

During the year ended 31 December 2019, the largest supplier and the five largest suppliers of the Group accounted for approximately 6.5% and 12.7% of the Group's total direct costs respectively.

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

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors

Mr. Law Fu Keung *(Chairman and Chief Executive Officer)*
Ms. Cheng Fung Yi

Independent Non-executive Directors

Ms. Li On Lei
Ms. Shum Wing Ting
Mr. Law Kam Chuen

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

Further, according to Articles 111 and 112 of the Articles, any Director appointed by the Board or by ordinary resolution in general meeting either to fill a causal vacancy or as an addition to the existing Board shall hold office only until the next following AGM of the Company. The Directors to retire at an AGM of the Company shall not be taken into account in determining who are to retire by rotation at such AGM.

At the forthcoming AGM, each of Ms. Li On Lei and Ms. Shum Wing Ting will retire and, being eligible, offer herself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for a term of three years commencing from the Listing Date which may be terminated by either party serving to the other party not less than three months' written notice of termination.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

MANAGEMENT CONTRACTS

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

Directors' Report

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements respectively.

SENIOR MANAGEMENT'S REMUNERATION

The remuneration of the senior management of the Group for the year ended 31 December 2019 falls within the following band:

Remuneration Band	Number of senior management
HK$Nil to HK$1,000,000	3

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into during the year ended 31 December 2019 or subsisted at the end of the year.

PERMITTED INDEMNITY OF DIRECTORS

The Articles provide that every director shall be indemnified out of the assets of the Company against all losses and liabilities incurred or sustained by him as a director in the execution of his duties or otherwise in relation thereto, provided that such indemnity shall not extend to any matter in respect of fraud or dishonesty which may attach to such director.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Apart from the contracts relating to the Reorganisation of the Group in relation to the Listing and save as disclosed in this annual report, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, subsisted since the Listing Date to 31 December 2019 or at 31 December 2019.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Apart from the contracts relating to the Reorganisation of the Group in relation to the Listing and save as disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which the controlling shareholders of the Company or an entity connected with the controlling shareholders had a material interest, either directly or indirectly, subsisted since 1 January 2019 to 31 December 2019 or at 31 December 2019.

SHARE OPTION SCHEME

A share option scheme (the "**Scheme**") was conditionally adopted by the written resolution of the Company's then sole shareholder on 8 October 2018. No share option has been granted, exercised, cancelled or lapsed under the Scheme since its adoption on 8 October 2018 and there is no outstanding share option as at 31 December 2019.

Purpose of the Scheme

The purpose of the Scheme is to attract and retain the best available personnel of the Group, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

Participants of the Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any employees (full-time or part-time), directors (including independent non-executive Directors), consultant, or advisor, substantial shareholders, distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, who have contribution or potential contribution to the Group.

Maximum number of shares

The maximum number of the shares issuable upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date i.e. 160,000,000 Shares.

The 10% limit may be refreshed at any time by obtaining approval of shareholders in general meeting provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Company must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. The Company may seek separate approval of the shareholders in general meeting in granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by the Company before such approval is sought.

Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Scheme and any other option scheme of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine but shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Minimum period

The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion at the time of grant.

Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

Subscription price

The subscription price of a share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;

(ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the option; and

(iii) the nominal value of a Company's share.

Directors' Report

Duration of the Scheme

The Scheme will remain in force for a period of ten years commencing from 8 October 2018 and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by shareholders in general meeting.

COMPETING BUSINESS

None of the controlling shareholders or the Directors of the Company and their respective associates is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business since the Listing Date to 31 December 2019.

DEED OF NON-COMPETITION

A deed of non-competition dated 8 October 2018 (the "**DNC**") has been entered into by Mr. Law Fu Keung and Miracle Investments Company Limited (collectively, the "**Controlling Shareholders**") in favour of the Company (for itself and on behalf of its subsidiaries), with an aim to avoid any possible future competition between the Group and the Controlling Shareholders. Details of the DNC are set out in the section headed "Relationship with Controlling Shareholders" in the Prospectus.

The Controlling Shareholders have confirmed their compliance with the undertakings of the DNC for the year ended 31 December 2019. The independent non-executive Directors had reviewed the undertakings and evaluated the effective implementation of the DNC and considered that the undertakings of the DNC have been complied with by the Controlling Shareholders during the period from 1 January 2019 to 31 December 2019.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept under section 352 of the SFO; or (c) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:–

(a) Long position in ordinary shares of the Company

Name of director/ chief executive	Nature of interest	Number of shares held/interested	Percentage of shareholding in the Company
Mr. Law Fu Keung (Note 1)	Interest of a controlled corporation	1,200,000,000	75%
Ms. Cheng Fung Yi (Note 2)	Interest of spouse	1,200,000,000	75%

Notes:

1. Mr. Law beneficially owns the entire issued share capital of Miracle Investments Company Limited ("**Miracle Investments**"). Therefore, Mr. Law is deemed, or taken to be, interested in the shares held by Miracle Investments for the purpose of SFO.

2. Ms. Cheng is the spouse of Mr. Law. Accordingly, Ms. Cheng is deemed, or taken to be, interested in the shares which Mr. Law is interested in for the purpose of SFO.

(b) Long position in shares of the associated corporation of the Company

Name of director/ chief executive	Name of the associated corporation	Nature of interest	Number of shares held/interested	Percentage of shareholding in the company
Mr. Law Fu Keung (Note 1)	Miracle Investments	Beneficial owner	100	100%
Ms. Cheng Fung Yi (Note 2)	Miracle Investments	Interest of spouse	100	100%

Notes:

1. The issued share capital of Miracle Investments is fully owned by Mr. Law.

2. Ms. Cheng is the spouse of Mr. Law. Accordingly, Ms. Cheng is deemed, or taken to be, interested in the shares which Mr. Law is interested in for the purpose of SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

Name of shareholder	Nature of interest	Number of shares held/interested	Percentage of shareholding in the Company
Miracle Investments	Beneficial owner	1,200,000,000	75%

Save as disclosed above, as at 31 December 2019, none of the substantial or significant shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their associates to acquire benefits by means of acquisition of shares in or debentures of, the Company or in any other body corporate.

Directors' Report

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

During the Review Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 13 to 21 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the Laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RELIEF OF TAXATION

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules since the Listing Date and up to the date of this report.

RETIREMENT SCHEME

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

RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTION

Details of the related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements. The lease charges paid and payable to directors of the Company constituted continuing connected transaction under Chapter 14A of the Listing Rules but is fully exempted from shareholders' approval, annual review and all disclosure requirements by virtue of Rule 14A.76(1)(c) of the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Crowe (HK) CPA Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
Fullwealth Construction Holdings Company Limited

Law Fu Keung
Chairman and Executive Director

Hong Kong, 31 March 2020

Independent Auditor's Report

Crowe

國富浩華 (香港) 會計師事務所有限公司
Crowe (HK) CPA Limited

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FULLWEALTH CONSTRUCTION HOLDINGS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fullwealth Construction Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 89, 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"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Independent Auditor's Report

Recognition of contract revenue and costs

Refer to note 3(c) and note 4 to the consolidated financial statements and the accounting policies in note 2(p) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group recorded revenue from construction contracts of approximately HK$553,357,000 for the year ended 31 December 2019. Contract revenue is recognised over time using the output method, based on direct measurements of the value of services delivered or work performed, which is established by reference to the construction works certified by the customers. Contract costs are recognised when work is performed, together with any provisions for expected contract losses. The recognition of contract revenue and costs relies on management's estimate of the final outcome of each contract, which involves the exercise of significant management judgement, particularly in forecasting the costs to complete a contract, in valuing contract variations, claims and liquidated damages, in estimating the amount of expected losses and in assessing the ability of the Group to deliver services according to the agreed timetable. We identified contract revenue and costs as a key audit matter because the estimation of the total revenue and total costs to complete contracts is inherently subjective and requires significant management judgement and estimation and because errors in the forecast of contract revenue and contract costs could result in a material variance in the amount of profit or loss recognised from contracts to date and, therefore, in the current period.	Our audit procedures to assess the recognition of contract revenue and costs included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the contract revenue and costs recognition processes; • discussing with the Group's management the performance of the major contracts in progress during the year and challenging the key estimates and assumptions adopted in the forecast of contract revenue and contract costs, including estimated costs to completion, the recognition of variation orders, the adequacy of contingency provisions and their assessment of potential liquidated damages for contracts which are behind schedule, by obtaining and assessing information in connection with the assumptions adopted, including contract agreements and sub-contracts, confirmations from and correspondence with customers regarding contract variations and claims and by considering historical outcomes for similar contracts; • selecting a sample of contracts and performing the following procedures for each contract selected: – inspecting the contract agreements with customers and subcontractors to identify key terms and conditions, including contracting parties, contract period, contract sum, scope of work, liquidated damages and evaluating whether these key terms and conditions had been appropriately reflected in the total estimated revenue and costs to complete under the forecasts of contract; – comparing the contract revenue recognised during the year with reference to the amounts as stated on the progress certificates issued by the customers; and – comparing items recorded as contract costs during the year with suppliers' contracts, goods receipt notes and other relevant underlying documentation; • performing site visits, on a sample basis, to observe the progress of individual contract and discussing with site personnel the status of each project and evaluating whether the project progress was consistent with the agreed timetable and the Group's financial accounting records; • assessing the presentation and related disclosures in the consolidated financial statements with reference to the requirement of HKFRS 15.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

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

The directors are 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2020

Yau Hok Hung
Practising Certificate Number P04911

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	4	**553,357**	316,579
Direct costs		**(539,639)**	(273,016)
Gross profit		**13,718**	43,563
Other income	5	**11,470**	1,377
General and administrative expenses		**(14,862)**	(25,661)
Profit from operations		**10,326**	19,279
Finance costs	6(a)	**(758)**	(883)
Profit before taxation	6	**9,568**	18,396
Income tax	7	**(2,389)**	(6,160)
Profit and total comprehensive income for the year		**7,179**	12,236
		HK Cents	HK Cents
Earnings per share	10		
– Basic		**0.45**	0.96
– Diluted		**0.45**	0.96

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	12	60,717	70,231
Deposit for acquisition of property, plant and equipment		400	–
		61,117	70,231
Current assets			
Contract assets	14	70,213	95,226
Trade and other receivables	17	62,443	41,959
Tax recoverable	21(a)	4,595	7,029
Pledged bank deposits	16	22,206	–
Cash and cash equivalents	15(a)	47,451	42,291
		206,908	186,505
Current liabilities			
Trade and other payables	18	49,203	68,014
Bank loans	19	22,251	–
Lease liabilities	20	1,770	2,760
		73,224	70,774
Net current assets		133,684	115,731
Total assets less current liabilities		194,801	185,962
Non-current liabilities			
Lease liabilities	20	2,443	738
Deferred tax liabilities	21(b)	7,769	7,814
		10,212	8,552
NET ASSETS		184,589	177,410
CAPITAL AND RESERVES			
Share capital	22	16,000	16,000
Reserves		168,589	161,410
TOTAL EQUITY		184,589	177,410

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 31 March 2020:

LAW Fu Keung
Director

CHENG Fung Yi
Director

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (note (i))	Retained earnings HK$'000	Total equity HK$'000
Balance at 1 January 2018		5,760	–	–	69,208	74,968
Changes in equity for 2018:						
Profit and other comprehensive income for the year		–	–	–	12,236	12,236
Effect of the Reorganisation	22(b)	(5,760)	–	5,760	–	–
Issuance of shares under the Initial Public Offering ("**IPO**"), net of listing expenses	22(b)	4,000	111,206	–	–	115,206
Capitialisation issue	22(b)	12,000	(12,000)	–	–	–
Dividends declared	11	–		–	(25,000)	(25,000)
Balance at 31 December 2018 and 1 January 2019		16,000	99,206	5,760	56,444	177,410
Changes in equity for 2019:						
Profit and other comprehensive income for the year		–	–	–	7,179	7,179
Balance at 31 December 2019		16,000	99,206	5,760	63,623	184,589

Note (i): The other reserve represents the deemed contribution from and distributions to the Controlling Shareholders as a result of the Reorganisation as detailed in note 2(b).

Note (ii): The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Operating activities			
Cash generated from operations	15(b)	**5,237**	8,958
Hong Kong Profits Tax paid		**–**	(9,971)
Net cash generated from/(used in) operating activities		**5,237**	(1,013)
Investing activities			
Interest received		**453**	12
Placement of pledged bank deposits		**(22,206)**	–
Payment for acquisitions of plant and equipment		**(6,286)**	(49,483)
Proceeds from disposals of plant and equipment		**10,854**	763
Advances to an immediate holding company		**(12)**	–
Net cash used in investing activities		**(17,197)**	(48,708)
Financing activities			
Proceeds from new bank loans	15(c)	**31,090**	8,590
Repayment of short-term loan	15(c)	**–**	(18,000)
Repayment of bank loans	15(c)	**(8,839)**	(8,590)
Capital element of lease rentals paid	15(c)	**(4,373)**	(6,853)
Interest element of lease rentals paid	15(c)	**(195)**	(283)
Repayment to a director	15(c)	**–**	(212)
Proceeds from issuance of shares	22(b)	**–**	128,000
Payment of listing expenses	22(b)	**–**	(12,794)
Dividends paid	11	**–**	(25,000)
Interest paid			
– short-term loan	15(c)	**–**	(466)
– bank loans	15(c)	**(563)**	(134)
Net cash generated from financing activities		**17,120**	64,258
Net increase in cash and cash equivalents		**5,160**	14,537
Cash and cash equivalents at the beginning of the year		**42,291**	27,754
Cash and cash equivalents at the end of the year	15(a)	**47,451**	42,291

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 39 to 89 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Fullwealth Construction Holdings Company Limited (the "**Company**") was incorporated in the Cayman Islands on 19 January 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at Shops 11-12, G/F., Leung Choy Building, 2-44 Ping Fai Path, Yuen Long, New Territories, Hong Kong.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 October 2018 (the "**Listing**").

The Company is an investment holding company and its subsidiaries are principally engaged in the civil engineering and building works in Hong Kong. The Company and its subsidiaries are collectively referred to as the "**Group**".

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

Pursuant to a group reorganisation completed on 6 February 2018 (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 15 October 2018 (the "**Prospectus**").

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

During the year ended 31 December 2018, the Group's business was conducted through Ming Shing Construction Engineering Company Limited ("**Ming Shing**"), which was ultimately owned and controlled by Mr. LAW Fu Keung (the "**Controlling Shareholder**"). The companies now comprising the Group were under the common control of Mr. LAW Fu Keung as a controlling shareholder before and after the Reorganisation.

As all the companies now comprising the Group that took part the Reorganisation were controlled by the same Controlling Shareholder before and after the Reorganisation, there was a continuation of risks and benefits to the Controlling Shareholder. Accordingly, the Reorganisation is considered to be a business combination of entities under common control, and the consolidated financial statements have been prepared using the merger basis of accounting in accordance with the Accounting Guideline 5 "Merger Accounting Under Common Control Combinations" ("**AG5**") issued by HKICPA as if the Group had always been in existence. The net assets of the companies taking part in the Reorganisation are combined using the book values from the Controlling Shareholder's perspective.

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 of the Group include the financial performance and cash flows of the Company and its subsidiaries as if the current group structure had been in existence throughout the year ended 31 December 2018 (or where the Company and its subsidiaries were incorporated/established at a date later than 1 January 2018, for the period from date of incorporation/establishment to 31 December 2018).

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16*, Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, 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*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 24. For an explanation of how the Group applies lessee accounting, see note 2(f)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.5%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 24 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

b. Lessee accounting and transitional impact (continued)

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	1,330
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(28)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	1,719
	3,021
Less: total future interest expenses	(233)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	2,788
Add: finance lease liabilities recognised as at 31 December 2018	3,498
Total lease liabilities recognised at 1 January 2019	6,286

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

b. Lessee accounting and transitional impact (continued)

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 January 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	70,231	2,788	73,019
Total non-current assets	**70,231**	**2,788**	**73,019**
Lease liabilities (current)	2,760	549	3,309
Current liabilities	**70,774**	**549**	**71,323**
Net current assets	**115,731**	**(549)**	**115,182**
Total assets less current liabilities	**185,962**	**2,239**	**188,201**
Lease liabilities (non-current)	738	2,239	2,977
Total non-current liabilities	**8,552**	**2,239**	**10,791**
Net assets	**177,410**	**–**	**177,410**

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 15(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (see note 15(d)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply during the year ended 31 December 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for the year ended 31 December 2019 with the actual corresponding amounts for the year ended 31 December 2018 which were prepared under HKAS 17.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

c. Impact on the financial result and cash flows of the Group (continued)

	2019				2018
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C)	(D=A+B-C)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**10,326**	**587**	**(636)**	**10,277**	**19,279**
Finance costs	(758)	87	–	(671)	(883)
Profit before taxation	**9,568**	**674**	**(636)**	**9,606**	**18,396**
Profit for the year	**7,179**	**674**	**(636)**	**7,217**	**12,236**

	2019			2018
	Amounts reported under HKFRS 16	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported under HKAS 17
	(A)	(B)	(C=A+B)	
	HK$'000	HK$'000	HK$'000	HK$'000
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	5,237	(661)	4,576	8,958
Net cash generated from/(used in) operating activities	**5,237**	**(661)**	**4,576**	**(1,013)**
Capital element of lease rentals paid	(4,373)	574	(3,799)	(6,853)
Interest element of lease rentals paid	(195)	87	(108)	(283)
Net cash generated from financing activities	**17,120**	**661**	**17,781**	**64,258**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

c. Impact on the financial result and cash flows of the Group (continued)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

d. Lessor accounting

The Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements in this regard.

(d) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(k) or 2(l) depending on the nature of the liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(g)(ii)).

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(f)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	5 years
– Plant and machinery	5-15years
– Furniture and equipment	5 years
– Motor vehicles	3.33 years
– The Group's interests in buildings situated on leasehold land	Over the shorter of the unexpired term of lease and the buildings' estimated useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets 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, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(e) and 2(g)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'Property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leased assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(g)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

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. The rental income from operating leases is recognised in accordance with note 2(p)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(f)(i), then the Group classifies the sub-lease as an operating lease.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses ("**ECLs**") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 2(h)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment; and

– Investments in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(g)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(i)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(p)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(i)).

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(p)).

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(h)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(g)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(g)(i).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(q)).

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

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

(p) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue and other income (continued)

(i) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the output method, i.e. based on direct measurements of the value to the customer of goods or services transferred to date ("**Value to the Customer**"), provided that the Value to the Customer is established according to the progress certificate (by reference to the amount of completed works confirmed by customer) issued by the customer.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 2(o)(ii).

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Management fee income

Management fee income is recognised when the control over services have been transferred to customers.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(g)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) Related parties

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

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

(ii) has significant influence over the Group; or

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

(B) An entity is related to the Group if any of the following conditions applies:

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of 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).

(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 Group's parent.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker (the "**CODM**") for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following accounting judgements and estimates:

(a) Useful lives, residual values and depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of trade receivables and contract assets

The Group uses provision matrix to calculate ECLs for the trade receivables and contract assets. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECLs individually. The provision of ECLs is sensitive to changes in circumstances and forecast general economic conditions. The information about the ECLs and the Group's trade receivables and contract assets are disclosed in note 23(a). If the financial condition of the customers or the forecast economic conditions were to deteriorate, the actual loss allowance would be higher than estimated.

(c) Construction contracts

As explained in policy note 2(p), revenue from construction contracts are recognised over time using the output method. Such revenue and profit recognition on uncompleted projects is dependent on estimating the outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiency advanced such that the outcome of the contract can be reasonably measured. Until this point is reached and the related contract assets disclosed in note 14 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the amounts received and receivable from construction contracts for civil engineering and building works rendered by the Group to customers, which is recognised over time.

Revenue from construction contracts with customers by geographic markets is disclosed in note 4(b)(ii).

As at 31 December 2019, the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing contracts are as follows:

	2019	2018
	HK$'000	HK$'000
Expected to be recognised within 12 months	**106,645**	323,052
Expected to be recognised over the next 12 months to 36 months	**31,592**	99,936
	138,237	422,988

These amounts represent revenue expected to be recognised in the future from construction contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed.

The above amounts do not include any estimated amounts of variable consideration that are constrained.

(b) Segment information

(i) Operating segment information

The chief operating decision maker ("**CODM**") has been identified as the executive directors who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit after income tax and considers all businesses to be included in a single operating segment.

The Group is principally engaged in the business of civil engineering and building works in Hong Kong. Information reported to CODM for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

4. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

(ii) Geographical information

All of the Group's activities are carried out in Hong Kong and all of the Group's assets and liabilities are located in Hong Kong. Accordingly, no analysis by geographical basis is presented.

(iii) Information about major customers

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

	2019 **HK$'000**	2018 HK$'000
Customer A	**170,882**	51,697
Customer B	**N/A***	49,970
Customer C	**88,200**	70,189
Customer D	**N/A***	38,289
Customer E	**128,948**	N/A*
Customer F	**66,964**	N/A*

* Revenue from relevant customer was less than 10% of the Group's total revenue for the respective year.

Details of concentrations of credit risk arising from these customers are set out in note 23(a).

5. OTHER INCOME

	2019 **HK$'000**	2018 HK$'000
Bank interest income	**453**	12
Profit from leasing of plant and equipment (see note (i))	**7,656**	1,262
Net gain on disposal of property, plant and equipment	**2,246**	–
Compensation received	**442**	–
Sundry income	**673**	103
	11,470	1,377

Note:

(i) Profit from leasing of plant and equipment is analysed as follows:

	2019 **HK$'000**	2018 HK$'000
Gross rental income from leasing of plant and equipment	**12,985**	8,009
Direct outgoings	**(5,329)**	(6,747)
Profit from leasing of plant and equipment	**7,656**	1,262

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2019 HK$'000	2018 HK$'000
Interest on lease liabilities (note 15(c))	**195**	283
Interest on short-term loan (note 15(c))	**–**	466
Interest on bank loans (note 15(c))	**563**	134
Total interest expense on financial liabilities not at fair value through profit or loss	**758**	883

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

(b) Staff costs

	2019 HK$'000	2018 HK$'000
Directors' emoluments	**3,086**	1,640
Other staff costs:		
Contributions to defined contribution retirement plans	**1,656**	1,332
Salaries, wages and other benefits	**46,166**	35,286
	50,908	38,258

(c) Other items

	2019 HK$'000	2018 HK$'000
Depreciation of property, plant and equipment*	**11,880**	9,430
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*		
– hire of machinery	**–**	2,029
– property rentals	**–**	384
Listing expenses	**–**	17,498
Auditor's remuneration	**1,200**	1,000

*: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2019 HK$'000	2018 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**2,434**	733
Deferred tax		
Origination and reversal of temporary differences	**(45)**	5,427
	2,389	6,160

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) The provision for Hong Kong Profits Tax for the year ended 31 December 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The directors of the Company are in the view that the impact of the two-tiered profits tax rates regime on the Group's current and deferred tax position is not material.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Profit before taxation	**9,568**	18,396
Notional tax on profit before taxation, calculated at the rates applicable to the profits in jurisdictions concerned	**1,414**	2,870
Tax effect of non-deductible expenses	**54**	4,047
Tax effect of non-taxable income	**(66)**	(737)
Tax effect of unused tax losses not recognised	**1,007**	–
Statutory tax concession	**(20)**	(20)
Actual tax expense	**2,389**	6,160

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2019				
	Directors' fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contribution to defined contribution retirement plan HK$'000	Total HK$'000
Executive directors					
LAW Fu Keung (Chief executive)	–	1,200	100	18	1,318
CHEUNG Fung Yi	–	1,200	100	18	1,318
Independent non-executive directors					
LI On Lei	150	–	–	–	150
LAW Kam Chuen	150	–	–	–	150
SHUM Wing Ting	150	–	–	–	150
Total	450	2,400	200	36	3,086

	Year ended 31 December 2018				
	Directors' fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contribution to defined contribution retirement plan HK$'000	Total HK$'000
Executive directors					
LAW Fu Keung (Chief executive)	–	740	60	17	817
CHENG Fung Yi	–	600	100	18	718
Independent non-executive directors					
LI On Lei (note (i))	35	–	–	–	35
LAW Kam Chuen (note (i))	35	–	–	–	35
SHUM Wing Ting (note (i))	35	–	–	–	35
Total	105	1,340	160	35	1,640

During the year, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the year.

Note:

(i) LI On Lei, LAW Kam Chuen, SHUM Wing Ting were appointed as independent non-executive directors of the Company on 8 October 2018.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining highest paid individuals of the Group are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other emoluments	**2,042**	2,310
Retirements scheme contributions	**54**	54
	2,096	2,364

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2019 Number of Individuals	2018 Number of Individuals
HK$nil to HK$1,000,000	**3**	3

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of approximately HK$7,179,000 (2018:HK$12,236,000) and the weighted average of 1,600,000,000 ordinary shares (2018: 1,269,041,096 ordinary shares) in issue during the year ended 31 December 2019.

The weighted average number of ordinary shares used in the calculation of the basic earnings per share during the year ended 31 December 2019 is 1,600,000,000 ordinary shares, which is based on the number of shares in issue throughout the year.

The weighted average number of ordinary shares used in the calculation of the basic earnings per share during the year ended 31 December 2018 is 1,269,041,096 ordinary shares, which comprising (i) 100 ordinary shares in issue at the date of the Company's Prospectus and 1,199,999,900 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 1,200,000,000 ordinary shares were outstanding throughout the year ended 31 December 2018; and (ii) 400,000,000 ordinary shares issued on 30 October 2018 by initial public offering.

10. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

There were no potential dilutive shares in existence during the years ended 31 December 2019 and 2018, therefore, diluted earnings per share are the same as the basic earnings per share.

11. DIVIDENDS

On 4 October 2018, an interim dividend of HK$25,000,000 was declared by the Company to its sole shareholder. The related amount per share is not presented as this dividend was declared and payable to the sole shareholder of the Company before the Listing and such information is not meaningful.

No final dividend in respect of the year ended 31 December 2019 was proposed by the Company (2018: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Properties leased for owne use carried at cost HK$'000	Total HK$'000
Cost:						
At 1 January 2018	281	18,248	84	20,053	–	38,666
Additions	587	48,340	–	556	–	49,483
Disposals	–	(300)	–	(392)	–	(692)
At 31 December 2018	868	66,288	84	20,217	–	87,457
Impact on initial application of HKFRS 16 (note)	–	–	–	–	2,788	2,788
At 1 January 2019	868	66,288	84	20,217	2,788	90,245
Additions	–	5,744	41	2,401	–	8,186
Disposals	–	(7,203)	–	(16,760)	–	(23,963)
At 31 December 2019	868	64,829	125	5,858	2,788	74,468
Accumulated depreciation:						
At 1 January 2018	157	3,166	39	4,568	–	7,930
Charge for the year	95	3,324	17	5,994	–	9,430
Written back on disposals	–	(4)	–	(130)	–	(134)
At 31 December 2018 and 1 Januray 2019	252	6,486	56	10,432	–	17,226
Charge for the year	174	6,538	25	4,556	587	11,880
Written back on disposals	–	(3,675)	–	(11,680)	–	(15,355)
At 31 December 2019	426	9,349	81	3,308	587	13,751
Net book value:						
At 31 December 2019	442	55,480	44	2,550	2,201	60,717
At 31 December 2018	616	59,802	28	9,785	–	70,231

Certain machinery with carrying amount of approximately HK$41,618,000 (2018: HK$nil) were pledged to secure the Group's banking facilities (note 19) as at 31 December 2019.

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2(c).

12. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets

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

	Notes	31 December 2019 HK$'000	1 January 2019 HK$'000
Properties leased for own use, carried at depreciated cost	12(b)(i)	2,201	2,788
Motor vehicles, carried at depreciated costs	12(b)(ii)	2,299	3,655
		4,500	6,443

The analysis of expenses items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018 (note) HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	587	–
Motor vehicles	1,376	2,512
	1,963	2,512
Interest on lease liabilities (note 6(a))	195	283
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	15,061	–
Total minimum lease payments for leases previously classified as operating lease under HKAS 17	–	2,413

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

12. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets (continued)

During the year ended 31 December 2019, additions to right-of-use assets were approximately HK$2,372,000. This amount related to the capitalized lease payments payable under new hire purchase agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 15(d) and 20, respectively.

(i) Properties leased for own use

The Group has obtained the right to use properties as its offices through tenancy agreements. The leases typically run for an initial period of 3 to 5 years. Certain lease payments are adjusted to reflect market rental. None of the lease includes variable lease payments.

(ii) Other leases

The Group leases motor vehicles under leases expiring from 1 to 3 years. At the end of the lease term the Group has the option to purchase the leased motor vehicles at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

(c) Assets leased out under operating leases

The Group leases out a number of items of machinery under operating leases. The leases typically run for short-term and are cancellable. None of the leases includes variable lease payments.

At 31 December 2019, the carrying amount of machinery leased out amounted to approximately HK$38,335,000 (2018: approximately HK$7,039,000).

The directors of the Company are of the opinion that at the end of the reporting period, undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases are relatively insignificant to consolidated financial statements, therefore no maturity analysis of lease payments is presented.

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13. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries. The class of shares held is ordinary unless otherwise state.

			Proportion of ownership interest			
Name of company	**Place of incorporation and business**	**Particulars of issued and paid-up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Civil Link Holdings Company Limited ("**Civil Link**")	The British Virgin Islands	US$200	100%	100%	–	Investment holding
Ming Shing Construction Engineering Company Limited ("**Ming Shing**")	Hong Kong	HK$5,760,000	100%	–	100%	Civil engineering and building works
Kong Lung Development Limited ("**Kong Lung**")	Hong Kong	HK$1	100%	–	100%	Not yet commenced business

14. CONTRACT ASSETS

	2019 HK$'000	2018 HK$'000
Contract assets		
Arising from performance under construction contracts	70,213	95,226
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 17)	47,032	30,791

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

The Group's construction contracts include payment terms which require stage payments over the construction period once the progress certificates are issued by customers. The Group also typically agrees to a retention period of one year to two years for 1-10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

The amount of contract assets that is expected to be recovered after more than one year is approximately HK$10,219,000 (2018: HK$16,759,000), all of which relates to retention receivables.

15. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents in the consolidated statement of financial position and cash flows comprise:

	2019 HK$'000	2018 HK$'000
Bank deposits	7,757	12,900
Cash at banks	39,694	29,391
	47,451	42,291

(b) Reconciliation of profit before taxation to cash generated from operations:

	2019 HK$'000	2018 HK$'000
Profit before taxation	9,568	18,396
Adjustments for:		
Depreciation	11,880	9,430
Finance costs	758	883
Interest income	(453)	(12)
Net gain on disposal of plant and equipment	(2,246)	(205)
Changes in working capital:		
Decrease in contract assets, trade and other receivables	4,541	20,077
Decrease in trade and other payables	(18,811)	(39,611)
Cash generated from operations	5,237	8,958

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of approximately HK$3,508,000 were classified as operating activities in the consolidated statement of cash flows. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 15(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

15. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities

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

	Bank loans HK$'000 (note 19)	Lease liabilities HK$'000 (note 20)	Total HK$'000
At 31 December 2018	–	3,498	3,498
Impact on initial application of HKFRS 16 (note)	–	2,788	2,788
At 1 January 2019	–	6,286	6,286
Changes from financing cash flows:			
Proceeds from new bank loans	31,090	–	31,090
Repayment of bank loans	(8,839)	–	(8,839)
Bank loans interest paid	(563)	–	(563)
Capital element of lease rentals paid	–	(4,373)	(4,373)
Interest element of lease rentals paid	–	(195)	(195)
Total changes from financing cash flows	21,688	(4,568)	17,120
Other changes			
Increase in lease liabilities from entering into new leases during the year	–	2,300	2,300
Interest expenses (see note 6(a))	563	195	758
Total other changes	563	2,495	3,058
At 31 December 2019	22,251	4,213	26,464

Note : The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2(c) and 15(b).

15. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Amount due to a director HK$'000	Borrowings HK$'000	Leases liabilities HK$'000 (note 20)	Total HK$'000
At 1 January 2018	212	18,000	10,351	28,563
Changes from financing cash flows:				
Proceeds from bank loan	–	8,590	–	8,590
Repayment of bank loan	–	(8,590)	–	(8,590)
Repayment of short-term loan	–	(18,000)	–	(18,000)
Repayment to a director	(212)	–	–	(212)
Interest paid	–	(600)	–	(600)
Capital element of finance lease rentals paid	–	–	(6,853)	(6,853)
Interest element of finance lease rentals paid	–	–	(283)	(283)
Total changes from financing cash flows	(212)	(18,600)	(7,136)	(25,948)
Other changes:				
Interest on short-term loan (note 6(a))	–	466	–	466
Interest on bank loan (note 6(a))	–	134	–	134
Interest on lease liabilities (note 6(a))	–	–	283	283
Total other changes	–	600	283	883
At 31 December 2018	–	–	3,498	3,498

(d) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 HK$'000	2018 (note) HK$'000
Within operating cash flows	14,813	3,508
Within financing cash flows	4,568	7,136
	19,381	10,644

15. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(d) Total cash outflow for leases (continued)

Note:

As explained in the note to note 15(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rental paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Lease rentals paid	19,381	10,644

16. PLEDGED BANK DEPOSITS

As at 31 December 2019, bank deposits of approximately HK$22,206,000 (2018: HK$nil) were pledged to a bank as collateral to secure certain of the main contractor's performance bonds issued by a bank in relation to the Group's construction projects.

17. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	47,032	30,791
Deposits for issuance of surety bonds (see note (i) below)	1,620	2,470
Other receivables	11,153	5,726
Deposits and prepayments	2,626	2,972
Amount due from an immediate holding company (see note (ii) below)	12	–
	62,443	41,959

Notes:

(i) Deposits were placed with an insurance company for issuance of surety bonds in favour of the Group's customers, details of which are set out in note 25. These bonds will be released upon completion of the contract work.

(ii) Amount due from an immediate holding company was non-trade nature, unsecured, interest-free and has no fixed terms of repayment.

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

17. TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the revenue recognition date, is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 month	**35,312**	20,911
1 to 2 months	**3,292**	5,949
2 to 3 months	**–**	1,993
Over 3 months	**8,428**	1,938
	47,032	30,791

Trade receivables are generally due within 30 days from the date of progress certificate. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 23(a).

18. TRADE AND OTHER PAYABLES

	2019 **HK$'000**	2018 HK$'000
Trade payables	**14,667**	21,670
Accrued construction costs	**13,691**	26,687
Other accrued expenses	**5,819**	3,997
Retention payables	**15,026**	15,660
	49,203	68,014

At 31 December 2019, the amount of retention payables expected to be settled after more than one year are approximately HK$1,674,000 (2018: HK$12,203,000). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade payables, based on invoice date, is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 month	**11,810**	13,113
1 to 2 months	**446**	4,701
2 to 3 months	**722**	3,253
Over 3 months	**1,689**	603
	14,667	21,670

19. BANK LOANS

At 31 December 2019, the bank loans were secured and repayable as follows:

	2019	2018
	HK$'000	HK$'000
Within 1 year or on demand	**22,251**	–

At 31 December 2019, the banking facilities of the Group were secured by certain of the Group's machinery with an aggregate carrying amount of approximately HK$41,618,000 (2018: HK$nil) and corporate guarantee provided by the Company. Such banking facilities amounted to HK$31,090,000 (2018: HK$nil). The facilities were utilised to the extent of HK$22,251,000 (2018: HK$nil).

The loans bear interest at 1.75% per annum below the Bank's Prime Lending Rate and are repayable monthly by installments, and the final installment will be repayable in May 2021.

Notwithstanding the specified repayment schedule provided by the bank ("**specific repayment term**") which allow the loans to be repaid over a period of more than one year, the banking facilities granted to the Group include a clause that gives the bank the unconditional rights to call the bank loans at any time ("**repayment on demand clause**"). At 31 December 2019, bank loans of approximately HK$22,251,000 are subject to the repayment on demand clause, of which approximately HK$6,658,000 repayable after one year based on the specific repayment term and was classified as current liabilities in the consolidated statement of financial position.

However, the directors of the Company expects that the bank loans are to be repaid as follows based on the specific repayment term:

	2019	2018
	HK$'000	HK$'000
Bank loans due for repayment within one year or on demand:		
Bank loans due for repayment within one year	**15,593**	–
Bank loans due for repayment after one year (see note below):		
After 1 year but within 2 years	**6,658**	–
	22,251	–

All of the Group's banking facilities are subject to the fulfilment of covenants which are commonly found in the lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 23(b). As at 31 December 2019, none of the covenants relating to drawn down facilities had been breached (2018:Nil).

20. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (note)		31 December 2018 (note)	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	1,770	1,892	3,309	3,480	2,760	2,844
After 1 year but within 2 years	1,189	1,252	1,307	1,379	738	743
After 2 years but within 5 years	1,254	1,288	1,670	1,749	–	–
	2,443	2,540	2,977	3,128	738	743
	4,213	4,432	6,286	6,608	3,498	3,587
Less: total future interest expenses		(219)		(322)		(89)
Present value of lease liabilities		4,213		6,286		3,498

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

All of the Group's lease liabilities were denominated in Hong Kong dollars and the effective interest rates of these lease liabilities during the year ended 31 December 2019 were ranged from 3.50% to 4.34% per annum (2018: approximately 3.88% per annum). Certain of the leases were secured by the charge over the Group's machineries, construction equipment and motor vehicles and guaranteed by the personal guarantee provided by Mr. LAW Fu Keung, a director and controlling shareholder of the Company, and Ms. CHENG Fung Yi, the spouse of Mr. LAW Fu Keung and director of the Company upon Listing. All personal guarantee provided by Mr. LAW Fu Keung and Ms. CHENG Fung Yi were released since the Listing.

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21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Provision for Hong Kong Profits Tax for the year	**2,434**	733
Provisional Hong Kong Profits Tax paid	**–**	(7,516)
	2,434	(6,783)
Balance of Hong Kong Profits Tax provision relating to prior years	**(7,029)**	(246)
Tax recoverable	**(4,595)**	(7,029)

(b) Deferred tax assets and liabilities

(i) Movement of deferred tax liabilities

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

	2019	2018
	HK$'000	HK$'000
Deferred tax arising from depreciation allowances in excess of the related depreciation:		
At the beginning of the year	**7,814**	2,387
Charged to profit or loss	**(45)**	5,427
At the end of the year	**7,769**	7,814

(ii) Deferred tax assets not recognised

At 31 December 2019, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$6,102,000 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

22. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital HK$000	Share premium HK$000	Other reserve HK$000	(Accumulated losses)/ retained earnings HK$000	Total HK$000
Balance at 19 January 2018 (date of incorporation)		–*	–	–	–	–*
Changes in equity for 2018:						
Profit and other comprehensive income for the year		–	–	–	25,482	25,482
Effect of the Reorganisation	22(b)	–*	–	1	–	1
Issuance of shares under the IPO	22(b)	4,000	111,206	–	–	115,206
Capitalisation issue	22(b)	12,000	(12,000)	–	–	–
Dividend declared	11	–	–	–	(25,000)	(25,000)
Balance at 31 December 2018 and 1 January 2019		16,000	99,206	1	482	115,689
Changes in equity for 2019:						
Loss and other comprehensive expense for the year		–	–	–	(6,102)	(6,102)
Balance at 31 December 2019		16,000	99,206	1	(5,620)	109,587

* The balance represents an amount less than HK$1,000.

(b) Share capital

	Note	No. of shares	Amount HK$'000
Authorised ordinary shares of HK$0.01 each:			
At 19 January 2018 (date of incorporation)	(i)	38,000,000	380
Increase in authorised share capital	(iii)	2,962,000,000	29,620
At 31 December 2018, 1 January 2019 and 31 December 2019		3,000,000,000	30,000
Issued and fully paid ordinary shares of HK$0.01 each:			
Issuance of shares upon the incorporation	(i)	1	–*
Issuance of shares under the Reorganisation	(ii)	99	–*
Capitalistion issue	(iv)	1,199,999,900	12,000
Issuance of shares by initial public offering	(v)	400,000,000	4,000
At 31 December 2018, 1 January 2019 and 31 December 2019		1,600,000,000	16,000

* The balance represents an amount less than HK$1,000.

22. CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Share capital (continued)

Notes:

(i) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 January 2018 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of par value HK$0.01 each. On the date of incorporation, one fully-paid ordinary share was allotted and issued to the initial subscriber of the Company, which was subsequently transferred to Miracle Investments Company Limited ("**Miracle Investments**") on 6 February 2018.

(ii) On 6 February 2018, the Company allotted and issued 99 ordinary shares, credited as fully-paid, to Miracle Investments in consideration for the acquisition of the entire issued share capital in Civil Link Holdings Company Limited ("**Civil Link**") from Miracle Investments. Immediately following the above allotment and share transfer, Civil Link is a wholly-owned subsidiary of the Company.

(iii) On 8 October 2018, pursuant to the written resolutions of the sole shareholder of the Company, the authorised share capital of the Company was increased from HK$380,000 to HK$30,000,000 by the creation of 2,962,000,000 additional ordinary shares, each ranking pari passu with the Company's ordinary shares then in issue in all respects.

(iv) Pursuant to the written resolutions of the sole shareholder of the Company passed on 8 October 2018, a total of 1,199,999,900 shares were allotted and issued, credited as fully paid at par, to Miracle Investments by way of capitalisation of a sum of HK$11,999,999 standing to the credit of the share premium account of the Company (the "**Capitalisation Issue**") on the date of Listing.

(v) On 30 October 2018, 400,000,000 ordinary shares were issued at a price of HK$0.32 each upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HK$4,000,000, representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HK$111,206,000, net of the listing expenses directly attributable to the issuance of shares, were credited to the share premium account.

22. CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, debt is defined as total debt (which includes bank loans and lease liabilities). Capital comprises all components of equity. In order to maintain the debt-to-capital ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognizes right-of-use assets and corresponding lease liabilities for certain of leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's debt-to-capital ratio rose from 2% to 4% on 1 January 2019 when compared to its position as at 31 December 2018.

The Group's debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	31 December 2019	1 January 2019 *(note)*	31 December 2018 *(note)*
	HK$'000	HK$'000	HK$'000
Lease liabilities	**4,213**	6,286	3,498
Bank loans	**22,251**	–	–
Total debt	**26,464**	6,286	3,498
Capital	**184,589**	177,410	177,410
Debt-to-capital ratio	**14%**	4%	2%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

The Government of the Hong Kong Special Administrative Region (the "**Government**") requires contractors on the list of approved contractors for public works (the "**List**") to maintain such minimum working capital as the Government may from time to time determine (the "**Required Minimum Working Capital**"). A subsidiary of the Company is subject to the Required Minimum Working Capital as the subsidiary is a contractor on the List. Except for this, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are banks and financial institutions with their sound credit ratings, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 33% (2018: 16%) and 82% (2018: 68%) of the total trade receivables and contract assets (collectively, the "**Receivables**") was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed as part of the acceptance procedures for new construction contracts. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally requires customers to settle progress billings and retention receivables in accordance with contracted terms. Trade receivables are generally due within 30 days upon receipt of progress certificates issued by the Group's customers. Normally, the Group does not obtain collateral from customers.

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

Given the customers of the Group are mainly the companies within the reputable groups and the Government of the Hong Kong Special Administrative Region and its related organisations and the Group has not experienced any significant credit losses in the past, management considered that the allowance for ECLs is insignificant. As a result, no provision for impairment of trade receivables and contract assets is necessary during the reporting period.

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Individual subsidiaries within the Group are responsible for their own cash management, including the raising of loans to cover the expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

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

For bank loans subject to a repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on the expected repayment dates with reference to the schedule of repayments set out in specific repayment term and, separately, the impact to the timing of cash outflow if the lender was to invoke its unconditional rights to call the loan with immediate effect.

	At 31 December 2019 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Carrying amount at 31/12/2019 HK$'000
Bank loans	16,118	6,716	–	22,834	22,251
Lease liabilities relating to leases previously classified under HKAS 17 as finance leases	1,281	616	175	2,072	2,000
Other lease liabilities (note)	611	636	1,113	2,360	2,213
Trade and other payables	43,149	857	817	44,823	44,823
	61,159	8,825	2,105	72,089	71,287
Adjustments to present cash flows on bank loans based on lender's right to demand repayment	6,133	(6,716)	–	(583)	–
Total	**67,292**	**2,109**	**2,105**	**71,506**	**71,287**

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23. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

	At 31 December 2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	Total HK$'000	Carrying amount at 31/12/2018 HK$'000
Lease liabilities relating to leases previously classified under HKAS17 as finance leases	2,844	743	3,587	3,498
Trade and other payables	68,014	–	68,014	68,014
Total	70,858	743	71,601	71,512

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from cash at banks, pledged bank deposits , bank loans and lease liabilities. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profiles as monitored by management is set out in (i) below.

The Group does not anticipate significant impact to cash at banks and pledged bank deposits because the interest rates of bank deposits are not expected to change significantly. Other than bank loans and the lease liabilities which carry interests at variable interest rates and fixed interest rates respectively the Group has no other significant interest-bearing assets or liabilities. Therefore, the interest rate risk mainly arises from bank loans and lease liabilities.

However, the interest expenses derived therefrom are relatively insignificant to the Group's operations. Therefore, the Group's income and operating cash flows are less dependent on changes in market interest rates. Accordingly, the directors of the Company are of the opinion that the Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed. The Group has not used financial derivatives to hedge against the interest rate risk. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	As at 31 December			
	2019		2018	
	Effective interest rate	**Amount HK$'000**	Effective interest rate	Amount HK$'000
Fixed rate borrowings:				
Lease liabilities (note)	**3.50%-4.34%**	**4,213**	3.88%	3,498
Variable rate borrowings:				
Bank loans	**3.35%**	**22,251**	–	–
Total borrowings		**26,464**		3,498
Fixed rate borrowings as a percentage of total borrowings		**16%**		100%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

(d) Fair value measurement

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

24. OPERATING LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 HK$'000
Within 1 year	664
After 1 year but within 5 years	666
	1,330

The Group is the lessee in respect of a number of properties and items of plant and machinery held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(f), and the details regarding the Group's future lease payments are disclosed in note 20.

25. CONTINGENT LIABILITIES

(a) Guarantees issued

As at 31 December 2019, surety bonds of approximately HK$5,414,000 (2018: approximately HK$8,342,000) were given by an insurance company to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and its customers. The Group has provided guarantees for the above surety bonds. If the Group fails to provide satisfactory performance to its customers to whom surety bonds have been given, such customers may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such insurance company accordingly. The surety bonds will be released upon completion of the contract work. Deposits were placed with an insurance company for issuance of surety bonds, details of which are set out in note 17.

At the end of the reporting period, the directors of the Company do not consider it is probable that a claim will be made against the Group.

(b) Litigation

In the ordinary course of the Group's contract works business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The directors of the Company are of the opinion that such claims are well covered by insurance and will not result in any material adverse impact on the financial position or results and operations of the Group. No provision has been made in respect of these claims in the consolidated financial statements.

26. MATERIAL RELATED PARTY TRANSACTIONS

During the reporting period, the transactions with the following parties are considered to be related party transactions of the Group:

Name of related party	Relationship with the Group
Mr. LAW Fu Keung ("**Mr. Law**")	The controlling shareholder and director of the Company
Ms. CHENG Fung Yi ("**Ms. Cheng**")	Spouse of Mr. Law and director of the Company

In addition to the transactions and balances disclosed elsewhere in these financial statements, particulars of significant transactions between the Group and the above related parties during the reporting period are as follows:

(a) Transactions with key management personnel

All members of key management personnel of the Group are the directors of the Company and their remuneration is disclosed in note 8.

In addition to the above, the Group entered into the following transactions with key management personnel:

Recurring transactions

	For the year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Operating lease charges paid and payable to Mr. Law and Ms. Cheng	**–**	300
Lease payments made to Mr. Law and Ms. Cheng (including capital element and interest element of lease rentals paid)	**300**	–

The directors of the Company consider that the above related party transactions during the year were conducted on mutually agreed terms in the ordinary course of the Group's business.

(b) Financing arrangements with related parties

At the end of the reporting period, the Group has the following balances with related parties:

Lease liabilities due to Mr. Law and Ms. Cheng

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Lease liabilities due to Mr. Law and Ms. Cheng*	**1,031**	–

*: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise a right-of-use asset and the lease liabilities due to Mr. Law and Ms. Cheng of approximately HK$1,315,000 relating to lease which was previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

The lease liabilities due to Mr. Law and Ms. Cheng bear interest rate of 3.5% per annum and are repayable monthly by installments. The lease liabilities due to Mr. Law and Ms. Cheng are included in "Lease liabilities" (note 20).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019 HK$'000	2018 HK$'000
Non-current assets			
Interests in subsidiaries	13	110,995	115,787
Current assets			
Prepayments		556	302
Cash and cash equivalents		10	10
		566	312
Current liabilities			
Accrued expenses		1,974	410
Net current liabilities		(1,408)	(98)
NET ASSETS		109,587	115,689
CAPITAL AND RESERVES	22(a)		
Share capital		16,000	16,000
Reserves		93,587	99,689
TOTAL EQUITY		109,587	115,689

Approved and authorised for issue by the board of directors on 31 March 2020:

LAW Fu Keung
Director

CHENG Fung Yi
Director

28. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 Outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the world and have affected the business and economic activities to some extent. With the increasing market uncertainty regarding the impact of COVID-19 Outbreak, the Group will pay close attention to the development of the COVID-19 Outbreak and evaluate the impact on its future financial position and operating results. As at the date on which the consolidated financial statements were authorised for issue, the Group was not aware of any material adverse effects on the 2019 consolidated financial statements as a result of the COVID-19 Outbreak.

29. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

30. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate controlling party of the Company to be Miracle Investments Company Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

The directors regard ultimate controlling party of the Company to be Mr. Law.

31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years is as follows.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**553,357**	316.579	397,349	359,441	236,679
Gross profit	**13,718**	43,563	58,815	34,535	19,527
Profit before taxation	**9,568**	18,396	55,232	34,067	16,611
Profit and total comprehensive income for the year	**7,179**	12,236	45,611	28,467	14,211

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**268,025**	256,736	217,241	117,066	97,269
Total liabilities	**(83,436)**	(79,326)	(141,030)	(69,466)	(78,136)
Net assets	**184,589**	177,410	76,211	47,600	19,133

Note: The results for the years ended 31 December 2015, 2016 and 2017 have been prepared on a combined basis to indicate the results of the Group as if the Group structure had been in existence throughout the years presented. The figures for the years ended 31 December 2015, 2016 and 2017 have been extracted from the Prospectus.