



華營建築集團控股有限公司  
CR CONSTRUCTION GROUP HOLDINGS LIMITED

Stock Code: 1582

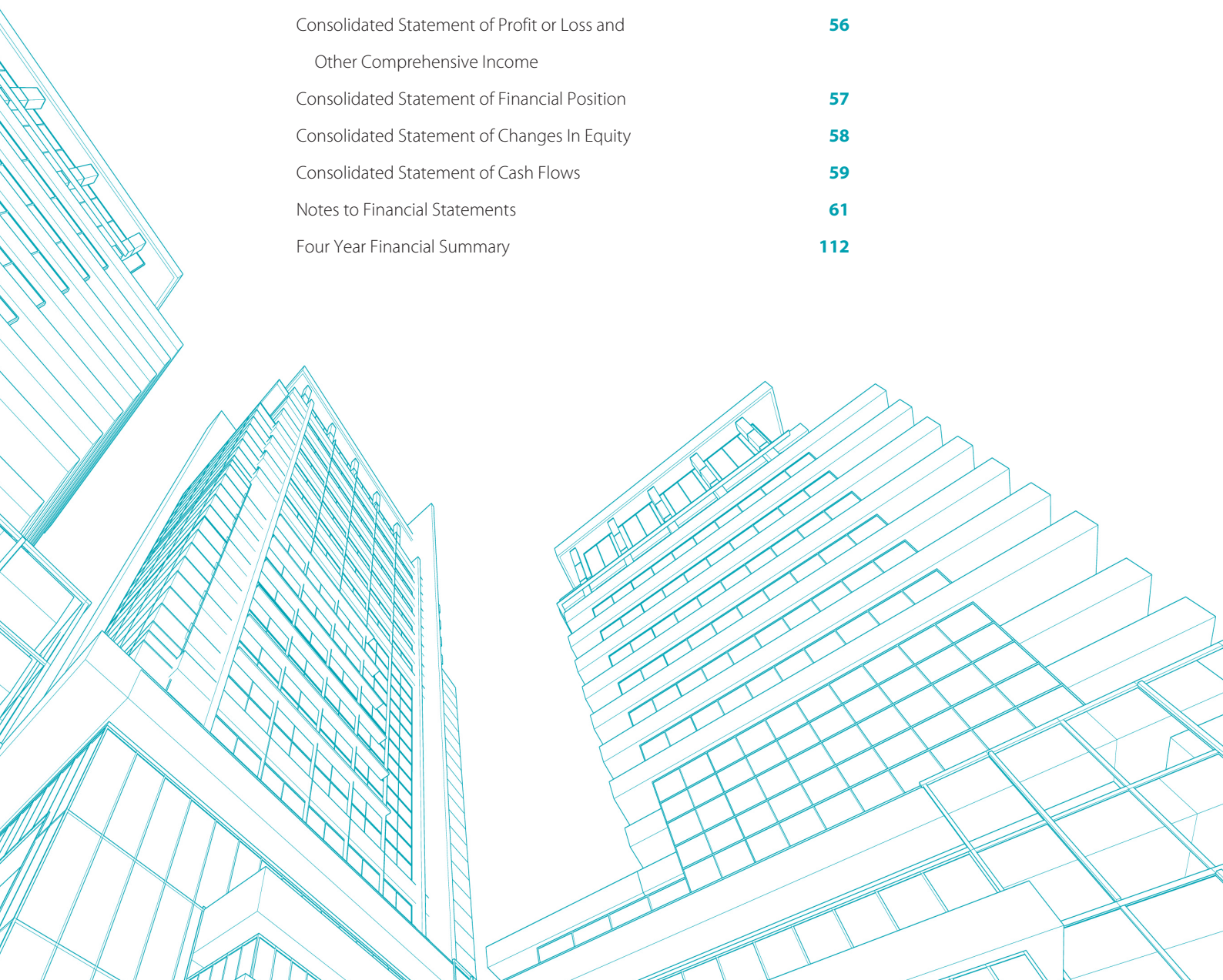
(Incorporated in the Cayman Islands with limited liability)





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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. GUAN Manyu (*Chairman*)  
Mr. LI Kar Yin (*Chief Executive Officer*<sup>1</sup>)  
Ms. CHU Ping  
Mr. LAW Ming Kin  
Mr. CHAN Tak Yiu

### Non-executive Director

Mr. YANG Haojiang

### Independent non-executive Directors

The Honourable TSE Wai Chun Paul JP  
Mr. LI Ka Fai David  
Mr. HO Man Yiu Ivan

## COMPANY SECRETARY

Ms. LEUNG Suet Lun

## AUTHORISED REPRESENTATIVES

Mr. LI Kar Yin  
Ms. LEUNG Suet Lun

## AUDIT COMMITTEE

Mr. LI Ka Fai David (*Chairman*)  
The Honourable TSE Wai Chun Paul JP  
Mr. HO Man Yiu Ivan

## REMUNERATION COMMITTEE

Mr. LI Ka Fai David (*Chairman*)  
Mr. LI Kar Yin  
The Honourable TSE Wai Chun Paul JP  
Mr. HO Man Yiu Ivan

## NOMINATION COMMITTEE

Mr. GUAN Manyu (*Chairman*)  
Mr. LI Kar Yin  
The Honourable TSE Wai Chun Paul JP  
Mr. LI Ka Fai David  
Mr. HO Man Yiu Ivan

## AUDITOR

### Ernst & Young

Certified Public Accountants  
22/F., CITIC Tower  
1 Tim Mei Avenue, Central  
Hong Kong

## COMPLIANCE ADVISER

### First Shanghai Capital Limited

19/F., Wing On House  
71 Des Voeux Road Central  
Hong Kong

## LEGAL ADVISER

### Li & Partners

22/F., World-Wide House  
Central  
Hong Kong

## PRINCIPAL BANKERS

### Hang Seng Bank Limited

83 Des Voeux Road Central  
Central  
Hong Kong

### Nanyang Commercial Bank Limited

151 Des Voeux Road Central  
Central  
Hong Kong

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 3–16, 32/F.  
Standard Chartered Tower  
Millennium City 1  
388 Kwun Tong Road  
Kwun Tong, Kowloon  
Hong Kong

<sup>1</sup> Mr. Li Kar Yin was appointed as the chief executive officer of the Company with effect from 1 April 2020.

# CORPORATE INFORMATION

## **REGISTERED OFFICE**

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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

Conyers Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman KY1-1111  
Cayman Islands

## **HONG KONG SHARE REGISTRAR**

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

## **STOCK CODE**

1582

## **COMPANY'S WEBSITE**

<https://www.cr-construction.com.hk/>

## **DATE OF LISTING**

16 October 2019



# CHAIRMAN'S STATEMENT

## Dear Shareholders,

On behalf of the board (the **"Board"**) of directors (the **"Directors"**) of CR Construction Group Holdings Limited (the **"Company"**) and together with its subsidiaries, the **"Group"**, I am pleased to present to the shareholders of the Company (the **"Shareholders"**) the first annual report of the Group for the year ended 31 December 2019 (the **"Reporting Period"**) following its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**) on 16 October 2019.

## Results

In 2019, the aggregate original contract sum of the newly awarded projects was approximately HK\$3.9 billion and the revenue was approximately HK\$4.8 billion. Excluding the listing expenses for the Reporting Period, the Group's adjusted net profit was approximately HK\$70.0 million and the adjusted net profit margin was approximately 1.4%, which showed that the overall development of the Group was stable and improving.

## Review

In 2019, the factors affecting Hong Kong's economy were complex, and competition in the industry became increasingly fierce. However, thanks to the support of various partners and the efforts of all employees, the Group still maintained a good development trend. On the one hand, the Group continued to improve the level of control on the basis of maintaining the stable operation of its core businesses. The Group actively participated in the bidding and won nine projects, and its main businesses developed steadily. In addition, it continued to adhere to the "people-oriented" management philosophy to strengthen the introduction and cultivation of talents. It also improved the management mode and methods of project management from top to bottom to strengthen management and control and improve efficiency. On the other hand, the Group also actively grasped the market dynamics, focused on its core businesses, looked at the overall situation, and explored more room for growth. We have been deeply cultivating a diversified development strategy and seeking new business field, expecting to change the status quo of building construction and RMAA, so as to improve the overall competitiveness of the Group, optimise the industrial structure, and seek horizontal expansion on the basis of vertical development to achieve the sustainable development of the Group.

## Prospects

Looking forward to 2020, we still face global economic and trade frictions, unstable political and economic policies in some regions, fierce competition in Hong Kong's construction industry and other adverse factors. However, we believe there will be opportunities in the challenges. The Group will give sustained impetus to the growth of the enterprise from three aspects. Firstly, strengthen its business foundation by improving brand building and enhancing projects on hand, so as to gain market recognition with the quality, safety, environmental protection and efficiency of projects, and create a good reputation for integrity and reliability. Secondly, continue to explore, in addition to existing business, the development of potential industry chain service. Seeking new breakthroughs to improve business structure, and also increase new business volume for the Group. Finally, continue to put great efforts on talent cultivation. The speciality and quality of employees will have an important impact on the development of enterprise. We respect and attach importance to the self-development of our employees and adhere to the principle of "strengthening the enterprise with talents", so as to realise the mutual growth of our employees and the Group.

There is a quote that says "Hoisting our sails to touch the cloud, we will cross the deep blue sea". The Group will be pioneering and enterprising, and move forward firmly towards the vision of "becoming a people-oriented company based in Hong Kong that promotes the development of construction industry".

# CHAIRMAN'S STATEMENT

## **Appreciation**

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation for the full support of all Shareholders, the wholehearted cooperation of business partners and the diligent work of the staff, we will commit and continue to do our best to achieve excellent results in the future.

### **Mr. Guan Manyu**

*Chairman and Executive Director*

Hong Kong,  
27 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

The shares of the Company (the “**Shares**”) were successfully listed on the Main Board of the Stock Exchange (the “**Listing**”) on 16 October 2019 (the “**Listing Date**”). The Group is one of the leading building contractors in Hong Kong and principally acts as a main contractor in building construction works and repair, maintenance, alteration and addition (“**RMAA**”) works across the public and private sectors in Hong Kong.

The building construction services provided by the Group primarily consist of building works for new buildings, including residential, commercial and industrial buildings, while the Group’s RMAA works include the general upkeep, maintenance, improvement, refurbishment, alteration and addition of existing facilities and components of buildings and their surroundings.

As at 31 December 2019, the Group had 19 projects on hand with an aggregate original contract sum of approximately HK\$13.8 billion (31 December 2018: approximately HK\$13.4 billion), which includes projects in progress and projects that have been awarded to the Group but not yet commenced.

During the Reporting Period, the Group had been awarded nine new projects with an aggregate original contract sum of approximately HK\$3.9 billion and had completed 10 projects with an aggregate original contract sum of approximately HK\$3.5 billion.

## The Prospects

In late 2019 and the first quarter of 2020, the Group successfully executed three letters of acceptance relating to two building construction contracts with an aggregate contract sums of approximately HK\$3.1 billion and a RMAA contract with contract sums of approximately HK\$594 million. Nevertheless, the Directors believe that the Group still faces fierce competition in tendering for building construction and RMAA contracts, and the Group will continue to strengthen its market position by implementing the business strategies as set out in the prospectus of the Company dated 27 September 2019 (the “**Prospectus**”), including but not limited to further expanding its building construction works and RMAA works business, strengthening the manpower, enhancing information technology and adhering to prudent financial management to ensure sustainable growth and capital sufficiency of the Group.

The outbreak of COVID-19 from early 2020 has created challenges to different industries of the society. The Group will closely monitor the development of the pandemic and is assessing the overall impact on the disruption to its business. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate over the impact on the Group’s business as at the date of this annual report.

Looking forward, while economic conditions are expected to remain challenging, in view of the government policy to increase residential housing supply, the Group remains optimistic in creating reasonable return for the Shareholders.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Principal Risks and Uncertainties

There are certain risks relating to the Group's operations which could harm the Group's business, financial conditions and operating results. Some of the relatively material risks relating to the Group are summarised as follows:

### Business risks

- (i) the Group's revenue is mainly derived from projects which are not recurrent in nature and we are subject to the risks associated with competitive tendering process. There is no guarantee on the Group's continuous success in project tenders or quotation and the Group's sustainability and financial performance may be materially and adversely affected;
- (ii) the Group operates under various registration, licenses and certifications and the loss of or failure to obtain or renew any or all of these registrations, licenses and/or certifications could materially and adversely affect the Group's business;
- (iii) the Group determined the tender price based on the estimate construction time and costs which may deviate from the actual implementation of a project due to cost overruns and/or other related construction risks; and
- (iv) failure to maintain safe construction sites and/or implement our safety management system may lead to the occurrence of personal injuries, property damages, fatal accidents or suspension of relevant licenses to operate.

### Industry and market risks

- (i) the construction industry is highly competitive. There are a significant number of industry players who provide similar services as ours; and
- (ii) all of the Group's revenue was derived from projects located in Hong Kong. If Hong Kong experiences any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on the construction industry in general, the Group's overall business and results of operations may be materially and adversely affected.

For other risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus.

## Operating Segment Information

During the Reporting Period, the Group has only one reportable operating segment, of which the Group engages in contract work as a main contractor or subcontractor, primarily in respect of building construction and RMAA works. Details of the segmental information of the Group is disclosed in Note 5 to the financial statements of this annual report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Revenue

The total revenue of the Group slightly increased by approximately HK\$20.0 million or approximately 0.4% from approximately HK\$4,813.9 million for the year ended 31 December 2018 to approximately HK\$4,833.9 million for the year ended 31 December 2019.

- **Building Construction Works**

The revenue generated from the building construction works decreased by approximately HK\$181.4 million or approximately 3.9% from approximately HK\$4,667.9 million for the year ended 31 December 2018 to approximately HK\$4,486.5 million for the year ended 31 December 2019. Such decrease was attributable to less work progress of four projects in 2019 which was partially offset by significant work progress of a sizeable project, which commenced in July 2018.

- **RMAA Works**

The revenue generated from the RMAA works increased by approximately HK\$201.4 million or approximately 137.9% from approximately HK\$146.0 million for the year ended 31 December 2018 to approximately HK\$347.4 million for the year ended 31 December 2019, which was mainly due to the increase in revenue generated from a sizable project during the year ended 31 December 2019.

### Contract Costs

The Group's contract costs primarily consisted of subcontracting costs, material costs, direct staff costs and site overheads. The contract costs of the Group decreased by approximately HK\$6.5 million or approximately 0.1% from approximately HK\$4,628.4 million for the year ended 31 December 2018 to approximately HK\$4,621.9 million for the year ended 31 December 2019. Such decrease was attributable to the decrease in material costs and direct staff costs which was partly offset by the increase in subcontracting costs and site overheads during the year ended 31 December 2019.

### Gross Profit and Gross Profit Margin

The gross profit of the Group increased from approximately HK\$185.5 million for the year ended 31 December 2018 to approximately HK\$212.0 million for the year ended 31 December 2019. The Group's gross profit margin was approximately 3.9% and 4.4% for the years ended 31 December 2018 and 2019, respectively. The gross profit margin of the Group increased by approximately 0.5 percentage point by comparing the year ended 31 December 2018 against the year ended 31 December 2019.

- **Building Construction Works**

The gross profit of building construction works was approximately HK\$204.4 million for the year ended 31 December 2019, representing an increase of approximately HK\$23.9 million from approximately HK\$180.5 million for the year ended 31 December 2018. The gross profit margin increased from approximately 3.9% for the year ended 31 December 2018 to approximately 4.6% for the year ended 31 December 2019. The increase in gross profit and gross profit margin for the year ended 31 December 2019 was mainly due to reduction in the number of loss making projects for the year ended 31 December 2019 whereas two projects recorded loss of approximately HK\$18.1 million in total for the year ended 31 December 2018.

- **RMAA Works**

The gross profit of RMAA works was approximately HK\$7.6 million for the year ended 31 December 2019, representing an increase of approximately HK\$2.6 million from approximately HK\$5.0 million for the year ended 31 December 2018. The gross profit margin decreased from approximately 3.4% for the year ended 31 December 2018 to approximately 2.2% for the year ended 31 December 2019 which was mainly due to additional cost incurred during the negotiation of the final account with a subcontractor for a term contract.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income

The other income of the Group increased by approximately HK\$0.7 million, from approximately HK\$1.8 million for the year ended 31 December 2018 to approximately HK\$2.5 million for the year ended 31 December 2019. The increase was attributable to the increase in rental income and one-off service fee for consultancy services provided in relation to construction, which was partly offset by the decrease in interest income during the year.

## Administrative Expenses

Administrative expenses of the Group increased from approximately HK\$101.4 million for the year ended 31 December 2018 to approximately HK\$115.5 million for the year ended December 2019. The increase was mainly due to the increase of staff cost and legal and professional fee.

## Other Operating Expenses, net

The other operating expenses of the Group increased by approximately HK\$3.3 million, from approximately HK\$0.1 million for the year ended 31 December 2018 to approximately HK\$3.4 million for the year ended 31 December 2019. The increase was primarily due to the increase in impairment on trade receivables and contract assets.

## Finance Costs

The finance costs of the Group increased from approximately HK\$3.2 million for the year ended 31 December 2018 to approximately HK\$12.3 million for the year ended 31 December 2019. The increase was mainly due to the increase in the interest expense on bank borrowings resulted from the increase in the average bank borrowings of the Group comparing with last year.

## Income Tax Expenses

The income tax expenses decreased by approximately HK\$0.4 million, or representing approximately 2.9%, from approximately HK\$13.6 million for the year ended 31 December 2018 to approximately HK\$13.2 million for the year ended 31 December 2019. The decrease was primarily attributable to a decrease in profit before tax excluding the non-deductible tax items. The effective tax rate was approximately 17.7% and 18.4% for the years ended 31 December 2018 and 2019, respectively. The increase of approximately 0.7 percentage point was mainly due to the increase in the non-deductible tax item of listing expenses.

## Net Profit and Adjusted Net Profit

The profit for the year of the Group decreased by approximately HK\$4.9 million, or approximately 7.7%, from approximately HK\$63.4 million for the year ended 31 December 2018 to approximately HK\$58.5 million for the year ended 31 December 2019. Excluding the listing expenses which amounted to approximately HK\$5.5 million and HK\$11.5 million for the years ended 31 December 2018 and 2019, respectively, the Group's adjusted net profit for the year ended 31 December 2019 was approximately HK\$70.0 million as compared to approximately HK\$68.9 million for the year ended 31 December 2018. The adjusted net profit margin for the years ended 31 December 2018 and 2019 were approximately 1.4% and 1.4%, respectively.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Employees and Remuneration Policies

The Group had a total of 655 (31 December 2018: 657) employees as at 31 December 2019. Total staff costs of the Group (excluding the Directors' remuneration) for the year ended 31 December 2019 was approximately HK\$345.4 million (31 December 2018: approximately HK\$336.6 million). The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees. The salary and benefit level of the employees of the Group are competitive and individual performance is rewarded through the Group's salary, bonus and other cash subsidies system. The Group conducts review on salary adjustment, discretionary bonuses and promotions based on the performance of each employee twice a year. The emoluments of the Directors and the senior management are decided by the Board after recommendation from the remuneration committee of the Company (the "**Remuneration Committee**"), having considered factors such as the Group's financial performance and the individual performance of the Directors, etc.

The Company provides introductory training at the time when members of our staff first join us and thereafter regular on-the-job training, depending on his or her role. In addition, it is our policy to provide training to our staff on an as-needed basis to enhance their technical and industry knowledge.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and eligible employees, details of the Share Option Scheme are set out on page 46 of this annual report. No share option has been granted, exercised, expired or lapsed under the Share Option Scheme since its adoption and up to the date of this annual report. During the year ended 31 December 2019, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

## Dividend

The Board recommended the payment of a final dividend of HK5 cents (2018: Nil) per ordinary share for the year ended 31 December 2019. The proposed dividend will be payable on or before Friday, 31 July 2020, subject to the approval of the Company's Shareholders at the forthcoming 2020 Annual General Meeting (the "**AGM**") of the Company to be held on Friday, 26 June 2020.

## Significant Investments, Material Acquisitions and Disposal of Subsidiaries and Associated Companies

The China State — CR Construction Joint Venture was dissolved on 14 June 2019. Further details are set out in Note 16 to the financial statements.

Save as disclosed above, during the year ended 31 December 2019, the Group did not have any significant investment held, any material acquisitions or disposals of subsidiaries, associated companies, or joint ventures.

## Capital Expenditure

During the year ended 31 December 2019, the Group invested approximately HK\$8.9 million on acquisition of property, plant and equipment. Capital expenditure was principally funded by internal resources and net proceeds from the Listing.

## Capital Commitments

The Group had no material capital commitments as at 31 December 2019 (31 December 2018: approximately HK\$744,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Contingent Liabilities

Details of the Group's contingent liabilities as at 31 December 2019 are set out in Note 28 to the financial statements of this annual report.

Save as disclosed in this annual report, the Group had no other contingent liabilities as at 31 December 2019.

## Foreign Exchange Exposure

The Group has a minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in Hong Kong dollar. As such, the Directors believe that the Group's risk in foreign exchange is insignificant, thus it is not necessary for the Group to arrange any foreign currency hedging policy currently. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

## Gearing Ratio

As at 31 December 2019, the gearing ratio of the Group, which is calculated by dividing net debt with the total capital plus net debt, was approximately 74.2% (31 December 2018: approximately 82.1%). Net debt includes trade and retention payables, other payables, accruals and provision, interest-bearing bank borrowings and lease liabilities less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company.

## Liquidity and Financial Resources and Capital Structure

During the year ended 31 December 2019, the Group maintained a healthy liquidity position, with working capital financed mainly by internal resources.

As at 31 December 2019, the Group reported net current assets of approximately HK\$501.4 million, as compared with approximately HK\$302.9 million as at 31 December 2018. As at 31 December 2019, the Group's pledged deposits and cash and cash equivalents in aggregate accounted for approximately HK\$177.1 million, representing an increase of approximately HK\$48.0 million as compared to approximately HK\$129.1 million as at 31 December 2018.

The Shares were successfully listed on the Stock Exchange on 16 October 2019. There has been no change in the capital structure of the Group since then.

## Debts and Charge on Assets

The Group had no bank borrowings as at 31 December 2019 (31 December 2018: approximately HK\$120.0 million). As at 31 December 2019, the banking facilities of the Group were secured by the Group's pledged bank deposits and the corporate guarantees executed by the Group.

Borrowings were denominated in Hong Kong dollar and interests on borrowings were mainly charged at floating rate. The Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the Reporting Period. However, the Group pays vigilant attention to and monitors interest rate risks continuously and cautiously.

## Treasury Policy

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Group's liquidity and financing requirements are frequently reviewed. The Board closely monitors the Group's liquidity position to ensure that the Group can meet its funding requirements for business development.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Use of Proceeds

The Shares were successfully listed on the Stock Exchange on 16 October 2019. The net proceeds, after deducting related underwriting commission and listing expenses, were approximately HK\$97.7 million. The net proceeds from the Listing Date to 31 December 2019 (the "Relevant Period") were utilised as follows:

	Planned use of proceeds in total HK\$'000	Planned use of proceeds from the Listing Date to 31 December 2019 HK\$'000	Actual use of proceeds from Listing date to 31 December 2019 HK\$'000	Remaining Balance HK\$'000
Financing the upfront costs of potential new projects	85,263	28,613	–	85,263
Strengthen manpower	7,814	2,053	692	7,122
Enhancing information technology system	4,590	1,281	896	3,694
	97,667	31,947	1,588	96,079

During the Relevant Period, the Group utilised approximately HK\$0.7 million for strengthening manpower, utilised approximately HK\$0.9 million for enhancing information technology system and did not utilise the proceeds for financing the upfront costs of potential new projects (the "Remaining Upfront Cost"). The delay in utilisation of the Remaining Upfront Cost was due to the recent market climate and the unsuccessful tender applications made in relation to potential new projects expected to commence in the last quarter of 2019, details of which are disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Directors at the time of preparing the Prospectus. However, the application of the proceeds were subject to certain factors including but not limited to the actual development of the Group's business, industry and market conditions. As such, the Group will continue to consider appropriate new tender opportunities from time to time as and when appropriate, and intend to apply the Remaining Upfront Cost for the financing of upfront costs of upcoming new residential projects actually awarded to the Group. As at 31 December 2019, the unused proceeds were deposited with the licensed banks in Hong Kong.

The Group will continue to apply the net proceeds in accordance with the intended purpose and proportion as set out in the Prospectus.

## Future Plans For Material Investments Or Capital Assets

Apart from strengthening the Group's current business and future as disclosed in the Prospectus, the Group may from time to time consider appropriate new business opportunities as and when appropriate, in order to enhance its Shareholders' value. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 31 December 2019.



# DIRECTORS AND SENIOR MANAGEMENT

## Directors

### Executive Directors

**Mr. GUAN Manyu (“Mr. Guan”)**, aged 42, is the chairman of our Board and an executive Director. He was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as an executive Director and the chairman of our Board on 5 September 2017. He is responsible for overall business development as well as financial and strategic planning of our Group. He is also chairman of the nomination committee.

Mr. Guan has approximately 20 years of experience in the construction industry. From August 1999 to August 2001, he worked for Zhejiang Construction Investment Group Co., Ltd. at which his last position was a foreman. In September 2001, he joined China Zhejiang Construction Group (H.K.) Limited as a project manager and was subsequently promoted to an assistant manager in March 2002, a deputy manager in March 2003 and a general manager in September 2007. Since April 2015, he has become the chairman of China Zhejiang Construction Group (H.K.) Limited. Mr. Guan joined our Group in January 2014 as a director of CR Construction Company Limited and has been concurrently serving as the chairman of CR Construction Company Limited since March 2015. He is a director of Mount Land Limited and CR Construction (Building) Company Limited. He is also the chairman and a director of China Zhejiang Construction Group (H.K.) Limited and a director of certain subsidiaries of Zhejiang Construction Investment Group Co., Ltd and China Zhejiang Construction Group (H.K.) Limited.

For Mr. Guan’s interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed “Report of the Directors” in this annual report.

Mr. Guan obtained a bachelor of civil engineering in construction engineering from Zhejiang University in the People’s Republic of China (the “PRC”) in June 1999 and a master of science in civil infrastructural engineering and management from The Hong Kong University of Science and Technology in November 2005.

Mr. Guan was admitted as a 1st class registered constructor (一級註冊建造師) in specialty of construction engineering in Ministry of Housing and Urban-Rural Development of the People’s Republic of China (中華人民共和國住房和城鄉建設部) (formerly known as Ministry of Construction of the People’s Republic of China (中華人民共和國建設部) in November 2007 and a senior engineer (高級工程師) in specialty of construction engineering in Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in December 2009.

**Mr. LI Kar Yin (“Mr. Li”)**, aged 61, is an executive Director and has been the chief executive officer of the Company since 1 April 2020. He was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as an executive Director on 5 September 2017. He is mainly responsible for overall management of our business operation. He is also member of the nomination committee and the remuneration committee.

Mr. Li has approximately 37 years of experience in the construction industry. From July 1982 to January 1988, he worked for Langdon Every and Seah, an international construction cost consultancy firm, as a quantity surveyor. In January 1988, he joined our Group as a quantity surveyor of CR Construction Company Limited and was subsequently promoted to a senior quantity surveyor in January 1989, an assistant contracts manager in November 1992 and a contracts manager in April 1995. He has become a director of CR Construction Company Limited since October 2001 and is currently serving as a managing director of CR Construction Company Limited. He is also a director of Mount Land Limited and CR Construction (Building) Company Limited.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. Li obtained a higher diploma in surveying and an advanced higher diploma in quantity surveying from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1981 and November 1982 respectively. He, through distance learning, obtained a diploma in surveying (quantity surveying) and a postgraduate diploma in arbitration from The College of Estate Management (currently known as The University College of Estate Management) in the United Kingdom in September 1996 and April 2000 respectively.

Mr. Li was admitted as a member of The Hong Kong Institute of Surveyors in June 1998 and a member of The Chartered Institute of Arbitrators in July 2000.

For Mr. Li's interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed "Report of the Directors" in this annual report.

**Ms. CHU Ping ("Ms. Chu")**, aged 53, is an executive Director. She was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as an executive Director on 5 September 2017. She is mainly responsible for overall management of our business operation.

Ms. Chu has approximately 18 years of experience in the construction industry. In August 2001, she joined China Zhejiang Construction Group (H.K.) Limited as an accounting clerk and was subsequently promoted to a finance and administration officer in January 2003, a deputy manager in January 2008 and has been serving as a director of China Zhejiang Construction Group (H.K.) Limited since January 2014. She joined our Group in January 2014 as a director of CR Construction Company Limited and is concurrently serving as a deputy managing director of CR Construction Company Limited. She is a director of Mount Land Limited and CR Construction (Building) Company Limited. She is also a director of certain subsidiaries of Zhejiang Construction Investment Group Co, Ltd. and China Zhejiang Construction Group (H.K.) Limited.

Ms. Chu, through distance learning, obtained a bachelor of laws from Jinan University in the PRC in January 2007.

For Ms. Chu's interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed "Report of the Directors" in this annual report.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. LAW Ming Kin (“Mr. Law”)**, aged 64, is an executive Director. He was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as an executive Director on 5 September 2017. He is mainly responsible for overall management of our business operation.

Mr. Law has approximately 40 years of experience in the construction industry. From 1979 to June 1987, he worked for Shui On Construction Company Limited, a wholly-owned subsidiary of SOCAM Development Limited (stock code: 983), at which his last position was an assistant project manager. He joined our Group and worked for CR Construction Company Limited as a site agent from July 1987 to February 1989. From February 1989 to September 1995, he worked for subsidiaries of Tak Wing Group at which his last position was an acting general manager. From January 1996 to January 2006, he worked for Chun Wo Construction and Engineering Company Limited, a wholly-owned subsidiary of Asia Allied Infrastructure Holdings Limited (stock code: 711), as a senior project manager. From March 2006 to January 2009, he worked for Paul Y. Construction Ltd. at which his last position was a contracts manager. In January 2009, he joined our Group again as a project operation director of CR Construction Company Limited and was subsequently promoted to an assistant general manager in February 2015. Since July 2016, he has become a director of CR Construction Company Limited.

Mr. Law obtained a bachelor of science in civil engineering from The University of Calgary in Canada in June 1979.

For Mr. Law’s interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed “Report of the Directors” in this annual report.

**Mr. CHAN Tak Yiu (“Mr. Chan”)**, aged 48, is an executive Director. He was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as an executive Director on 5 September 2017. He is mainly responsible for overall management of our business operation.

Mr. Chan has approximately 27 years of experience in the construction industry. From July 1992 to October 1993 and August 1994 to March 1999, he worked for Crownity Engineering Limited and its subsidiaries (namely Best Build Construction Co., Ltd. and Besco Engineering Ltd.) at which his last position was a construction manager. From March 1999 to January 2002, he worked for Square Construction Company Limited as a project manager. From January 2002 to May 2009, he worked for Chun Wo Construction and Engineering Company Limited, a wholly-owned subsidiary of Asia Allied Infrastructure Holdings Limited (stock code: 711), at which his last position was a deputy operation manager. In May 2009, he joined our Group and worked as a senior project manager of CR Construction Company Limited and was subsequently promoted to a project operation director and head of technical department concurrently in January 2012, an assistant general manager in February 2015. Since July 2016, he has been a director of CR Construction Company Limited. He is also a director of CR Construction (Building) Company Limited.

Mr. Chan obtained a bachelor of science in construction management from South Bank University, London in the United Kingdom in July 1994 and a master of science in construction management from City University of Hong Kong in November 2000.

Mr. Chan was admitted as a member of The Australian Institute of Building in May 2005 and a member of The Chartered Institute of Building in January 2006. Mr. Chan was admitted as a fellow of the Hong Kong Institute of Construction Managers in April 2015.

For Mr. Chan’s interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed “Report of the Directors” in this annual report.



# DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Director

**Mr. YANG Haojiang (“Mr. Yang”)**, aged 37, is a non-executive Director. He was appointed as a director of our Company on 20 July 2017, and was further appointed and designated as a non-executive Director on 5 September 2017. He is mainly responsible for providing strategic advice to our Group.

Mr. Yang has more than nine years of experience in the construction industry. In April 2010, he worked for Zhejiang Construction Investment Group Co., Ltd. as a research officer and was subsequently promoted to a senior project manager in January 2012 and an assistant manager in November 2014. Since September 2016, he has been serving as a deputy general manager in China Zhejiang Construction Group (H.K.) Limited.

Mr. Yang obtained a bachelor of information management and information system (信息管理與信息系統) from Zhejiang Gongshang University in the PRC in July 2005 and a master of business administration from University of Bridgeport in the United States in December 2007.

For Mr. Yang’s interest in the Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), please refer to the section headed “Report of the Directors” in this annual report.

## Independent non-executive Directors

**The Honourable TSE Wai Chun Paul JP (“Mr. Tse”)**, aged 61, was appointed as our independent non-executive Director on 17 September 2019. He is a member of each of the audit committee, the nomination committee and the remuneration committee. He is responsible for providing independent judgement on our strategy, performance, resources and standard of conduct.

Mr. Tse has more than 33 years of experience in the legal field. He has worked as a barrister from October 1985 to July 1992 and as a solicitor from July 1992 to the present. From July 1992 to June 1993, he worked for Livasiri & Co. as an assistant solicitor. From July 1993 to January 1995, he worked for Terry Yeung & Lai, Solicitors as a consultant. From February 1995 to mid 1997, he worked for Wilfred K. H. Lam & Co. as a consultant. He founded Paul W. Tse, a solicitors firm in Hong Kong, in October 1997 and is currently a partner of Paul W. Tse.

Mr. Tse obtained a bachelor of commerce and a bachelor of laws from the University of New South Wales in Australia in April 1984 and in May 1984, respectively. He obtained a master of laws in Chinese and comparative law from the City University of Hong Kong in November 1999 and a postgraduate certificate in laws from the University of Hong Kong in September 1985.

Mr. Tse was called to the bar of New South Wales in July 1984. He was admitted as an advocate and solicitor in Singapore in February 1995. He was called to the bar in Hong Kong in October 1985. In September 1992, he was admitted as a solicitor in Hong Kong. He was also admitted as an associate member of The Australian Society of Certified Practising Accountants in March 1984 and a member of The Chartered Institute of Arbitrators in December 1999.

Mr. Tse was appointed as a Justice of the Peace by the Government in July 2011 and is currently a member of the Legislative Council of Hong Kong and a district councilor of the Wan Chai District Council.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Li Ka Fai David (“Mr. Li KF”)**, aged 65, joined the Company as an independent non-executive Director on 17 September 2019. He is chairman of the audit committee, member of the nomination committee and chairman of the remuneration committee. Mr. Li KF is the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising) till 31 December 2019 and thereafter, he is the senior advisor of SHINEWING (HK) CPA Limited. He is a fellow member of the Association of Chartered Certified Accountants, U.K.

Mr. Li KF is an independent non-executive director and chairman of the audit committee of Shanghai Industrial Urban Development Group Limited (stock code: 563) and Wai Yuen Tong Medicine Holdings Limited (stock code: 897). Mr. Li KF is also an independent non-executive director, chairman of the audit committee, member of the nomination committee and member of the remuneration committee of China-Hongkong Photo Products Holdings Limited (stock code: 1123), Cosmopolitan International Holdings Limited (stock code: 120), Goldlion Holdings Limited (stock code: 533), an independent non-executive director, member of the audit committee, member of the nomination committee and chairman of the remuneration committee of China Merchants Port Holdings Company Limited (stock code: 144), and an independent non-executive director, member of the audit committee and member of the remuneration committee of AVIC International Holding (HK) Limited (stock code: 232), all of such companies are being listed in Hong Kong.

**Mr. HO Man Yiu Ivan (“Mr. Ho”)**, aged 62, was appointed as our independent non-executive Director on 17 September 2019. He is a member of each of the audit committee, the nomination committee and the remuneration committee. He is responsible for providing independent judgement on our strategy, performance, resources and standard of conduct.

Mr. Ho has approximately 36 years of experience in the construction industry. From 1983 to 1986, he worked for the Housing Department of HKSAR Government as a graduate architect and later as an architect. From 1986 to 1987, he worked for Kumagai Design Ltd. Architects, Planners & Engineers as a project architect. From 1987 to 1989, he worked for Kumagai Gumi (HK) Ltd. at which his last position was a deputy project manager for the Bank of China Tower project. In September 1988, he served as a co-founder of Ivanho Architect Limited and, since then, has been serving as a director.

Mr. Ho obtained a bachelor of arts in architectural studies and a bachelor of architecture from the University of Hong Kong in November 1981 and November 1983 respectively. He was a vice president of Hong Kong Institute of Architects from 2017 to 2018 and a vice president (local affairs) of Hong Kong Institute of Urban Design from 2014 to 2018. He is currently a director of Hong Kong Green Building Council, chairman of the Governance and Quality Control Committee of Hong Kong Green Building Council, member of Harbourfront Commission (HC) and chairman of the Hong Kong Task Force of Harbourfront Commission.

# DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

**Mr. LEE Yiu Pun (“Mr. Lee”)**, aged 52, is our project operation director. Mr. Lee joined our Group in August 2016. He is mainly responsible for projects operation and implementation of quality management.

Mr. Lee has approximately 27 years of experience in the construction industry. From July 1992 to September 1994, he worked for Sun Foo Kee Limited as an assistant quality manager. From September 1994 to January 2010, he worked for China Civil Engineering Construction Corporation at which his last position was an assistant general manager. From February 2010 to November 2011, he worked for International Group as a project manager. From December 2011 to November 2012, he worked for Hsin Chong Construction Company Limited, a wholly-owned subsidiary of Hsin Chong Group Holdings Limited (stock code: 404), at which his last position was a project manager. From November 2012 to September 2013, he worked for Chevalier Construction Company Limited, a subsidiary owned as to 99.67% by Chevalier International Holdings Limited (stock code: 25), as a senior project manager. From September 2013 to August 2016, he worked for Wecon Limited as a general manager. Since August 2016, he joined our Group and has been serving as a project operation director of CR Construction Company Limited.

Mr. Lee obtained a bachelor of science in building from City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in November 1992 and a master of science in construction management from City University of Hong Kong in November 1998. Mr. Lee was admitted as a member of The Chartered Institute of Building in July 2003.

**Mr. LAU Tat Shing Thomas (“Mr. Lau”)**, aged 45, is our project operation director. Mr. Lau joined our Group in July 2017. He is mainly responsible for projects operation and implementation of quality management.

Mr. Lau has approximately 22 years of experience in the construction industry. From July 1997 to January 1998, he worked for Driltech Ground Engineering Limited as an assistant engineer. From May 1998 to January 1999, he worked for Hui Hon Contractors Limited as an engineer. From January 1999 to April 2005, he worked for China Civil Engineering Construction Corporation at which his last position was a site engineer. From April 2005 to June 2017, he worked for China Zhejiang Construction Group (H.K.) Limited at which his last position was a project operation director. Since July 2017, he joined our Group and has been serving as a project operation director of CR Construction Company Limited.

Mr. Lau obtained a higher diploma in civil engineering from Hong Kong Technical Colleges (currently known as the Hong Kong Institute of Vocational Education, a member of Vocational Training Council) in June 1997, a higher diploma in engineering management from the Hong Kong Institute of Vocational Education in July 2003, a diploma in occupational health and safety from Li Ka Shing Institute of Professional and Continuing Education of The Open University of Hong Kong in May 2005, and a bachelor of engineering in civil engineering from Chu Hai College of Higher Education in Hong Kong in July 2008.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Li Kwok Woon Ricky (“Mr. Li KW”)**, aged 44, is our technical director. Mr. Li KW joined our Group in July 2017. He is mainly responsible for supervising and providing technical support to our Group’s operation.

Mr. Li KW has approximately 22 years of experience in the construction industry. From June 1997 to April 1999, he worked for Cheung Wing & Associates as an assistant site engineer. From April 1999 to February 2002, he worked for PYPUN Engineering Consultants Ltd. at which his last position was a structural engineer. From March 2002 to July 2003, he worked for China Civil Engineering Corporation Limited as a structural engineer. From July 2003 to June 2004, he worked for Hsin Chong Construction (Macau) Ltd., a wholly-owned subsidiary of Hsin Chong Group Holdings Limited (stock code: 404), as a structural engineer. From June 2004 to April 2006, he worked for China Civil Engineering Construction Limited again as a site agent. From May 2006 to May 2014, he worked for Meinhardt (C&S) Ltd. at which his last position was a technical director. From June 2014 to June 2017, he worked for China Zhejiang Construction Group (H.K.) Limited as a technical director. Since July 2017, he joined our Group and has been serving as a technical director of CR Construction Company Limited.

Mr. Li KW obtained a bachelor of engineering in civil and structural engineering from The Hong Kong University of Science and Technology in November 1997. He was admitted as a member of the Institution of Structural Engineers in November 2001, a member of the Hong Kong Institution of Engineers in March 2002 and a registered structural engineer under Buildings Ordinance Section 3 in Hong Kong in June 2014.

**Mr. LOK Yu Cheong (“Mr. Lok”)**, aged 59, is our financial controller. Mr. Lok joined our Group in August 1991. He is mainly responsible for overseeing our financial reporting, financial planning, treasury and financial control.

Mr. Lok has approximately 35 years of experience in the accounting industry. From October 1983 to November 1986, he worked for Li, Tang, Chen & Co. Certified Public Accountants at which his last position was a group leader of an audit team. From April 1987 to August 1988, he worked for Ericsson Communications (HK) Ltd. as an accountant. From August 1988 to April 1991, he worked for Eton Management Limited at which his last position was an accountant. In August 1991, he joined our Group as a chief accountant of CR Construction Company Limited and was subsequently promoted to an assistant finance manager in September 1995, a finance manager in September 1998. Since April 2009, he has been a financial controller of CR Construction Company Limited. He is also a director of Mount Land Limited and CR Construction (Building) Company Limited.

Mr. Lok obtained a senior diploma in accounting and an honours diploma in accounting from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in November 1982 and December 1984, respectively. He obtained an endorsement certificate in accountancy from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1989. He obtained a bachelor of business administration in accounting and a master of business administration from Hong Kong Baptist University in December 1994 and December 1997, respectively.



# CORPORATE GOVERNANCE REPORT

The Board of Directors is pleased to present the corporate governance report of the Company for the year ended 31 December 2019 and up to the date of this annual report.

## Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) as its own code of corporate governance since the Listing Date. The Company has complied with all applicable code provisions of the CG Code during the Relevant Period and up to the date of this annual report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

## The Board Responsibilities

The Board is responsible for the overall leadership of the Company, oversees the Company’s strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the senior management of the Company. To oversee particular aspects of the Company’s affairs, the Board has established three Board committees including the audit committee (the “**Audit Committee**”), the Remuneration Committee and the nomination committee (the “**Nomination Committee**”) of the Company (together, the “**Board Committees**”). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the directors. The insurance coverage will be reviewed on an annual basis.

## Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated, and should not be performed by the same individual.

During the period from the Listing Date and up to the date of the annual report, the chairman of the Board is Mr. Guan Manyu.

Mr. Li Kar Yin, an executive Director, was appointed as chief executive officer of the Company on 1 April 2020. Following his appointment, the roles of the chairman and the chief executive officer remains separated with a clear division of responsibilities performed by different individuals to maintain their independence, accountability, well-balanced power and authority.

# CORPORATE GOVERNANCE REPORT

## **Board Composition**

As at the date of this annual report, the Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors as follows:

### **Executive Directors:**

Mr. GUAN Manyu (*Chairman*)

Mr. LI Kar Yin<sup>1</sup>

Ms. CHU Ping

Mr. LAW Ming Kin

Mr. CHAN Tak Yiu

### **Non-executive Director:**

Mr. YANG Haojiang

### **Independent Non-executive Directors:**

The Honourable TSE Wai Chun Paul JP

Mr. LI Ka Fai David

Mr. HO Man Yiu Ivan

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

For the period from the Listing Date and up to the date of this annual report, the Board has met at all times the requirements under rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

For the period from the Listing Date and up to the date of this annual report, the Company has also complied with rule 3.10A of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board.

None of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

<sup>1</sup> Mr. Li Kar Yin was appointed as the chief executive officer of the Company with effect from 1 April 2020.

# CORPORATE GOVERNANCE REPORT

## Board diversity policy

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and to enhance the quality of performance.

The Company recognises and embraces the benefit of having a diverse Board to enhance the quality of the Board's performance. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria.

Selection and recommendation of candidates will be based on the nomination procedures and the process and criteria adopted by the Nomination Committee and a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services, personal integrity and time commitments of the proposed candidates. The Company will take into account factors relating to the Company's own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has been delegated with the overall responsibility for implementation, monitoring and periodic review of our board diversity policy. Any revisions to the policy as recommended by the Nomination Committee will be submitted to the Board for consideration and approval.

## Measurable objectives of the Board diversity policy and the progress on achieving the objectives

### *The measurable objectives*

- Objective 1: Considering candidates for appointment as Directors from a wide pool of talents taking into account the culture and educational background, expertise and professional experience, skills, experience, knowledge, perspectives and other contributions that would complement the current needs of the Board.
- Objective 2: Reviewing annually whether the composition and structure of the Board is suitable for the overall development strategy of the Group based on its business operation and the developmental need to propose adjustment and implementation plans.

### *Progress on achieving the objectives*

- Objective 1: Selection and appointment of the Directors of the Company should be in compliance with the requirements of the Board diversity policy and in line with the overall development strategy of the Group. From the Listing Date, the Nomination Committee will identify the candidates for directorships and recommend to the Board according to the Board diversity policy of the Company for any replacement of Director or an addition to the Board. The Board would also appoint suitable candidates for directorship based on the overall development of the Group and the Board diversity policy of the Company.
- Objective 2: The current arrangement and structure of the Board of the Company is appropriate for the development need of the existing business operation of the Group and is conducive for providing the Company with extensive valuable advice and supervision on decision-making. The Company will continually assess the diversity of the Board and objectively consider the composition and effectiveness of the Board for the 2020 financial year.

# CORPORATE GOVERNANCE REPORT

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Company has received written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of them to be independent parties.

## Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

According to the information provided by the Directors, a summary of training received by the Directors for the Relevant Period is as follows:

Name of Directors	Nature of Continuous Professional Development Programs
<i>Executive Directors</i>	
Mr. GUAN Manyu	A, B, C
Mr. LI Kar Yin	B, C
Ms. CHU Ping	B, C
Mr. LAW Ming Kin	B, C
Mr. CHAN Tak Yiu	A, B, C
<i>Non-executive Director</i>	
Mr. YANG Haojiang	B, C
<i>Independent Non-executive Directors</i>	
The Honourable TSE Wai Chun Paul JP	A, C
Mr. LI Ka Fai David	A, C
Mr. HO Man Yiu Ivan	A, C

### Notes:

- A: Attending seminars and/or meetings and/or forums and/or briefings
- B: Attending training relevant to the Company's business conducted by lawyers
- C: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

# CORPORATE GOVERNANCE REPORT

## Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company. Pursuant to the agreement, they agreed to act as executive Directors for an initial term of three years with effect from the Listing Date.

The non-executive Director has entered into an appointment letter with the Company for an initial term of three years with effect from the Listing Date.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from the Listing Date.

All the Directors and the Company are required to give three months' notice in writing to the other party for termination of the service agreement/appointment letter. All the Directors are appointed for a specific term and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the amended and restated memorandum of association of the Company (the "**Articles of Association**").

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

In accordance with article 83(2) of the Articles of Association, subject to the articles and the law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

In accordance with article 83(3) of the Articles of Association, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with article 83(7) of the Articles of Association, the Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two.



# CORPORATE GOVERNANCE REPORT

## Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

As the Shares were listed on 16 October 2019, the Board did not have many matters to discuss during the Relevant Period covering less than three months, and no Board meeting and no general meeting of the Company was held during the Relevant Period. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

Subsequent to the year ended 31 December 2019 and up to the date of this annual report, the Board held one Board meeting. The attendance record of each Director is set out below:

Directors	Attended/ Eligible to attend
<i>Executive Directors</i>	
Mr. GUAN Manyu ( <i>Chairman</i> )	1/1
Mr. LI Kar Yin ( <i>Chief Executive Officer with effect from 1 April 2020</i> )	1/1
Ms. CHU Ping	1/1
Mr. LAW Ming Kin	1/1
Mr. CHAN Tak Yiu	1/1
<i>Non-executive Director</i>	
Mr. YANG Haojiang	1/1
<i>Independent Non-executive Directors</i>	
The Honourable TSE Wai Chun Paul JP	1/1
Mr. LI Ka Fai David	1/1
Mr. HO Man Yiu Ivan	1/1

Pursuant to code provision A.2.7 of the CG Code, the chairman should hold meetings with independent non-executive Directors without the presence of other Directors at least annually. The Company held one meeting on 27 March 2020 in accordance with the CG Code.

# CORPORATE GOVERNANCE REPORT

## **Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”)**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Relevant Period.

For the period from the Listing Date to the date of this annual report, the Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company’s securities.

## **Delegation by the Board**

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company’s expense and are encouraged to access and to consult with the Company’s senior management independently.

The daily management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

## **Corporate Governance Function**

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

- (a) to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;
- (d) to develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;
- (e) to review the Company’s compliance with the CG Code and disclosure in the corporate governance report; and
- (f) to review and monitor the Company’s compliance with the Company’s whistleblowing policy.

During the Reporting Period, the Board approved the terms of reference of the Nomination Committee, the Audit Committee, the Remuneration Committee, the Board diversity policy, the dividend policy, the nomination policy and the shareholders communication policy of the Company.

# CORPORATE GOVERNANCE REPORT

## Board Committees

### Audit Committee

The Audit Committee comprises three members, namely Mr. Li Ka Fai David (Chairman), The Honourable Tse Wai Chun Paul JP and Mr. Ho Man Yiu Ivan, all of them are independent non-executive Directors.

The principal duties of the Audit Committee include the following:

1. Being primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and considering any questions of its resignation or dismissal;
2. Monitoring integrity of the Group's financial statements, annual reports and accounts, half year reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;
3. Reviewing the Group's financial controls, risk management and internal control systems; and
4. Discussing the risk management and internal control systems with management of the Group to ensure that the management of the Group has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function and to rectify any weaknesses that may be revealed from time to time.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

Code provision C3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Company's Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the code provision C3.3(e)(i) of the CG Code during the Relevant Period.

The Audit Committee had the meeting with the Company's Auditor on 5 December 2019 during the Relevant Period covering the engagement with external auditor, and the nature and scope of the audit and reporting obligations before the annual audit commences. The Audit Committee will fully comply with its terms of reference.

Subsequent to the year ended 31 December 2019 and up to the date of this annual report, one meeting of the Audit Committee was held to discuss and consider the following matters:

- reviewed annual results of the Company and its subsidiaries for the year ended 31 December 2019 as well as the audit report prepared by the Company's Auditor relating to accounting issues and major findings in course of audit;
- reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes; and
- discussed the re-appointment arrangement of the Company's Auditor and the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of the Company's Auditor.

# CORPORATE GOVERNANCE REPORT

Attendance of each Audit Committee member from the Listing Date to date of this annual report is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. LI Ka Fai David ( <i>Chairman</i> )	2/2
The Honourable TSE Wai Chun Paul JP	2/2
Mr. HO Man Yiu Ivan	2/2

## Nomination Committee

The Nomination Committee comprises five members, including two executive Directors namely Mr. Guan Manyu (Chairman) and Mr. Li Kar Yin, and three independent non-executive Directors namely The Honourable Tse Wai Chun Paul JP, Mr. Li Ka Fai David and Mr. Ho Man Yiu Ivan.

The principal duties of the Nomination Committee include the following:

1. Reviewing the structure, size, composition (including the skills, knowledge and experience) and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy;
2. Making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Group;
3. Identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorship; and
4. Assessing the independence of the independent non-executive Directors of the Company and reviewing the independent non-executive Directors' annual confirmations on their independence; and make disclosure of its review results in the corporate governance report of the Company.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Shares were listed on the Stock Exchange on 16 October 2019, the Nomination Committee did not have any matters that need to be discussed during the Relevant Period covering less than three months, therefore, the Nomination Committee did not hold any meetings during the Relevant Period. The Nomination Committee will fully comply with its terms of reference.

# CORPORATE GOVERNANCE REPORT

Subsequent to the year ended 31 December 2019 and up to the date of this annual report, the Nomination Committee held one meeting. The individual attendance record of each member at the Nomination Committee meeting is set out below:

Directors	Attended/ Eligible to attend
Mr. GUAN Manyu ( <i>Chairman</i> )	1/1
Mr. LI Kar Yin	1/1
The Honourable TSE Wai Chun Paul JP	1/1
Mr. LI Ka Fai David	1/1
Mr. HO Man Yiu Ivan	1/1

The following is a summary of the work performed by the Nomination Committee since the Listing Date and up to the date of this annual report:

- reviewed size, structure and composition of the Board and made recommendations to the Board on re-election of Directors;
- reviewed the Board diversity policy;
- reviewed the independence of the independent non-executive Directors; and
- discussed and reviewed the nomination policy.

## Policy on Directors Nomination

The Group adopted a nomination policy (the "**Nomination Policy**") on 17 September 2019. A summary of this policy is disclosed as below:

### Objectives

The Nomination Committee assists the Board in making recommendations to the Board on the appointment of Directors and succession planning for Directors. This Policy provides the key selection criteria and principles of the Nomination Committee in making any such recommendations.

### Selection Criteria

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

- (1) Character and integrity;
- (2) Qualifications including professional qualifications, skills knowledge and experience that are relevant to the Company's business and corporate strategy;
- (3) Willingness to devote adequate time to discharge duties as a Board member;



# CORPORATE GOVERNANCE REPORT

- (4) The number of existing directorships and other commitments that may demand the attention of the candidate;
- (5) Requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and whether the candidates would be consider independent with reference to the independence guidelines set out in the Listing Rules;
- (6) Board diversity policy of the Company and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and
- (7) Such other perspectives appropriate to the Company's business.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Articles of Association and other applicable rules and regulations.

## **Nomination Procedures**

In general, the Board shall have the ultimate responsibility for all matters relating to the selection, appointment and re-appointment of Directors. The process to identify potential candidates for the Board would be generally as follows:

- (1) the Nomination Committee and/or Board identifies potential candidates based on the selection criteria, possibly with assistance from external agencies and/or advisors;
- (2) the Nomination Committee and/or the company secretary of the Company provides the Board with the biographical details and details of the relationship between the candidate and the Company and/or Directors, directorships held, skills, and experience other positions which involve significant time commitment and any other particulars required by the Listing rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;
- (3) the Nomination Committee would make recommendations on the proposed candidate(s) and the terms and conditions of the appointment to the Board;
- (4) the Nomination Committee should ensure the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;
- (5) In the case of the appointment of an independent non-executive Director, the Nomination Committee and/or the Board obtains all information in relation proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and
- (6) The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

For retiring Directors subject to re-election, the Nomination Committee will review the overall contribution and service to the Company of the retiring Director including his/her attendance of Board meetings and, where applicable , general meetings of the Company, the level of participation and performance on the Board. The Nomination Committee will also review and determine whether the Director continues to meet the selection criteria and make recommendations to Shareholders of the Company in respect of the proposed re-election of Director at the general meeting of the Company.

The Nomination Policy will be reviewed on a regular basis.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Remuneration Committee comprises four members, including three independent non-executive Directors namely Mr. Li Ka Fai David (Chairman), The Honourable Tse Wai Chun Paul JP and Mr. Ho Man Yiu Ivan, and one executive Director namely Mr. Li Kar Yin.

The principal duties of the Remuneration Committee include the following:

1. Making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. Making recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Group, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee shall consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group; and
3. Making recommendations to the Board on the remuneration of non-executive Directors.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

As the Shares were listed on the Stock Exchange on 16 October 2019, the Remuneration Committee did not have any matters that need to be discussed during the Relevant Period covering less than three months and, therefore, it did not hold any meeting during the Relevant Period. The Remuneration Committee will fully comply with its terms of reference.

Subsequent to the year ended 31 December 2019 and up to the date of this annual report, the Remuneration Committee held one meeting. The individual attendance record of each member at the Remuneration Committee meeting is set out below:

Directors	Attended/ Eligible to attend
Mr. LI Ka Fai David ( <i>Chairman</i> )	1/1
Mr. LI Kar Yin	1/1
The Honourable TSE Wai Chun Paul JP	1/1
Mr. HO Man Yiu Ivan	1/1

The following is a summary of the work performed by the Remuneration Committee since the Listing Date and up to the date of this annual report:

- reviewed the remuneration of Directors and senior management; and
- made recommendations to the Board on the remuneration packages of individual Directors and senior management.

# CORPORATE GOVERNANCE REPORT

## Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 13 to 19 of this annual report, for the year ended 31 December 2019, are set out below:

Remuneration band (HK\$)	Number of individuals
HK\$0 to 1,000,000	6
HK\$1,000,001 to 2,000,000	4
HK\$2,000,001 to 3,000,000	2
HK\$3,000,001 to 4,000,000	1

## Directors' Responsibilities for Financial Reporting In Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements from the Listing Date to 31 December 2019 which give a true and fair view of the affairs of the Group's and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 50 to 55 of this annual report.

## Risk Management and Internal Control

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Group's assets and its Shareholders' interests and reviewing their effectiveness on an annual basis so as to ensure that internal control and risk management systems in place are adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, acting on behalf of the Board, reviews the effectiveness of the Group's risk management and internal control systems on an on-going basis and reports to the Board on, at least, an annual basis. The management is responsible for designing, implementing and monitoring of the Group's risk management framework and internal control system. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis.

# CORPORATE GOVERNANCE REPORT

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Group from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis so as to identify, evaluate and manage significant risks in a timely manner.

In addition, the Company has engaged an independent internal control adviser to carry out a review on the internal control system and risk management system of the Group. The review involves all material monitoring aspects, including but not limited to finance, operation, compliance and risk management. The adviser has conducted analysis and independent assessment on the adequacy and the effectiveness of the internal control system and risk management of the Group, and has submitted the findings and recommendations to the Audit Committee and the Board.

The Group is aware of its obligation under the Securities and Futures Ordinance (the "**SFO**"), the Listing Rules and the overriding principle that inside information should be announced on a timely manner and conducts its affairs in strict compliance with the applicable laws and regulations prevailing in Hong Kong. The Group has established disclosure mechanism regarding the procedures of identifying inside information and preserving its confidentiality until proper dissemination with the Board's approval through the electronic publication systems operated by the Stock Exchange and the Company. Unauthorised access and use of inside information are strictly prohibited. Any potential inside information identified by senior management will be assessed, and where appropriate, will be escalated for the attention of the Board to resolve on further actions. The Board assesses the likely impact of any unexpected and significant event and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Board has reviewed the effectiveness of the internal control and risk management systems of the Group for the Relevant Period and up to the date of this annual report, to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions are adequate. The review was conducted through discussions with the management of the Group, its external and internal auditors and the assessment performed by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance as well as for resolving internal control defects (if any).

## Dividend Policy

The Group adopted a dividend policy (the "**Dividend Policy**") on 17 September 2019. A summary of this policy is disclosed as below.

The Group is committed to maintaining sufficient resources and flexibility to meet the Group's financial and operational requirements. At the same time, the Company continually seeks ways to enhance Shareholders' value to ensure sustainable long-term yields for Shareholders.

# CORPORATE GOVERNANCE REPORT

Under the Dividend Policy, the declaration and payment of dividends shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Group's financial results, future prospects and other factors, and subject to:

- (1) the Articles of Association of the Company;
- (2) the applicable restrictions and requirements under the laws of the Cayman Islands;
- (3) actual and expected financial performance of the Group;
- (4) retained earnings and distributable reserves of the Company and each of the other members of the Group;
- (5) economic conditions and other internal or external factors that may have impact on the business or financial performance and position of the Group;
- (6) business strategies of the Group, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;
- (7) the current and future operations, liquidity and capital requirement of the Group;
- (8) statutory and regulatory restrictions; and
- (9) other factors that the Board deems appropriate.

Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual 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 and/or special dividends as it considers to be justified by the profits of the Group.

Under the Cayman Islands Companies Act and the Articles of Association, all of the Shareholders have equal entitlement to dividends and distributions. The Board shall have the right to review the Dividend Policy from time to time as it deems fit according to the financial and business development requirements of the Group.

## Auditor's Remuneration

The remuneration for the audit and non-audit services provided by the Auditor to the Company for the year ended 31 December 2019 was approximately as follows:

Type of Services	Amount (HK\$)
Audit services	1,375,000
Non-audit services related to tax consultation and internal audit	588,000
<b>Total</b>	<b>1,963,000</b>

# CORPORATE GOVERNANCE REPORT

## Company Secretary

The company secretary supports the chairman, Board and Board committees by ensuring good information flow and Board policy and procedures are followed. The company secretary is responsible for ensuring the proper convening and conducting of the Board and Board Committees meetings, with the relevant notices, agenda, and the Board and Board Committees papers being provided to the Directors and the relevant Board Committees members respectively in a time manner before the meetings. The company secretary is responsible for keeping minutes of all the Board and Board Committees meetings. The Board and the Board Committees minutes are available for inspection by the Directors and the relevant Board Committees members.

Ms. Leung Suet Lun ("**Ms. Leung**") who possesses the requisite qualification and experience of a company secretary as required under rule 3.28 of the Listing Rules, has been the company secretary of the Company since 5 September 2017. Ms. Leung is the senior manager of listing services department of TMF Hong Kong Limited (a company secretarial service provider). The primary corporate contact person at the Company is Mr. Raymond Lau, the Senior Corporate Investment Officer of the Company during the Relevant Period.

For the year ended 31 December 2019, Ms. Leung have undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

## Communication with Shareholders and Investor Relations

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Company's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGMs to answer Shareholders' questions. The Company's Auditor will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at <https://www.cr-construction.com.hk>, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

## Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.



# CORPORATE GOVERNANCE REPORT

## **Convening of extraordinary general meeting and putting forward proposals**

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. In accordance with article 58 of the Articles of Association, any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company at the headquarters of the Company in Hong Kong, specifying the shareholding information of the Shareholder(s), his/her/their contact details and the proposal regarding any specifying transaction/business and its supporting documents, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 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.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

## **Enquiries to the Board**

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries together with his/her/their contact details, such as postal address, email or fax, either by post or by email, addressing to the Board or the secretary of the Company at the headquarters of the Company at Units 3–16, 32/F., Standard Chartered Tower, Millennium City 1, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong or at [ir@czcgl.com.hk](mailto:ir@czcgl.com.hk).

## **Change in Constitutional Documents**

The Company adopted the Articles of Association on 17 September 2019, which has been effective from the Listing Date. From the Listing Date to the date of this annual report, the said Articles of Association did not have any change.

# REPORT OF THE DIRECTORS

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

## Corporate Information and Listing

The Company was incorporated in the Cayman Islands on 20 July 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The Group completed the reorganisation ("**Reorganisation**") on 9 February 2018 in preparation of the Listing on the Stock Exchange pursuant in which the Company became the holding company of the Group. For details of the Reorganisation, please refer to the section headed "History, Reorganisation and Group Structure" in the Prospectus.

The Company's Shares were listed on the Main Board of the Stock Exchange on 16 October 2019.

## Principal Activities

The principal activity of the Company is investment holding. The Group is a long established main contractor in Hong Kong principally engaged in the provision of (i) building construction services and (ii) RMAA works in Hong Kong. An analysis of the principal activities of the Group during the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" in this annual report.

## Business Review

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) including the description of the principal risks and uncertainties facing the Group is set out in the section headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 12 of this annual report. These discussions form part of Directors' report. Moreover, the details of the financial risk management of the Group are disclosed in Note 34 to the financial statements.

## Environmental, Social and Governance Report

The Group is committed to supporting environmental protection to ensure business development and sustainability. Details of our environmental, social and governance policies and performance during the year ended 31 December 2019 shall be disclosed in our "Environmental, Social and Governance Report" (the "**ESG Report**") to be published within three months after the publication of this annual report on the websites of the Company and the Stock Exchange.

## Environmental Policies and Performance

Our Directors believe that it is essential for the Group to commit and maintain high standard of environmental protection in order to support environmental protection and to prevent pollution in balance with socio-economic needs as well as to address the needs of a broad range of interested parties. In the course of delivery of its services, the Group (i) focused on prevention of pollution, waste minimisation and resource conservation as critical considerations within our core management process; (ii) complied with applicable legal requirements and other requirements which relate to its environment aspects; and (iii) established, implemented and maintained the environmental management system and strive for continual improvement in environmental performance.

The Group had maintained minimal number of environmental-related non-compliance incidents. Same as 2018, there was only one count of conviction in 2019 of violating the relevant environmental laws and regulations. We will continue to implement our environmental policy to avoid any violation of applicable environmental-related laws or regulations.

Further disclosures on the environmental aspects will be made available in the ESG report that will be published in July 2020.

# REPORT OF THE DIRECTORS

## Results

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 56 to 57 of this annual report.

## Final Dividends

The Board recommends the payment of a final dividend of HK5 cents (31 December 2018: Nil) per ordinary share, totaling approximately HK\$25.0 million in respect of the year ended 31 December 2019, to Shareholders whose names appear on the register of members at the close of business on 3 July 2020. This proposed final dividend is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting.

There is no arrangement that a Shareholder has waived or agreed to waive any dividends.

## Financial Summary

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on page 112 of this annual report, and the figures for the years ended 31 December 2016, 2017 and 2018 are extracted from the Prospectus. This summary does not form part of the audited consolidated financial statements of the Group.

## Use of Proceeds From Listing

Details of the use of net proceeds from Listing are set out on page 12 of this annual report.

## Annual General Meeting

The AGM of the Company for the year ended 31 December 2019 is scheduled to be held on Friday, 26 June 2020. A notice convening the AGM will be issued and dispatched to the Shareholders in due course according to the applicable laws, the Articles of Association and the Listing Rules.

## Closure of the Register of Members

### (a) For determining the entitlement to attend and vote in the AGM

The register of members of the Company will be closed from Monday, 22 June 2020 to Friday, 26 June 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote in the AGM, during which period no transfers of Shares shall be effected. In order to qualify for attending and voting at the AGM to be held on Friday, 26 June 2020, all transfers of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged for registration with Tricor Investor Services Limited at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong no later than 4:30 p.m. on Friday, 19 June 2020.

### (b) For determining the entitlement to the proposed final dividend

The register of members of the Company will also be closed from Friday, 3 July 2020 to Tuesday, 7 July 2020, both days inclusive, in order to determine the entitlement of the Shareholders who are entitled to receive the final dividend, during which period no transfers of Shares shall be effected. In order to qualify for the entitlement of final dividend, all transfer of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged for registration with Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 2 July 2020.

## Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 1 to the financial statements.

# REPORT OF THE DIRECTORS

## **Charitable Donation**

Charitable donation made by the Group during the year ended 31 December 2019 amounted to approximately HK\$25,000 (31 December 2018: approximately HK\$91,500).

## **Property, Plant and Equipment**

Details of movements of the property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

## **Share Capital**

Details of movements in the share capital of the Company for the year ended 31 December 2019 and details of the shares issued during the year ended 31 December 2019 are set out in Note 25 to the financial statements.

## **Debenture Issued**

The Group did not issue any debenture during the year ended 31 December 2019.

## **Equity-Linked Agreements**

Save as disclosed under the Share Option Scheme, no equity-linked agreements were entered into or remained subsisting during the year ended 31 December 2019 or as of the end of the year.

## **Pre-Emptive Rights**

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

## **Tax Relief**

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

## **Reserves**

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in Note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

## **Distributable Reserves**

As at 31 December 2019, in the opinion of the Directors, the reserves of the Company available for distribution to Shareholders under the Companies Law of the Cayman Islands amounted to approximately HK\$429 million (31 December 2018: approximately HK\$310 million).

## **Purchase, Sale or Redemption of Listed Securities of the Company**

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

## **Bank and Other Borrowings**

Details of bank and other borrowings of the Group as at 31 December 2019 are set out in Note 23 to the financial statements.

# REPORT OF THE DIRECTORS

## Compliance with the Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. During the year ended 31 December 2019, the Group in all material aspects complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach of or non-compliance with the applicable laws and regulations by the Group for the Relevant Period. The following table set out the relevant laws and regulations and the compliance measures taken by the Group:

Primary regulations	Key Scope	Compliance Measures
Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)	This ordinance provides for registration and regulation of construction workers.	The Group comply with the ordinance by employing or allowing the registered construction workers to carry out construction work on the construction sites.
Factories and Industrial Undertakings (Cap. 59 of the Laws of Hong Kong)	This ordinance provides for the safety and health protection to workers in an industrial undertakings.	The Group had certain systemic non-compliance incidents of our Group in connection with the Ordinances during the year ended 31 December 2019.
Occupational safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong)	This ordinance provides for the safety and health protection to employee in workplaces.	The Group had certain systemic non-compliance incidents of our Group in connection with the Ordinances during the year ended 31 December 2019.
Air Pollution Control Ordinance (Cap. 311 of the Laws of Hong Kong)	This ordinance control emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources.	The Group comply with the ordinance by devising and arranging methods of working and carry out the works in such a manner so to minimize dust impacts on the surrounding environment and provide the suitable training to ensure the methods are implemented by the experienced personnel.

## Important Relationship with Major Stakeholders

The Group's primary stakeholder groups include its customers, subcontractors, suppliers, and employees.

### Customers

The Group maintains active relationship with its customers to explore new business opportunities and is highly committed to delivering superior quality of services to its customers on time.

### Subcontractors and Suppliers

The Group maintains a list of approved subcontractors (based on their track records, skills, present work load, price quotations and historical work quality) and suppliers (based on their prices, quality, past performance and capacity) and strives to establish long-term business relationship with them.

# REPORT OF THE DIRECTORS

## **Employees**

The Group recognised employees as valuable assets of the Group. The Group remunerated competitively, and provide training and development opportunities to employees which they can deliver the superior performance and achieve the corporate goal of the Group.

During the year ended 31 December 2019, there was no material dispute or argument between the Group and its customers, subcontractors, suppliers and employees.

## **Major Customers and Suppliers**

For the year ended 31 December 2019, the Group's five largest customers in aggregate accounted for approximately 81.5% (31 December 2018: approximately 70.4%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 48.7% (31 December 2018: approximately 20.5%) of the Group's total revenue.

For the year ended 31 December 2019, the Group's five largest subcontractors in aggregate accounted for approximately 20.9% (31 December 2018: approximately 23.1%) of the total subcontracting cost of the Group and the largest subcontractor of the Group accounted for approximately 5.3% (31 December 2018: approximately 5.5%) of the Group's total subcontracting cost.

For the year ended 31 December 2019, the Group's five largest suppliers in aggregate accounted for approximately 42.9% (31 December 2018: approximately 43.8%) of the total purchases of construction materials of the Group and the largest supplier of the Group accounted for approximately 10.9% (31 December 2018: approximately 9.5%) of the Group's total purchases of construction materials.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers, suppliers and subcontractors during the year ended 31 December 2019.

## **Directors' Interests in Competing Business**

During the year ended 31 December 2019, none of the Directors or any of their close associates (as defined under the Listing Rules) has any interest in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group.



# REPORT OF THE DIRECTORS

## Compliance with the Deed of Non-Competition

Zhejiang State-owned Capital Operation Company Limited, Zhejiang Construction Investment Group Co., Ltd., Zhejiang Construction Group (H.K.) Holdings Limited, China Zhejiang Construction Group (H.K.) Limited and CR Construction Investments Limited (the “**Controlling Shareholders**”) had entered into the deed of non-competition in favour of the Company on 17 September 2019 (the “**Deed of Non-competition**”). Details of the Deed of Non-competition are set out in the section headed “Relationship with our Controlling Shareholders” in the Prospectus.

The Company has received the annual confirmation from the Controlling Shareholders in respect of their compliance during the Relevant Period with the non-competition undertakings under the Deed of Non-competition issued to the Company in 2019.

The independent non-executive Directors have reviewed the compliance of each of the Controlling Shareholders with the undertakings in the Deed of Non-competition based on data and the confirmation provided or given by the Controlling Shareholders and as far as the independent non-executive Directors can ascertain, there has been no breach of the aforementioned undertakings during the Relevant Period.

## Directors

The Directors who held office for the year ended 31 December 2019 and up to the date of this annual report are as follows:

### Executive Directors

Mr. GUAN Manyu (管滿宇) (*Chairman*)

Mr. LI Kar Yin (李嘉賢)

Ms. CHU Ping (朱萍)

Mr. LAW Ming Kin (羅明健)

Mr. CHAN Tak Yiu (陳德耀)

### Non-executive Director

Mr. YANG Haojiang (楊昊江)

### Independent Non-executive Directors

The Honourable TSE Wai Chun Paul JP (謝偉俊) (太平紳士) (appointed on 17 September 2019)

Mr. LI Ka Fai David (李家暉) (appointed on 17 September 2019)

Mr. HO Man Yiu Ivan (何文堯) (appointed on 17 September 2019)

In accordance with article 83 and 84 of the Articles of Association, Mr. Guan Manyu, Mr. Li Kar Yin, Ms. Chu Ping, Mr. Law Ming Kin, Mr. Chan Tak Yiu, Mr. Yang Haojiang, The Honourable Tse Wai Chun Paul JP, Mr. Li Ka Fai David and Mr. Ho Man Yiu Ivan will retire by rotation at the AGM. The retiring Director, being eligible, will offer themselves for re-election as the Directors at the forthcoming AGM.

Circular containing details of the Directors to be re-elected at the forthcoming AGM will be despatched to the Shareholders in due course.

# REPORT OF THE DIRECTORS

## Changes to Information of Directors

Change in Directors' information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. LI Kar Yin, an executive Director of the Company was appointed as the chief executive officer of the Company since 1 April 2020.

Mr. Li Ka Fai David ceased to be deputy managing partner of Li, Tang, Chen & Co. CPA (Practising) with effect from 31 December 2019 and thereafter, he is the senior advisor of SHINEWING (HK) CPA Limited.

Save as disclosed above, there is no other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Confirmation of Independence of Independent Non-executive Directors

The Company has received written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee of the Company has duly reviewed the independence of each of these directors. The Company considered that all independent non-executive Directors are independent from the Listing Date to the date of this annual report.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2019, the interests and short positions of the Directors of and chief executives of the Company in the ordinary Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out as follows:

Name of Director	Capacity/ Nature of Interest	Number of ordinary Shares/ underlying Shares	Long/ short position <sup>(1)</sup>	Approximate percentage of shareholding in the Company <sup>(2)</sup> (%)
Mr. GUAN Manyu	Beneficial owner	1,000,000	L	0.20
Mr. LI Kar Yin	Beneficial owner	1,000,000	L	0.20
Ms. CHU Ping	Beneficial owner	300,000	L	0.06
Mr. LAW Ming Kin	Beneficial owner	500,000	L	0.10
Mr. CHAN Tak Yiu	Beneficial owner	100,000	L	0.02
Mr. YANG Haojiang	Beneficial owner	500,000	L	0.10

Notes:

(1) The Letter "L" denotes the entity/person's long position in the Shares.

(2) As at 31 December 2019, the number of issued Shares of the Company was 500,000,000 Shares.

# REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had any interests or short positions in the Shares or underlying Shares or debentures of the Company or any of its associated corporations (as defined in 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares or Debentures

Save for the Share Option Scheme, no arrangement has been made by the Company or any of its subsidiaries for any Director to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate, and no rights to any share capital or debt securities of the Company or any other body corporate were granted to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised during or at the end of the Reporting Period.

## Substantial Shareholders' Interest and Short Positions in the Shares and Underlying Shares

As at 31 December 2019, to the knowledge of the Directors, the following persons (other than the Director or chief executive of the Company) had an interest or a short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register of the Company maintained under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares/ underlying Shares	Long/short position <sup>(5)</sup>	Approximate percentage of shareholding in the Company <sup>(6)</sup> (%)
Zhejiang State-owned Capital Operation Company Limited <sup>(1)</sup>	Interest in a controlled corporation <sup>(3)</sup>	361,150,000	L	72.23
Dohia Group Co., Ltd. <sup>(2)</sup>	Interest in a controlled corporation <sup>(3)</sup>	361,150,000	L	72.23
Zhejiang Construction Investment Group Co., Ltd.	Interest in a controlled corporation <sup>(3)</sup>	361,150,000	L	72.23
Zhejiang Construction Group (H.K.) Holdings Limited	Interest in a controlled corporation <sup>(3)</sup>	361,150,000	L	72.23
China Zhejiang Construction Group (H.K.) Limited	Interest in a controlled corporation <sup>(3)</sup>	361,150,000	L	72.23
CR Construction Investments Limited	Beneficial owner <sup>(3)</sup>	361,150,000	L	72.23
Ning Shing (Holdings) Company Limited	Beneficial owner <sup>(4)</sup>	25,000,000	L	5.00

Notes:

- (1) Zhejiang State-owned Capital Operation Company Limited, which originally held 45.95% shares of Zhejiang Construction Investment Group Co., Ltd., was under the process of restructuring. As at date of this annual report, Zhejiang Construction Investment Group Co., Ltd. has become wholly-owned subsidiary of Dohia Group Co., Ltd., whereas Zhejiang State-owned Capital Operation Company Limited is now holding 20.02% of Dohia Group Co., Ltd..

# REPORT OF THE DIRECTORS

- (2) Zhejiang Construction Investment Group Co., Ltd. is holder of 29.83% Shares of Dohia Group Co., Ltd. as at the date of this annual report.
- (3) CR Construction Investments Limited directly holds 361,150,000 Shares in the Company. CR Construction Investments Limited is a wholly-owned subsidiary of China Zhejiang Construction Group (H.K.) Limited, which is in turn a wholly-owned subsidiary of Zhejiang Construction Group (H.K.) Holdings Limited. Zhejiang Construction Group (H.K.) Holdings Limited is a wholly-owned subsidiary of Zhejiang Construction Investment Group Co., Ltd., which is in turn wholly-owned by Dohia Group Co., Ltd.. As mentioned in note (1) above, Zhejiang State-owned Capital Operation Company Limited is now holding 20.02% of Dohia Group Co., Ltd.. By virtue of the SFO, each of China Zhejiang Construction Group (H.K.) Limited, Zhejiang Construction Group (H.K.) Holdings Limited, Zhejiang Construction Investment Group Co., Ltd., Dohia Group Co., Ltd. and Zhejiang State-owned Capital Operation Company Limited is deemed to have an interest in the Shares held by CR Construction Investments Limited.
- (4) Ning Shing (Holdings) Company Limited ("**Ning Shing**") directly holds 25,000,000 Shares of the Company. Ning Shing is a state-owned company wholly owned by the Ningbo Municipal Government established in Hong Kong in May 1995. For more details, please refer to the section headed "Cornerstone Investors" in the Prospectus.
- (5) The Letter "L" denotes the entity/person's long position in the Shares.
- (6) As at 31 December 2019, the number of issued Shares of the Company was 500,000,000 Shares.

Save as disclosed above, as at 31 December 2019, the Directors have not been aware of any person (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register maintained under Section 336 of the SFO.

## Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service contract with the Company for a term of three years and are subject to termination in accordance with their respective terms. The term of the service contracts may be renewed in accordance with the Articles of Association and the applicable rules of the Listing Rules.

The non-executive Director has entered into an appointment letter with the Company for a term of three years. Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years. All the Directors and the Company are required to give three months' notice in writing to the other party for termination of the service agreement/appointment letter. All the Directors are appointed for a specific term and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

Save as discussed above, none of the Directors proposed for re-election at the forthcoming AGM has a service contract or a letter of appointment with the Company and/or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## 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, there was no transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, its subsidiaries and fellow subsidiaries was a party and in which a Director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the year ended 31 December 2019.

# REPORT OF THE DIRECTORS

## 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, none of the Company or any of its subsidiaries entered into any contracts of significance with the Controlling Shareholder(s) or any of its subsidiaries, nor was there any contracts of significance between the Company or any of its subsidiaries and the Controlling Shareholder or any of its subsidiaries in relation to provision of services for the year ended 31 December 2019.

## Remuneration Policies

During the Reporting Period, the remuneration policy for employees of the Group is determined based on their responsibilities, qualifications, performance, experience and seniority which are reviewed periodically.

The Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group are reviewed by the Remuneration Committee, approved by the Board and authorised by the Shareholders at the AGM of the Company, which is based on the Group's performance, the executives' respective contributions to the Group and comparable market practices.

## Remuneration of Directors and Five Highest Paid Individuals

Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2019 are set out in Notes 9 and 10 to the financial statements.

## Biographical Details of Directors and Senior Management

Biographical details of Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 13 to 19 of this annual report.

## Share Option Scheme

The Company has adopted a Share Option Scheme on 17 September 2019 to reward the participants defined thereunder for their contribution to the Group's success and to provide them with incentives to further contribute to the Group.

## The following is a summary of the principal terms of the Share Option Scheme

### (i) Purpose

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

### (ii) Who may join

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled to, at its absolute discretion and on such terms as it deems fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe.

# REPORT OF THE DIRECTORS

## **(iii) Maximum number of Shares subject to options**

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 50,000,000 Shares (representing 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange). The overall limit on the number of Shares which shall be issued upon exercise of all outstanding options granted, and yet to be exercised, under the Share Option Scheme, and other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable), shall not exceed 30% of the Shares in issue from time to time.

## **(iv) Limit for each participant**

The total number of Shares issued, and to be issued, upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any twelve (12)-month period shall not exceed 1% of the Shares in issue.

## **(v) Option period**

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

## **(vi) Payment on acceptance of option offer**

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.

## **(vii) Subscription price**

The subscription price shall be such price determined by the Board at its absolute discretion and notified to a participant in the offer at the time of the offer, and shall be at least the higher of: (a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant of the relevant option, which shall be a business day; (b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option (provided that, in the event that any option is proposed to be granted within a period of less than five Business Days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (c) the nominal value of a Share on the date of grant of the relevant option.

## **(viii) Present status of the Share Option Scheme**

During the Relevant Period, no share option was granted. As at 31 December 2019, the Company had no outstanding share option under the Share Option Scheme.

# REPORT OF THE DIRECTORS

## Retirement Benefit Schemes

The Group operates a defined contribution mandatory provident fund retirement benefit scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance (Cap.485 of the Laws of Hong Kong) and the occupational retirement scheme (the “**ORSO Scheme**”) under the Occupational Retirement Scheme Ordinance (Cap.426 of the Laws of Hong Kong).

The total retirement benefit scheme contributions made by the Group amounted to approximately HK\$14.0 million for the year ended 31 December 2019 (31 December 2018: approximately HK\$13.5 million).

Details of the MPF Scheme and the ORSO scheme are set out in Note 3 to the financial statements.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019 and up to the date of this annual report.

## Connected Transactions

Details of the related party transactions carried out in the normal course of business are set out in Note 31 to the financial statements of this annual report. Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

## Corporate Governance

The Company is committed to maintaining high standards of corporate governance practices. Principal corporate governance practices adopted by our Company are set out in the section headed “Corporate Governance Report” on pages 20 to 36 of this annual report.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company’s total issued shares, being the minimum percentage of public float as prescribed by the Stock Exchange and under the Listing Rules, was held by the public at all times during the Relevant Period and as at the date of this annual report.

## Permitted Indemnity Provision

Pursuant to article 164(1) of the Articles of Association and subject to the applicable laws and regulations, every Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force during the year ended 31 December 2019 and up to the date of this annual report.

The Company has taken out and maintained appropriate directors’ and officers’ liability insurance to provide appropriate coverage for the Directors and other officers of the Group for the Relevant Period.



# REPORT OF THE DIRECTORS

## Events after the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 35 to the financial statements.

## Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2019. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

## Auditor

Ernst & Young was appointed as the Auditor during the Reporting Period. Ernst & Young shall retire at the forthcoming AGM and, being eligible, will offer itself for re-appointment. A resolution will be proposed at the AGM for the re-appointment of Ernst & Young as the independent auditor of the Company.

On behalf of the Board

**Mr. Guan Manyu**

*Chairman and Executive Director*

Hong Kong,  
27 March 2020

# INDEPENDENT AUDITOR'S REPORT



Ernst & Young  
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1 Tim Mei Avenue  
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## To the shareholders of CR Construction Group Holdings Limited

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

### Opinion

We have audited the consolidated financial statements of CR Construction Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 111, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for opinion

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

### Key audit matters

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

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

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition for construction contracts</b></p> <p>For the year ended 31 December 2019, the Group recognised revenue from construction contracting businesses amounting to approximately HK\$4,833,853,000.</p> <p>The Group's revenue from construction contracts were recognised over time using the output method, based on direct measurements of the value transferred by the Group to the customer with reference to the certified value of work performed up to the end of the reporting period.</p> <p>Claims to customers for reimbursement of costs and margins for scope of work not included in the construction contracts are accounted for as variable consideration and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the variable consideration for claims in construction contracts.</p> <p>The revenue recognition involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required and expected successful claims percentages.</p> <p>Relevant disclosures are included in notes 4, 5 and 6 to the consolidated financial statements.</p>	<p>We evaluated the significant judgements made by management, through an examination of project documentation, key contracts and variation orders, historical claims data applied to the expected value method and, discussion of the status of projects under construction with management, finance, and technical personnel of the Group.</p> <p>We tested the controls of the Group over its processes to record contract revenues and contract cost. Our testing also included checking the payment certificates issued by the architects employed by contract customers and subsequent certifications issued by the Group to subcontractors as at year end.</p>

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters *(Continued)*

### Key audit matter

#### **Impairment assessment on trade receivables and contract assets**

As at 31 December 2019, the Group recorded gross trade receivables of approximately HK\$386,867,000 before impairment of HK\$2,773,000 and gross contract assets of approximately HK\$1,570,488,000 before impairment of HK\$515,000.

The measurement on the Group's trade receivables and contract assets under the expected credit losses ("ECL") approach was estimated by management through the application of judgements and use of highly subjective assumptions, such as the repayment history, subsequent settlements after the end of the reporting period and management's industrial knowledge and experience. The impact of current economic factors and forward-looking factors specific to the debtors were also considered in management's assessment of the likelihood of recovery from customers.

Relevant disclosures are included in notes 4, 17 and 18 to the consolidated financial statements.

### How our audit addressed the key audit matter

Our audit procedures included assessing and testing the Group's processes and controls relating to the monitoring of trade receivables and contract assets; evaluating the methodologies, inputs and assumptions used by management in their impairment assessment and their calculation of the impairment allowance under the ECL approach; understanding and discussing with management for their judgements, historical loss pattern and basis of judgements used on such data under the ECL approach; and understanding management's assessment about the overdue receivables or amounts in dispute. We assessed the impairment allowance as at the end of the reporting period, taking into account factors such as the payment history, the subsequent settlements of the trade receivables and the subsequent transfers of contract assets to trade receivables, and other relevant information. We also evaluated the historical loss rates, current economic conditions and forward-looking information by checking to economic indicators.

# INDEPENDENT AUDITOR'S REPORT

## **Other information included in the Annual Report**

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

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

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

## **Responsibilities of the directors for the consolidated financial statements**

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 HKSA 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

## **Auditor's responsibilities for the audit of the consolidated financial statements**

*(Continued)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

# INDEPENDENT AUDITOR'S REPORT

## **Auditor's responsibilities for the audit of the consolidated financial statements**

*(Continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Ching Man.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

27 March 2020



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<b>REVENUE</b>	6	<b>4,833,853</b>	4,813,860
Contract costs		<b>(4,621,875)</b>	(4,628,400)
Gross profit		<b>211,978</b>	185,460
Other income	6	<b>2,500</b>	1,777
Administrative expenses		<b>(115,467)</b>	(101,448)
Other operating expenses, net		<b>(3,449)</b>	(136)
Finance costs	8	<b>(12,295)</b>	(3,150)
Listing expenses	7	<b>(11,513)</b>	(5,457)
<b>PROFIT BEFORE TAX</b>	7	<b>71,754</b>	77,046
Income tax expense	11	<b>(13,236)</b>	(13,615)
<b>PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>58,518</b>	63,431
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted	13	<b>HK14.99 cents</b>	HK17.56 cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	21,423	20,056
Right-of-use assets	15(a)	3,751	18,976
Prepayments and deposits	19	1,519	9,568
Total non-current assets		26,693	48,600
<b>CURRENT ASSETS</b>			
Contract assets	17	1,569,973	1,138,675
Trade receivables	18	384,094	688,719
Prepayments, deposits and other receivables	19	46,005	23,569
Pledged deposits	20	26,338	25,961
Cash and cash equivalents	20	150,798	103,091
Total current assets		2,177,208	1,980,015
<b>CURRENT LIABILITIES</b>			
Trade and retention payables	21	1,123,797	984,869
Other payables and accruals	22	533,821	552,115
Interest-bearing bank borrowings	23	–	120,000
Lease liabilities	15(b)	2,202	14,549
Tax payable		15,955	5,550
Total current liabilities		1,675,775	1,677,083
<b>NET CURRENT ASSETS</b>			
		501,433	302,932
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		528,126	351,532
<b>NON-CURRENT LIABILITIES</b>			
Provision	22	–	4,000
Lease liabilities	15(b)	1,513	3,221
Deferred tax liabilities	24	975	1,163
Total non-current liabilities		2,488	8,384
Net assets		525,638	343,148
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	25	5,000	17
Reserves	26	520,638	343,131
Total equity		525,638	343,148

ON BEHALF OF THE BOARD  
**Li Kar Yin**  
 Director

ON BEHALF OF THE BOARD  
**Guan Manyu**  
 Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to equity holders of the Company								
	Notes	Share capital HK\$'000	Share premium* HK\$'000 (note 26(a))	Merger reserve* HK\$'000 (note 26(b))	Capital reserve* HK\$'000 (note 26(c))	Statutory reserve* HK\$'000	Asset revaluation reserve* HK\$'000	Retained profits* HK\$'000	Total equity HK\$'000
At 1 January 2018		–	–	169,500	12,071	12	13	128,506	310,102
Acquisition of subsidiaries under common control pursuant to the Reorganisation		17	310,268	(310,285)	–	–	–	–	–
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	63,431	63,431
Dividends paid to the shareholder	12	–	–	–	–	–	–	(30,385)	(30,385)
<b>At 31 December 2018 and 1 January 2019</b>		<b>17</b>	<b>310,268</b>	<b>(140,785)</b>	<b>12,071</b>	<b>12</b>	<b>13</b>	<b>161,552</b>	<b>343,148</b>
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	58,518	58,518
Capitalisation issue of shares	25(d)	3,595	(3,595)	–	–	–	–	–	–
Issue of new shares pursuant to the share offer	25(e)	1,388	137,462	–	–	–	–	–	138,850
Share issue expenses	25(e)	–	(14,878)	–	–	–	–	–	(14,878)
<b>At 31 December 2019</b>		<b>5,000</b>	<b>429,257</b>	<b>(140,785)</b>	<b>12,071</b>	<b>12</b>	<b>13</b>	<b>220,070</b>	<b>525,638</b>

\* These reserve accounts comprise the consolidated reserves of HK\$520,638,000 (2018: HK\$343,131,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>71,754</b>	77,046
Adjustments for:			
Finance costs	8	<b>12,295</b>	3,150
Interest income	6	<b>(624)</b>	(1,484)
Loss/(gain) on disposal of items of property, plant and equipment, net	7	<b>(58)</b>	46
Gain on termination of leases	7	<b>(18)</b>	–
Depreciation of property, plant and equipment	7	<b>7,517</b>	7,705
Depreciation of right-of-use assets	7	<b>16,004</b>	17,637
Impairment of trade receivables	7	<b>2,773</b>	–
Impairment of contract assets	7	<b>515</b>	–
		<b>110,158</b>	104,100
Increase in contract assets		<b>(431,813)</b>	(386,819)
Decrease/(increase) in trade receivables		<b>301,852</b>	(131,891)
Increase in prepayments, deposits and other receivables		<b>(14,387)</b>	(7,821)
Decrease in an amount due from an intermediate holding company		–	56
Increase in trade and retention payables		<b>138,928</b>	240,613
Decrease in other payables and accruals		<b>(22,294)</b>	(169,607)
Cash generated from/(used in) operations		<b>82,444</b>	(351,369)
Interest element on lease liabilities		<b>(329)</b>	(637)
Hong Kong profits tax paid		<b>(3,019)</b>	(6,728)
Net cash flows from/(used in) operating activities		<b>79,096</b>	(358,734)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>624</b>	1,484
Purchases of items of property, plant and equipment	14	<b>(8,889)</b>	(2,452)
Proceeds from disposal of items of property, plant and equipment		<b>63</b>	45
Net cash flows used in investing activities		<b>(8,202)</b>	(923)

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	25(e)	<b>138,850</b>	–
Share issue expenses	25(e)	<b>(14,878)</b>	–
New bank loans	27(b)	<b>1,190,000</b>	970,000
Repayment of bank loans	27(b)	<b>(1,310,000)</b>	(850,000)
Principal portion of lease payments	27(b)	<b>(14,816)</b>	(16,121)
Interest paid		<b>(11,966)</b>	(2,513)
Dividend paid	12	–	(30,385)
Net cash flows from/(used in) financing activities		<b>(22,810)</b>	70,981
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>48,084</b>	(288,676)
Cash and cash equivalents at beginning of year		<b>129,052</b>	417,728
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>177,136</b>	129,052
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances as stated in the consolidated statement of financial position	20	<b>150,798</b>	103,091
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	20	<b>26,338</b>	25,961
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>177,136</b>	129,052

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 1. Corporate and group information

CR Construction Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit Nos. 3–16, Level 32, Standard Chartered Tower of Millennium City 1, No. 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the provision of building construction services and repair, maintenance, addition and alteration ("RMAA") works.

During the year, the Company made an offer to the public for subscription of its new shares (the "Share Offer") in connection with the listing of the Company's shares (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dealing of the Company's shares on the Stock Exchange commenced on 16 October 2019.

CR Construction Investments Limited ("CR Investments"), a company incorporated in the British Virgin Islands (the "BVI"), is the immediate holding company of the Company. In the opinion of the Directors, Zhejiang State-owned Capital Operation Company Limited, a company established in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company.

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CR Construction Development Limited*	BVI	US\$1	100	–	Investment holding
CR Construction Company Limited	Hong Kong	HK\$169,500,000	–	100	Building construction services and investment holding
Mount Land Limited	Hong Kong	HK\$52	–	100	Building construction services and investment holding
CR Construction (Building) Company Limited*	Macau	MOP25,000	–	100	Building construction

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.1 Basis of presentation

In preparation for the Listing of the Company's shares on the Stock Exchange, the Company underwent a group reorganisation (the "Reorganisation"), further details of which are set out in the Company's prospectus dated 27 September 2019. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 9 February 2018. The companies now comprising the Group were under the common control of the controlling shareholders before and after the Reorganisation. Accordingly, the consolidated financial statements for the year ended 31 December 2018 have been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the year ended 31 December 2018.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2018 included the results and cash flows of all companies now comprising the Group as if the Reorganisation had been completed at the beginning of the year ended 31 December 2018. The consolidated statement of financial position of the Group as at 31 December 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. All intra-group transactions and balances have been eliminated on consolidation.

## 2.2 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements since 1 January 2016.

These financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

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

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

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



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.2 Basis of preparation *(Continued)*

### Basis of consolidation *(Continued)*

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

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

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

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

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 3	<i>Definition of a Business</i> <sup>1</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> No mandatory effective date yet determined but available for adoption

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards *(Continued)*

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies

### Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interests in joint operations:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular asset, liability, revenue and expenses.

### Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Property, plant and equipment and depreciation

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

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

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

Leasehold improvements	Over the shorter of the lease terms and 20%
Plant and machinery	10% to 20%
Furniture and fixtures	10% to 20%
Computers and software	20%
Motor vehicles	33%

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

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

### Leases

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

#### Group as a lessee

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Leases *(Continued)*

#### Group as a lessee *(Continued)*

##### (a) *Right-of-use assets*

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets are as follows:

Buildings	2 to 5 years
Plant and machinery	2 to 3 years

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

##### (b) *Lease liabilities*

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

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

##### (c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Leases *(Continued)*

#### Group as a lessor

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

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

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

### Investments and other financial assets

#### Initial recognition and measurement

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

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

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

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

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



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Investments and other financial assets *(Continued)*

#### Subsequent measurement

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

#### Financial assets at amortised cost (debt instruments)

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

#### Derecognition of financial assets

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

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

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

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

#### Impairment of financial assets

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

#### General approach

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Impairment of financial assets *(Continued)*

#### General approach *(Continued)*

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

The Group considers a financial asset in default when contractual payments are 45 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### Simplified approach

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

For trade receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

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

The Group's financial liabilities include trade and retention payables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings.

#### Subsequent measurement

*Financial liabilities at amortised cost (loans and borrowings)*

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

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

#### Derecognition of financial liabilities

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

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

#### Offsetting of financial instruments

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

#### Cash and cash equivalents

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### Income tax

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### **Income tax** *(Continued)*

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **Revenue recognition**

#### **Revenue from contracts with customers**

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Revenue recognition *(Continued)*

#### Revenue from contracts with customers *(Continued)*

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

#### *Construction services and RMAA services*

Revenue from construction contracts and RMAA revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contracts and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

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

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

The progress towards complete satisfaction of the performance obligation is measured based on direct measurements of the value of individual services transferred by the Group to the customer, such as surveys of work performed, or contract milestones.

Revenue from RMAA services under term contracts are recognised over time, and progress is measured towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. Given that a repair and maintenance service order is generally completed within a short period of time, the revenue from the provision of the RMAA service under term contracts is recognised when the service has been rendered.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Revenue recognition *(Continued)*

#### Revenue from contracts with customers *(Continued)*

##### *Construction services and RMAA services (Continued)*

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

#### Other income

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

#### Contract assets

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

#### Contract costs

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

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

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

#### Employee benefits

##### Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance and a defined contribution retirement scheme (the "ORSO Scheme") under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate in the schemes.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Employee benefits *(Continued)*

#### Pension schemes *(Continued)*

Under the MPF Scheme, contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of the forfeited employer contributions.

The assets of the MPF Scheme and ORSO Scheme are held separately from those of the Group in independently administered funds.

#### Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Dividends

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

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

#### Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 3. Summary of significant accounting policies *(Continued)*

### Foreign currencies *(Continued)*

The functional currencies of overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss is translated into Hong Kong dollars at the weighted average exchange rate for the year.

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

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

## 4. Significant accounting judgements and estimates

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

### Judgements

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

#### Revenue from contract with customers

The Group has applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(a) *Determining the progress of the construction contracts*

The Group recognises revenue based on direct measurements of the value of units delivered or surveys of work performed which reflect the progress towards complete satisfaction of the performance obligation. The customers will provide a final statement when the whole project is completed and may have adjustments on accumulated confirmation according to the actual engineering quantity until the day of completion. In addition, when determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purposes. The Group has, therefore, recognised revenue on progress confirmation over the period during which the service is rendered and transferred to customers.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 4. Significant accounting judgements and estimates *(Continued)*

### Judgements *(Continued)*

#### Revenue from contract with customers *(Continued)*

(b) *Determining the method to estimate variable consideration and assessing the constraint for construction services*

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group has determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

### Estimation uncertainty

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

#### Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the construction sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 18 and 17 to the financial statements, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 4. Significant accounting judgements and estimates *(Continued)*

### Estimation uncertainty *(Continued)*

#### Variable considerations for claims to customers

The Group estimates variable considerations for claims to be included in the transaction price for the provision of construction services.

The Group has developed a statistical model for estimating expected successful claims. The model uses the historical claims data including the historical experiences with the same customer, profitability of the head contracts of the customers and economic conditions to estimate expected successful claims percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical successful claims pattern will impact the expected successful claims percentages estimated by the Group.

The Group updates its assessment of expected successful claims every two months. Estimates of expected successful claims are sensitive to changes in circumstances and the Group's past experience regarding negotiation of claims may not be representative of the actual outcome in the future.

#### Leases - Estimating the incremental borrowing rate

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 5. Operating segment information

For management purposes, the Group has only one reportable operating segment, of which the Group engages in contract work as a main contractor or subcontractor, primarily in respect of building construction, repair, maintenance and addition and alteration works. Accordingly, no segment information is presented.

### Geographical information

#### (a) Revenue from external customers

No geographical information is presented as over 90% of the Group's revenue from external customers was derived from customers located in Hong Kong during the years ended 31 December 2019 and 31 December 2018.

#### (b) Non-current assets

No geographical information is presented as over 90% of the Group's non-current assets were located in Hong Kong as at 31 December 2019 and 31 December 2018.

### Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period is set out below:

	2019 HK\$'000	2018 HK\$'000
Customer A	838,448	988,361
Customer B	2,355,206	860,729
Customer C	*	606,044

\* Nil or less than 10% of the Group's revenue

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 6. Revenue and other income

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Revenue from contracts with customers</b>		
Building construction	4,486,447	4,667,860
RMAA	347,406	146,000
	<b>4,833,853</b>	4,813,860

### Revenue from contracts with customers

#### (a) Disaggregated revenue information

	2019 HK\$'000	2018 HK\$'000
<b>Timing of revenue recognition</b>		
Services transferred over time	4,833,853	4,813,860

#### (b) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Construction services and other RMAA services*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 14 to 45 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 6. Revenue and other income (Continued)

### Revenue from contracts with customers (Continued)

#### (b) Performance obligations (Continued)

##### Construction services and other RMAA services (Continued)

The construction period varies from one to four years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 HK\$'000	2018 HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	<b>3,899,130</b>	4,536,371
After one year	<b>3,095,007</b>	2,796,344
	<b>6,994,137</b>	7,332,715

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to construction services, of which the performance obligations are to be satisfied within four years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

##### RMAA services under term contracts

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of RMAA services. The Group has elected the practical expedient of not to disclose the remaining performance obligations for this type of contracts.

	2019 HK\$'000	2018 HK\$'000
<b>Other income</b>		
Interest income	<b>624</b>	1,484
Gross rental income	<b>900</b>	203
Others	<b>976</b>	90
	<b>2,500</b>	1,777

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 7. Profit before tax

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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Contract costs		<b>4,621,875</b>	4,628,400
Depreciation of property, plant and equipment	14	<b>7,517</b>	7,705
Less: Amount included in contract costs		<b>(1,721)</b>	(1,941)
Amount included in administrative expenses		<b>5,796</b>	5,764
Depreciation of right-of-use assets		<b>16,004</b>	17,637
Less: Amount included in contract costs	15(d)	<b>(3,789)</b>	(5,565)
Amount included in administrative expenses	15(d)	<b>12,215</b>	12,072
Lease payments not included in the measurement of lease liabilities		<b>26,975</b>	49,499
Less: Amount included in contract costs	15(d)	<b>(26,848)</b>	(49,482)
Amount included in administrative expenses	15(d)	<b>127</b>	17
Employee benefit expense (including directors' remuneration (note 9)):			
Salaries, allowances and benefits in kind		<b>342,456</b>	334,228
Pension scheme contributions		<b>14,039</b>	13,543
		<b>356,495</b>	347,771
Less: Amount included in contract costs		<b>(278,848)</b>	(280,261)
		<b>77,647</b>	67,510
Auditor's remuneration		<b>1,375</b>	514
Listing expenses		<b>11,513</b>	5,457
Impairment of trade receivables*		<b>2,773</b>	–
Impairment of contract assets*		<b>515</b>	–
Loss/(gain) on disposal of items of property, plant and equipment, net*		<b>(58)</b>	46
Gain on termination of leases*		<b>(18)</b>	–

\* These items are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 8. Finance costs

An analysis of finance costs is as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	11,966	2,513
Interest on lease liabilities	329	637
	<b>12,295</b>	3,150

## 9. Directors' and chief executive's remuneration

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

	2019 HK\$'000	2018 HK\$'000
Fees	252	–
Other emoluments:		
Salaries, allowances and benefits in kind	8,275	7,945
Performance related bonuses	2,143	2,858
Pension scheme contributions	419	412
	<b>10,837</b>	11,215
	<b>11,089</b>	11,215

### (a) Independent non-executive directors

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

	2019 HK\$'000	2018 HK\$'000
The Honourable Tse Wai Chun Paul JP	63	–
Mr. Li Ka Fai David	63	–
Mr. Ho Man Yiu Ivan	63	–
	<b>189</b>	–

The Honourable Tse Wai Chun Paul JP, Mr. Li Ka Fai David and Mr. Ho Man Yiu Ivan were appointed as independent non-executive directors of the Company on 17 September 2019.

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



# NOTES TO FINANCIAL STATEMENTS

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## 9. Directors' and chief executive's remuneration (Continued)

### (b) Executive directors and a non-executive director

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
<b>2019</b>					
Executive directors:					
Mr. Guan Manyu	–	597	349	–	946
Mr. Li Kar Yin	–	2,828	809	245	3,882
Ms. Chu Ping	–	611	248	18	877
Mr. Law Ming Kin	–	2,157	407	78	2,642
Mr. Chan Tak Yiu	–	2,082	330	78	2,490
	–	8,275	2,143	419	10,837
Non-executive director:					
Mr. Yang Haojiang	63	–	–	–	63
	63	8,275	2,143	419	10,900
<b>2018</b>					
Executive directors:					
Mr. Guan Manyu	–	575	678	–	1,253
Mr. Li Kar Yin	–	2,786	1,060	238	4,084
Ms. Chu Ping	–	604	242	18	864
Mr. Law Ming Kin	–	2,028	439	78	2,545
Mr. Chan Tak Yiu	–	1,952	439	78	2,469
	–	7,945	2,858	412	11,215
Non-executive director:					
Mr. Yang Haojiang	–	–	–	–	–
	–	7,945	2,858	412	11,215

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

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## 10. Five highest paid employees

The five highest paid employees during the year included three directors (2018: three directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2018: two) non-director highest paid employees for the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	3,524	3,387
Performance related bonuses	500	738
Pension scheme contributions	36	36
	<b>4,060</b>	4,161

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

	2019 HK\$'000	2018 HK\$'000
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	2
	<b>2</b>	2

## 11. Income tax

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2019 HK\$'000	2018 HK\$'000
Current - Hong Kong		
Charge for the year	14,274	14,542
Overprovision in prior years	(850)	(158)
Deferred (note 24)	(188)	(769)
Total tax charge for the year	<b>13,236</b>	13,615

# NOTES TO FINANCIAL STATEMENTS

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## 11. Income tax (Continued)

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

	2019		2018	
	HK\$'000	%	HK\$'000	%
Profit before tax	<b>71,754</b>		77,046	
Tax at the statutory tax rates	<b>11,839</b>	<b>16.5</b>	12,713	16.5
Lower tax rate enacted by local authority	<b>(165)</b>	<b>(0.2)</b>	(165)	(0.2)
Adjustments in respect of current tax of previous years	<b>(850)</b>	<b>(1.2)</b>	(158)	(0.2)
Income not subject to tax	<b>(39)</b>	<b>(0.1)</b>	(196)	(0.3)
Expenses not deductible for tax	<b>2,271</b>	<b>3.2</b>	1,335	1.8
Tax losses not recognised	<b>180</b>	<b>0.2</b>	73	0.1
Others	-	-	13	-
Tax charge at the Group's effective rate	<b>13,236</b>	<b>18.4</b>	13,615	17.7

The Group has estimated tax losses arising in Hong Kong of approximately HK\$308,000 (2018: HK\$110,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Macau of HK\$1,400,000 (2018: HK\$256,000) that will expire in three years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and, in the opinion of the directors of the Company, it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 12. Dividend

	Notes	2019	2018
		HK\$'000	HK\$'000
Interim - Nil (2018: HK\$17.9) per ordinary share	(a)	-	30,385
Proposed final - HK\$0.05 (2018: Nil) per ordinary share	(b)	<b>25,000</b>	-
		<b>25,000</b>	30,385

Notes:

- During the year ended 31 December 2018 and before the Listing on the Stock Exchange, the Group declared interim dividends of HK\$30,385,000 to the shareholder.
- The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

# NOTES TO FINANCIAL STATEMENTS

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## **13. Earnings per share attributable to ordinary equity holders of the Company**

The calculation of basic earnings per share amount is based on the profit for the year attributable to equity holders of the Company of HK\$58,518,000 (2018: HK\$63,431,000), and the weighted average number of ordinary shares of 390,441,644 (2018: 361,150,000) in issue during the year, on the assumption that the capitalisation issue and the Reorganisation in connection with the Listing of the Company had been completed on 1 January 2018.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2019 included 1,000 ordinary shares of the Company issued on the date of incorporation, 1,695,000 ordinary shares of the Company issued upon the completion of the Reorganisation (note 25(b)) and 359,454,000 ordinary shares issued pursuant to the capitalisation issue (note 25(d)), on the assumptions that all these shares had been in issue throughout the year ended 31 December 2019, and the weighted average number of 138,850,000 ordinary shares issued in connection with the Listing of the ordinary shares of the Company on the Stock Exchange (note 25(e)).

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2018 was based on 361,150,000 ordinary shares, representing the number of ordinary shares of the Company immediately after the capitalisation issue, as if all these shares had been in issue throughout the year ended 31 December 2018.

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

# NOTES TO FINANCIAL STATEMENTS

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## 14. Property, plant and equipment

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000 (note)	Furniture and fixtures HK\$'000	Computers and software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2019</b>						
At 31 December 2018 and 1 January 2019:						
Cost	11,513	18,490	5,639	8,137	4,058	47,837
Accumulated depreciation	(7,757)	(10,101)	(1,991)	(5,103)	(2,829)	(27,781)
Net carrying amount	3,756	8,389	3,648	3,034	1,229	20,056
At 1 January 2019, net of accumulated depreciation	3,756	8,389	3,648	3,034	1,229	20,056
Additions	33	695	305	7,856	-	8,889
Disposal	-	-	-	-	(5)	(5)
Depreciation provided during the year (note 7)	(3,234)	(1,507)	(576)	(1,577)	(623)	(7,517)
At 31 December 2019, net of accumulated depreciation	555	7,577	3,377	9,313	601	21,423
At 31 December 2019:						
Cost	11,546	18,836	5,944	15,993	3,949	56,268
Accumulated depreciation	(10,991)	(11,259)	(2,567)	(6,680)	(3,348)	(34,845)
Net carrying amount	555	7,577	3,377	9,313	601	21,423
<b>31 December 2018</b>						
At 1 January 2018						
Cost	11,365	18,528	4,781	7,050	3,887	45,611
Accumulated depreciation	(4,291)	(8,441)	(1,469)	(3,975)	(2,035)	(20,211)
Net carrying amount	7,074	10,087	3,312	3,075	1,852	25,400
At 1 January 2018, net of accumulated depreciation	7,074	10,087	3,312	3,075	1,852	25,400
Additions	148	-	895	1,087	322	2,452
Disposal	-	-	(21)	-	(70)	(91)
Depreciation provided during the year (note 7)	(3,466)	(1,698)	(538)	(1,128)	(875)	(7,705)
At 31 December 2018, net of accumulated depreciation	3,756	8,389	3,648	3,034	1,229	20,056
At 31 December 2018:						
Cost	11,513	18,490	5,639	8,137	4,058	47,837
Accumulated depreciation	(7,757)	(10,101)	(1,991)	(5,103)	(2,829)	(27,781)
Net carrying amount	3,756	8,389	3,648	3,034	1,229	20,056

Note: The Group leased a certain item of its plant and machinery under an operating lease arrangement with a net carrying amount of HK\$2,200,000 (2018: HK\$2,640,000), details of which are included in note 15 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 15. Leases

### The Group as a lessee

The Group has lease contracts for buildings and plant and machinery and other equipment used in its operations. Leases for buildings generally have lease terms between 2 and 5 years while plant and machinery generally have lease terms between 2 and 3 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

#### (a) Right-of-use assets

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

	Buildings HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
At 1 January 2018	26,080	3,530	29,610
Additions	3,301	3,702	7,003
Depreciation charge	(13,026)	(4,611)	(17,637)
At 31 December 2018 and 1 January 2019	16,355	2,621	18,976
Additions	1,792	–	1,792
Depreciation charge	(13,599)	(2,405)	(16,004)
Termination of leases	(1,013)	–	(1,013)
At 31 December 2019	3,535	216	3,751

#### (b) Lease liabilities

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

	Lease liabilities 2019 HK\$'000	2018 HK\$'000
Carrying amount at 1 January	17,770	26,888
New leases	1,792	7,003
Accretion of interest recognised during the year	329	637
Payments	(15,145)	(16,758)
Termination of leases	(1,031)	–
Carrying amount at 31 December	3,715	17,770
Analysed into:		
Current portion	2,202	14,549
Non-current portion	1,513	3,221

# NOTES TO FINANCIAL STATEMENTS

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## 15. Leases (Continued)

### The Group as a lessee (Continued)

(c) The maturity analysis of lease liabilities is as follows:

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Lease liabilities	2.9 – 4.5	2020	2,202	2.7 – 4.5	2019	14,549
<b>Non-current</b>						
Lease liabilities	2.9 – 4.5	2021-2022	1,513	2.7 – 4.5	2020-2022	3,221
			<b>3,715</b>			<b>17,770</b>

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

	2019 HK\$'000	2018 HK\$'000
Interest on lease liabilities	329	637
Depreciation charge of right-of-use assets (included in administrative expenses)	12,215	12,072
Depreciation charge of right-of-use assets (included in contract costs)	3,789	5,565
Expense relating to short-term leases (included in administrative expenses)	127	17
Expense relating to short-term leases (included in contract costs)	26,848	49,482
Total amount recognised in profit or loss	<b>43,308</b>	<b>67,773</b>

(e) The total cash outflow for leases are disclosed in note 27(c) to the financial statements.

### The Group as a lessor

The Group leased a certain item of its plant and machinery (note 14 to the financial statements) under an operating lease arrangement. Rental income recognised by the Group during the year was HK\$900,000 (2018: HK\$203,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted minimum lease payments receivable by the Group in future periods under a non-cancellable operating lease with its tenant are as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	–	900

# NOTES TO FINANCIAL STATEMENTS

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## 16. Particulars of principal joint operation

Particulars of the Group's joint arrangement is as follows:

Name of joint operation	Form of business structure	Place of registration and business	Percentage of interest attributable to the Group		Principal activity
			2019	2018	
China State - CR Construction Joint Venture <sup>#</sup>	Unincorporated	Hong Kong	-	50	Building construction

<sup>#</sup> The joint arrangement was dissolved on 14 June 2019

The Group's attributable interest is equal to 50% in China State - CR Construction Joint Venture (the "Entity"). However, under the joint venture agreement, the joint operators have contractually agreed to the sharing of control over the relevant activities of the Entity, and hence, the Entity is jointly controlled by the Group and the other joint operator. Furthermore, the joint venture agreement specifies that the Group and the other party to the joint arrangement have rights to the assets and obligations to the liabilities relating to the joint arrangement in accordance with the attributable interest of the Group as disclosed above and the interest attributable to the other joint operator, respectively, and therefore, the Entity is classified as a joint operation.

The Entity is contracted to carry out building construction work in Hong Kong which is strategic to the Group's principal activities in construction work.

## 17. Contract assets

		31 December 2019	31 December 2018	1 January 2018
	Notes	HK\$'000	HK\$'000	HK\$'000
Contract assets arising from construction services	(a)	1,024,970	640,073	357,286
Retention receivables	(b)	545,518	498,602	394,570
		<b>1,570,488</b>	1,138,675	751,856
Impairment		(515)	-	-
		<b>1,569,973</b>	1,138,675	751,856



# NOTES TO FINANCIAL STATEMENTS

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## 17. Contract assets (Continued)

Notes:

- (a) Contract assets consist of the Group's rights to consideration for works completed but unbilled amounts resulting from construction contracts and RMAA services. The contract assets are transferred to trade receivables when the rights become unconditional which is generally one to three months. The increase in contract assets in 2019 and 2018 was the result of the increase in the provision of construction services at the end of each of the years.

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

	2019 HK\$'000	2018 HK\$'000
Within one year	<b>1,024,634</b>	640,073

- (b) Retention receivables held by contract customers arising from the Group's construction work and certain RMAA work are settled within a period ranging from one year to two years after the completion of the construction work and acceptance by customers, as stipulated in the construction contracts.

The due date for settlement of the Group's retention receivables as at 31 December is as follows:

	2019 HK\$'000	2018 HK\$'000
Due within one year	<b>332,974</b>	271,534
Due after one year	<b>212,365</b>	227,068
	<b>545,339</b>	498,602

During the year ended 31 December 2019, HK\$515,000 (2018: Nil) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 18 to the financial statements.

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of year	–	–
Impairment losses (note 7)	<b>515</b>	–
At end of year	<b>515</b>	–

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

# NOTES TO FINANCIAL STATEMENTS

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## 17. Contract assets (Continued)

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

	2019	2018
Expected credit loss rate	<b>0.033%</b>	–
Gross carrying amount (HK\$'000)	<b>1,570,488</b>	–
Expected credit losses (HK\$'000)	<b>515</b>	–

The expected credit loss rate for the Group's contract assets is minimal for the year ended 31 December 2018.

## 18. Trade receivables

	2019 HK\$'000	2018 HK\$'000
Trade receivables	<b>386,867</b>	688,719
Impairment (note 7)	<b>(2,773)</b>	–
	<b>384,094</b>	688,719

The Group's trading terms with its customers are on credit. The Group's credit period with customers range from 14 to 45 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019 HK\$'000	2018 HK\$'000
Within 1 month	<b>305,324</b>	597,891
1 to 2 months	<b>41,015</b>	44,566
2 to 3 months	–	13,074
Over 3 months	<b>37,755</b>	33,188
	<b>384,094</b>	688,719

# NOTES TO FINANCIAL STATEMENTS

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## 18. Trade receivables (Continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of year	–	–
Impairment losses (note 7)	<b>2,773</b>	–
At end of year	<b>2,773</b>	–

The increase in the loss allowance during the year was due to the increase in the loss allowance of HK\$2,773,000 as a result of an increase in trade receivables which were past due for over 3 months.

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

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

### As at 31 December 2019

	Current	Less than 1 month	Past due 1 to 3 months	Over 3 months	Total
Expected credit loss rate	<b>0.033%</b>	<b>0.06%</b>	<b>1.39%</b>	<b>6.46%</b>	<b>0.72%</b>
Gross carrying amount (HK\$'000)	<b>314,045</b>	<b>28,382</b>	<b>4,323</b>	<b>40,117</b>	<b>386,867</b>
Expected credit losses (HK\$'000)	<b>104</b>	<b>17</b>	<b>60</b>	<b>2,592</b>	<b>2,773</b>

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9 which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit loss rate for the Group's trade receivables is minimal for all ageing bands by due dates of trade receivables for the year ended 31 December 2018.

# NOTES TO FINANCIAL STATEMENTS

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## 19. Prepayments, deposits and other receivables

	2019 HK\$'000	2018 HK\$'000
Prepayments	<b>6,301</b>	13,530
Deposits and other receivables	<b>41,223</b>	19,607
	<b>47,524</b>	33,137
Less: Non-current prepayments and deposits	<b>(1,519)</b>	(9,568)
	<b>46,005</b>	23,569

Deposits and other receivables mainly represent rental deposits and insurance claims receivables. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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

## 20. Cash and cash equivalents and pledged deposits

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	<b>150,798</b>	103,091
Time deposits	<b>26,338</b>	25,961
	<b>177,136</b>	129,052
Less: Pledged time deposits for banking facilities	<b>(26,338)</b>	(25,961)
Cash and cash equivalents	<b>150,798</b>	103,091

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

# NOTES TO FINANCIAL STATEMENTS

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## 21. Trade and retention payables

	<i>Notes</i>	<b>2019</b> HK\$'000	2018 HK\$'000
Trade payables	<i>(a)</i>	<b>714,681</b>	621,820
Retention payables	<i>(b)</i>	<b>409,116</b>	363,049
		<b>1,123,797</b>	984,869

Notes:

- (a) An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>2019</b> HK\$'000	2018 HK\$'000
Within 1 month	<b>458,713</b>	379,025
1 to 2 months	<b>118,856</b>	116,160
2 to 3 months	<b>126,120</b>	117,256
Over 3 months	<b>10,992</b>	9,379
	<b>714,681</b>	621,820

The trade payables are non-interest-bearing and are normally settled within one month.

- (b) Retention payables held by the Group arose from the Group's construction work and RMAA work and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract work by the subcontractors, as stipulated in the subcontracting contracts.

## 22. Other payables, accruals and provision for reinstatement

	<b>2019</b> HK\$'000	2018 HK\$'000
Other payables	<b>13,299</b>	12,682
Accruals	<b>516,522</b>	539,433
Provision for reinstatement ( <i>note</i> )	<b>4,000</b>	4,000
	<b>533,821</b>	556,115
Non-current portion	–	(4,000)
Current portion	<b>533,821</b>	552,115

Other payables are non-interest-bearing and there are generally no credit terms.

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## 22. Other payables, accruals and provision for reinstatement (Continued)

Note:

The movement in the provision for reinstatement during the year is as follows:

	Provision for reinstatement HK\$'000
At 1 January 2019 and 31 December 2019	4,000

Pursuant to the terms of the respective tenancy agreements entered into by the Group, the Group is required to return its leased properties to the conditions as stipulated in the tenancy agreements at the expiration of the corresponding lease term as appropriate. The provision for reinstatement costs was estimated based on certain assumptions and estimates made by the Group's management with reference to quoted prices and/or other available information. The assumptions and estimates are reviewed on an ongoing basis and revised as appropriate.

## 23. Interest-bearing bank borrowings

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank loans - secured	-	-	-	4.1- 4.6	On demand	120,000

	2019 HK\$'000	2018 HK\$'000
Analysed into:		
Bank loans repayable:		
On demand	-	120,000

Notes:

- (a) As at 31 December 2018, all of the Group's bank loans were secured by corporate guarantees given by the intermediate holding company and letters of comfort given by the intermediate holding company.
- (b) All borrowings were in Hong Kong dollars.

# NOTES TO FINANCIAL STATEMENTS

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## 24. Deferred tax

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

	Provision HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Total HK\$'000
At 1 January 2018	–	1,932	1,932
Deferred tax credited to the profit or loss during the year (note 11)	–	(769)	(769)
At 31 December 2018 and 1 January 2019	–	1,163	1,163
Deferred tax charged/(credited) to the profit or loss during the year (note 11)	(543)	355	(188)
At 31 December 2019	(543)	1,518	975

There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

## 25. Share capital

	2019 HK\$'000	2018 HK\$'000
Authorised:		
10,000,000,000 (2018: 38,000,000) ordinary shares of HK\$0.01 each	<b>100,000</b>	380
Issued and fully paid:		
500,000,000 (2018: 1,696,000) ordinary shares of HK\$0.01 each	<b>5,000</b>	17

# NOTES TO FINANCIAL STATEMENTS

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## 25. Share capital (Continued)

The movements in the Company's share capital during the year were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK'000
Authorised:			
At 1 January 2018, 31 December 2018 and 1 January 2019	(a)	38,000,000	380
Increase in authorised share capital on 17 September 2019	(c)	9,962,000,000	99,620
At 31 December 2019		10,000,000,000	100,000
Issued and fully paid:			
At 1 January 2018	(a)	1,000	*
Acquisition of subsidiaries under common control pursuant to the Reorganisation on 9 February 2018	(b)	1,695,000	17
At 31 December 2018 and 1 January 2019		1,696,000	17
Capitalisation issue of shares	(d)	359,454,000	3,595
Issue of new shares pursuant to the Share Offer	(e)	138,850,000	1,388
At 31 December 2019		500,000,000	5,000

\* The item above had an amount less than a thousand.

Notes:

- (a) The Company was incorporated on 20 July 2017 with initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each. On the date of incorporation, 1,000 ordinary shares of HK\$0.01 each were allotted and issued by the Company.
- (b) Pursuant to the Reorganisation, on 9 February 2018, 1,695,000 ordinary shares of HK\$0.01 were further allotted and issued by the Company. An aggregate amount of HK\$310,268,000 was debited to the share premium, being the difference between the par value of the shares issued and the deemed consideration for the Reorganisation.
- (c) Pursuant to the authority given by the resolution of the sole shareholder of the Company on 17 September 2019, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01 each, to HK\$100,000,000 divided into 10,000,000,000 shares with par value of HK\$0.01 each, by the creation of an additional 9,962,000,000 shares.
- (d) Pursuant to the authority given by the resolution of the sole shareholder of the Company on 17 September 2019, an aggregate amount of HK\$3,595,000 standing to the credit of the share premium of the Company was approved to be capitalised and applied in paying in full at par of 359,454,000 ordinary shares of HK\$0.01 each for allotment and issued on 16 October 2019.
- (e) On 16 October 2019, 138,850,000 ordinary shares of HK\$0.01 each were issued under the share offering in connection with the Listing of the shares of the Company on the Stock Exchange at a subscription price of HK\$1.00 per share. Among the proceeds from the issue of new shares, before issuance expenses of HK\$14,878,000, amounting to HK\$138,850,000, HK\$1,388,000 and HK\$137,462,000, were credited to issued share capital and share premium of the Company, respectively. Dealings on the Stock Exchange commenced on 16 October 2019.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 26. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

### (a) Share premium

The share premium represents the difference between the par value of the shares issued and the deemed consideration for the Reorganisation, capitalisation issue and Share Offer as described in note 25.

### (b) Merger reserve

The balance of the merger reserve at represents the difference between the aggregate of the paid-up share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange therefor pursuant to the Reorganisation.

### (c) Capital reserve

The Capital reserve represents the contribution from an intermediate holding company with respect to the consideration for the acquisition of a subsidiary in prior years.

# NOTES TO FINANCIAL STATEMENTS

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## 27. Notes to the consolidated statement of cash flows

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$1,792,000 and HK\$1,792,000, respectively (2018: HK\$7,003,000 and HK\$7,003,000), and non-cash disposal to right-of-use assets and lease liabilities of HK\$1,013,000 and HK\$1,031,000, respectively (2018: Nil), in respect lease arrangements for buildings and plant and machinery.

### (b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowing HK\$'000	Lease liabilities HK\$'000
At 1 January 2018	–	26,888
New bank borrowings	970,000	–
Repayment of bank borrowings	(850,000)	–
Changes from financing cash flows	–	(16,121)
New leases	–	7,003
Interest expense	–	637
Interest paid classified as operating cash flows	–	(637)
At 31 December 2018 and 1 January 2019	120,000	17,770
New bank borrowings	1,190,000	–
Repayment of bank borrowings	(1,310,000)	–
Changes from financing cash flows	–	(14,816)
New leases	–	1,792
Termination of leases	–	(1,031)
Interest expense	–	329
Interest paid classified as operating cash flows	–	(329)
At 31 December 2019	–	3,715

### (c) Total cash outflow for leases

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

	2019 HK\$'000	2018 HK\$'000
Within operating activities	329	637
Within financing activities	14,816	16,121
	<b>15,145</b>	16,758

# NOTES TO FINANCIAL STATEMENTS

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## 28. Contingent liabilities

- (a) As at 31 December 2019, performance bonds of approximately HK\$775,629,000 (2018: HK\$930,508,000) were given by banks 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 their customers. If the Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contract work.

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

- (b) In the ordinary course of the Group's construction business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or of the Group's subcontractors in accidents arising out of and in the course of their employment. At the end of the reporting period, the directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

## 29. Pledge of assets

Details of the Group's assets pledged for the Group's bank loans and banking facilities are included in notes 20 and 23 to the financial statements.

## 30. Commitments

The Group had the following capital commitments at the end of each reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for:		
Plant and machinery	–	744

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 31. Related party transactions

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

	Notes	2019 HK\$'000	2018 HK\$'000
Administrative expenses paid on behalf of an intermediate holding company	(i)	97	–
Expenses recharged by an intermediate holding company	(ii)	1,446	66

Notes:

- (i) Administrative expenses paid on behalf of an intermediate holding company were determined based on actual costs incurred, as mutually agreed between the parties.
- (ii) The expenses paid on behalf of the Group by an intermediate holding company consisted of staff costs and other administrative expenses. All administrative expenses were determined based on actual costs incurred.

### (b) Other transactions with related parties

In the prior year, the Group's intermediate holding companies had guaranteed certain bank loans and banking facilities made to the Group of up to HK\$720,000,000 for the year ended 31 December 2018.

In the prior year, the Group's intermediate holding company had also provided letters of comfort for certain banking facilities amounting to HK\$2,320,000,000 for the year ended 31 December 2018. According to the letters of comfort, the intermediate holding company shall provide the Group with the support and assistance as may be required to ensure that the Group maintains the capital and liquidity level to enable it at all times to meet its obligations. In the event that the Group fails to meet its obligations and duties, the intermediate holding company shall raise sufficient available funds or provide available funds raised from other parties for the Group in order to meet all its obligations and duties under the facility letter. The letters of comfort have been released upon the Listing of the Company.

### (c) Compensation of key management personnel of the Group

The compensation of key management personnel of the Group for the year represented the directors' emoluments as disclosed in note 9 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 32. Financial instruments by category

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

### Financial assets

	Financial assets at amortised cost	
	2019 HK\$'000	2018 HK\$'000
Trade receivables	<b>384,094</b>	688,719
Financial assets included in prepayments, deposits and other receivables	<b>41,223</b>	19,607
Pledged deposits	<b>26,338</b>	25,961
Cash and cash equivalents	<b>150,798</b>	103,091
	<b>602,453</b>	837,378

### Financial liabilities

	Financial liabilities at amortised cost	
	2019 HK\$'000	2018 HK\$'000
Trade and retention payables	<b>1,123,797</b>	984,869
Financial liabilities included in other payables and accruals	<b>500,576</b>	526,300
Interest-bearing bank borrowings	–	120,000
Lease liabilities	<b>3,715</b>	17,770
	<b>1,628,088</b>	1,648,939

## 33. Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents, trade and retention payables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of non-current deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and approximated to their carrying amounts.

# NOTES TO FINANCIAL STATEMENTS

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## 34. Financial risk management objectives and policies

The Group's principal financial instruments include trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents, trade and retention payables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and cash equivalents, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group had certain concentrations of credit risk as the trade and retention receivables in terms of the following percentages were due from the Group's largest external customer and the Group's five largest external customers out of the Group's total trade receivables:

	2019 %	2018 %
Due from the Group's largest external customer	22	21
Due from the Group's five largest external customers	60	68

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

The Group has applied the simplified approach to providing for impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information.

All of the current portions of the other receivable balances are expected to be recovered or recognised as expenses within one year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 34. Financial risk management objectives and policies *(Continued)*

### Credit risk *(Continued)*

#### Maximum exposure and year-end staging

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

#### As at 31 December 2019

	12-month ECLs HK\$'000	Lifetime ECLs Simplified approach HK\$'000	Total HK\$'000
Contract assets*	–	1,570,488	1,570,488
Trade receivables*	–	386,867	386,867
Financial assets included in prepayments, deposits, and other receivables			
- Normal**	41,223	–	41,223
Pledged deposits			
- Not yet past due	26,338	–	26,338
Cash and cash equivalents			
- Not yet past due	150,798	–	150,798
	<b>218,359</b>	<b>1,957,355</b>	<b>2,175,714</b>

#### As at 31 December 2018

	12-month ECLs HK\$'000	Lifetime ECLs Simplified approach HK\$'000	Total HK\$'000
Contract assets*	–	1,138,675	1,138,675
Trade receivables*	–	688,719	688,719
Financial assets included in prepayments, deposits, and other receivables			
- Normal**	19,607	–	19,607
Pledged deposits			
- Not yet past due	25,961	–	25,961
Cash and cash equivalents			
- Not yet past due	103,091	–	103,091
	<b>148,659</b>	<b>1,827,394</b>	<b>1,976,053</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 34. Financial risk management objectives and policies *(Continued)*

### Credit risk *(Continued)*

#### Maximum exposure and year-end staging *(Continued)*

- \* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 and 17 to the financial statements, respectively.
- \*\* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of funds generated from operations.

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

	On demand HK\$'000	Less than 1 year HK\$'000	More than 1 year HK\$'000	Total HK\$'000
As at 31 December 2019				
Trade and retention payables	64,838	909,099	156,078	1,130,015
Financial liabilities included in other payables and accruals	61	500,515	–	500,576
Lease liabilities	–	2,272	1,554	3,826
	<b>64,899</b>	<b>1,411,886</b>	<b>157,632</b>	<b>1,634,417</b>

	On demand HK\$'000	Less than 1 year HK\$'000	More than 1 year HK\$'000	Total HK\$'000
As at 31 December 2018				
Trade and retention payables	107,163	718,392	159,314	984,869
Financial liabilities included in other payables and accruals	146	526,154	–	526,300
Interest-bearing bank borrowings	120,000	–	–	120,000
Lease liabilities	–	14,860	3,301	18,161
	227,309	1,259,406	162,615	1,649,330



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 34. Financial risk management objectives and policies *(Continued)*

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payables, accruals and provision, interest-bearing bank borrowings and lease liabilities less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	2019 HK\$'000	2018 HK\$'000
Trade payables	<b>1,123,797</b>	984,869
Other payables and accruals	<b>533,821</b>	556,115
Interest-bearing bank borrowings	–	120,000
Lease liabilities	<b>3,715</b>	17,770
Less: Cash and cash equivalents	<b>(150,798)</b>	(103,091)
Net debt	<b>1,510,535</b>	1,575,663
Equity attributable to equity holders of the Company	<b>525,638</b>	343,148
Capital and net debt	<b>2,036,173</b>	1,918,811
Gearing ratio	<b>74%</b>	82%

## 35. Events after reporting period

The outbreak of Coronavirus Disease 2019 ("COVID-19") from early 2020 has created challenges to different industries of the society. The Group will closely monitor the development of the pandemic and is assessing the overall impact on the disruption to its business. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate over the financial impact on the Group at the date of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 36. Statement of financial position of the company

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

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSET		
Investment in a subsidiary	<b>310,285</b>	310,285
CURRENT ASSETS		
Amount due from subsidiaries	<b>123,733</b>	–
Cash at banks	<b>114</b>	68
Total current assets	<b>123,847</b>	68
CURRENT LIABILITIES		
Amount due to subsidiaries	–	7
NET CURRENT ASSETS	<b>123,847</b>	61
TOTAL ASSETS LESS CURRENT LIABILITIES	<b>434,132</b>	310,346
NET ASSETS	<b>434,132</b>	310,346
EQUITY		
Share capital	<b>5,000</b>	17
Reserves ( <i>note</i> )	<b>429,132</b>	310,329
Total equity	<b>434,132</b>	310,346

Note:

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

	Share premium HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2018	–	–	–
Acquisition of subsidiaries under common control pursuant to the Reorganisation on 9 February 2018	310,268	–	310,268
Profit for the year and total comprehensive income for the year	–	30,446	30,446
Dividends paid to the shareholder ( <i>note 12</i> )	–	(30,385)	(30,385)
At 31 December 2018 and 1 January 2019	310,268	61	310,329
Loss for the year and total comprehensive loss for the year	–	(186)	(186)
Capitalisation issue of shares	(3,595)	–	(3,595)
Issue of new shares pursuant to the Share Offer	137,462	–	137,462
Share issue expenses	(14,878)	–	(14,878)
At 31 December 2019	429,257	(125)	429,132

## 37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

# FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, and the figures for the years ended 31 December 2016, 2017 and 2018 extracted from the Prospectus are set out below:

## Results

	Year ended 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
REVENUE	<b>4,833,853</b>	4,813,860	3,141,390	2,577,398
Gross profit	<b>211,978</b>	185,460	165,960	120,469
PROFIT BEFORE TAX	<b>71,754</b>	77,046	73,239	54,697
Income tax expense	<b>13,236</b>	13,615	14,346	8,828
PROFIT FOR THE YEAR	<b>58,518</b>	63,431	58,893	45,869
Attributable to equity holders of the Company	<b>58,518</b>	63,431	58,893	45,869

## Assets and Liabilities

	As at 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	<b>2,203,901</b>	2,028,615	1,809,132	1,481,194
Total liabilities	<b>1,678,263</b>	1,685,467	1,499,030	1,079,977