Anchorstone Holdings Limited
基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1592

2020
ANNUAL REPORT

CONTENT

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2302, 23/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

COMPANY WEBSITE

http://www.anchorstone.com.hk

COMPANY EMAIL

info@anchorstone.com.hk

BOARD OF DIRECTORS

Mr. Lui Yue Yun Gary *(Executive Director, Chairman, Chief Executive Officer)*
Mr. Fung Wai Hang *(Executive Director, Company Secretary, Chief Financial Officer)*
Ms. Lui Po Kwan Joyce *(Executive Director)*
Mr. Lui Edwin Wing Yiu *(Executive Director)*
Mr. Ko Tsz Kin *(Independent Non-executive Director)*
Mr. Choi Hok Ya *(Independent Non-executive Director)*
Mr. Ng Yau Wah Daniel *(Independent Non-executive Director)*

BOARD COMMITTEE

Audit committee

Mr. Ko Tsz Kin *(Chairman)*
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

Remuneration Committee

Mr. Ng Yau Wah Daniel *(Chairman)*
Mr. Ko Tsz Kin
Mr. Lui Yue Yun Gary

Nomination Committee

Mr. Lui Yue Yun Gary *(Chairman)*
Mr. Ko Tsz Kin
Mr. Ng Yau Wah Daniel

COMPANY SECRETARY

Mr. Fung Wai Hang

AUTHORISED REPRESENTATIVES

Mr. Lui Yue Yun Gary
Mr. Fung Wai Hang

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F Prince's Building, Central, Hong Kong

PRINCIPAL BANKS

Hang Seng Bank
The Hongkong and Shanghai Banking Corporation
Chong Hing Bank
Bank of China (Hong Kong)

SHAREHOLDER INFORMATION

The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")

SHARE REGISTRAR

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

INVESTOR RELATIONSHIP

For enquiries, please contact: Mr. Fung Wai Hang, our Company Secretary
Email: ricofung@anchorstone.com.hk
Telephone: (852) 2511 6668
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FINANCIAL CALENDAR

For ascertaining shareholders' entitlement to attend and vote at Annual General Meeting, the closure dates of register of members will be on Thursday, 24 June 2021 to Tuesday, 29 June 2021 (both days inclusive), during which period no transfer of shares in the Company will be effected.

In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:30 p.m. on Wednesday, 23 June 2021.

The Annual General Meeting will be held on Tuesday, 29 June 2021 3:00 p.m., at Units 5906–12, 59/F, The Center, 99 Queen's Road Central, Hong Kong.

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present the annual results of the Group for the year ended 31 December 2020.

THE GROUP'S PERFORMANCE

This is a challenging year to the Group since most of our stone supply and installation projects undertaken were significantly delayed during the year due to the prolonged impact of the COVID-19 pandemic.

For the year ended 31 December 2020, the Group recorded a decrease of gross profit by approximately HK$24.2 million or 55.9% from approximately HK$43.3 million in 2019 to HK$19.1 million in 2020. In considering the economic environment, the Group also made provisions for loss allowance of the contract assets, trade and retention receivable of approximately HK$25.4 million for certain projects.

Facing this difficult moment, the Board has actively sought for cost reduction and co-operated with our customers and suppliers to improve the efficiency of work. The Group has also slowed down the business expansion plan for prudent consideration. Although the Group's business has been recovering since the last quarter of year 2020, it recorded a loss for the year of approximately HK$34.1 million.

BUSINESS ENVIRONMENT

Unexpected by the management, the overall business environment in Hong Kong was rapidly worsen during the year. This situation appears to be persistent in 2021. According to the latest labour force statistics (the provisional figures for November 2020 to January 2021) released in February 2021 by the Census and Statistics Department of Hong Kong SAR, the seasonally adjusted unemployment rate increased from 6.6% in October–December 2020 to 7.0% in November 2020–January 2020. In addition, the effect of COVID-19 vaccine and the performance of the local property market appear to be uncertain at the moment.

However, the construction industry is able to get used to the "new normal" under COVID-19 pandemic. We are happy to see that the delay situation of the Group's ongoing projects has become moderate since late 2020. In view of this, the Group is still confident in the future recovery of the industry.

We undertook a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong and Macau, including well-known international hotel's renovation and development projects, commercial plazas and office towers, and a number of well-known residential properties in the past. These experiences allow us to stay at the leading position in the industry. As a specialist contractor in marble and granite supply and installation in Hong Kong, we undertake marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels, and public infrastructures. We generally offer our services on project basis to our customers, and our works form part of the main construction and development contracts of our customers.

Given the Group has long history and experience in the industry, I strongly believe when the local economic recovered, the Group would be able to grasp the growth opportunities and recovered from the pandemic.

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

As a responsible corporation, the Group is committed to promoting social enhancement while developing its business. The Group has allocated resources to environmental protection measures and committed to protect the interests of our employees, customers and suppliers. An Environment, Social and Governance report is being prepared with reference to the Appendix 27 Environment, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange and included in this annual report. At the same time, the Group committed to maintain a high standard of corporate governance as usual.

APPRECIATION

In this difficult year, our staff has kept in their positions and made the best efforts to support the Group's business. I would also like to extend my gratitude to all my fellow directors and all our staff for their cordial contributions as usual. Also, I would like to express my deepest appreciation to the full trust and dedicated support from all the shareholders.

Lui Yue Yun Gary
Chairman
Hong Kong, 31 March 2021

BUSINESS REVIEW, MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Mainly due to the unexpected worsen and prolonged impact of the COVID-19 pandemic, most of the stone supply and installation services and stone sales projects undertaken by the Group were significantly delayed. The Group faced the most difficult and tough year since its establishment.

Although certain projects' status were resumed normal in late 2020, the overall performance of the Group was not satisfactory. For the year ended 31 December 2020, the Group recorded a revenue of approximately HK$170.3 million (2019: HK$324.3 million), representing a significant decrease of 47.5% compared with that in the year ended 31 December 2019.

The Group also recorded a decrease of gross profit for the year ended 31 December 2020 by approximately HK$24.2 million or 55.9% from approximately HK$43.3 million in 2019 to HK$19.1 million in 2020. In the view of the adverse economic environment in Hong Kong, the Group also made provision for loss allowance of the contract assets and trade and retention receivable of approximately HK$25.4 million for certain projects based on the impairment assessment.

Although the Group had undertaken certain cost cutting measures, such as the salary reduction for the key management, the Group still recorded a significant decrease of profit and total comprehensive income for the year ended 31 December 2020 by approximately HK$36.2 million and recorded a loss for the year of approximately HK$34.1 million.

As at 31 December 2020, certain bank borrowings with a total principal amount of HK$30,091,000 were overdue due to the construction project's delay. These conditions, together with the other matters described in Note 2.1(a) to the consolidated financial statements, may cast the doubt about the Group's liquidity as part of going concern consideration. However, there were no formal demand letters received from the relevant banks for immediate repayment. The major banking facility offered by the relevant banks were renewed without changes in the key terms and conditions. There are also no changes in the terms of the banking facilities which might affect the on-going compliance with the relevant construction contracts.

With the work status of the supply and installation projects of the Group have been gradually caught up since late 2020, the Group would be able to speed up the receivable collection cycle for the outstanding bank borrowings repayment. Subsequent to the balance sheet date, the Group has repaid approximately HK$34.9 million to the banks.

BUSINESS REVIEW

The Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. However, the overall business environment in Hong Kong deteriorate rapidly during the year. The adverse impact of the ongoing COVID-19 pandemic and the deterioration of the general economic environment on the Group's businesses has been unprecedented. Majority of the Group's ongoing projects had been delayed during the year.

In addition, the effect of COVID-19 vaccine and the performance of the local property market are still uncertain at the moment, which may affect the tendering activities of the construction industry in the future. At the same time, the increasing cost of building materials and construction labour costs posted negative impact on the performance of the construction section in Hong Kong, resulting in the thinner profit margin for the Group.

BUSINESS REVIEW *(Continued)*

Finally, the COVID-19 pandemic remains a significant risk to the Group and its business operations, and is likely to remain so well into 2021. Nevertheless, the management had tried the best to get the operations back on track as effectively and efficiently by closely working with its consumers, suppliers and subcontractors. As one of the leading marble subcontractor in Hong Kong, the Board is still confident about the future prospects of the Group.

ENHANCE OUR KEY BUSINESS VALUE

We supply marble and granite and provide relevant installation services for construction projects in Hong Kong. Marble and granite supplied by the Group are used in a variety of decorative settings for areas such as entrance lobbies, kitchens and bathrooms as well as external cladding of buildings and landscape. We believe that it has become popular in both residential and commercial properties to have marble and granite mouldings or columns with different polished profiles or edges for use in both the interior and exterior of the buildings to improve their looks and that marble and granite counter-tops, which are designed for bathrooms and kitchens, marble and granite claddings for window sills and different marble and granite pattern dados or floor patterns are widely used in residential and commercial properties. As a specialist contractor in marble and granite supply and installation in Hong Kong, we undertake marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels, and public infrastructures.

We generally offer our services on project basis to our customers, and our works form part of the main construction and development contracts of our customers. In addition, we specialise in using marble and granite as principal raw materials in our services. We consider that, due to the characteristics of different kinds of natural marble and granite, fabrication and installation of marble and granite demand special techniques and experience in handling marble and granite. We have established relationships and connections with a network of stone suppliers, installation subcontractors and other suppliers. We continuously monitor, evaluate and update our databases of our suppliers and installation subcontractors in respect of their quality standards, pricing, capacities, capabilities, performance and service levels so that we have up-to-date market knowledge.

RELATIONSHIPS WITH KEY CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

The Group maintains a good relationship with our customers, subcontractors and suppliers. The Group aims to continue providing quality services to our customers and establishing cooperation strategy with our subcontractors and suppliers.

Most of our customers are main contractors in Hong Kong. As a subcontractor, depending on the specific requirements of individual contracts, we provide one-stop comprehensive services principally covering the following scope:

— recommending and sourcing of marble and granite prescribed by our customers or otherwise in conformity with the requirements of our customers;

— arranging fabrications of marble and granite into customised sizes;

— arranging delivery and installation of marble and granite on external cladding of buildings, landscape and/or the interiors of the buildings such as entrance lobbies, kitchens and bathrooms; and

— arranging post-installation services such as polishing and cleaning.

RELATIONSHIPS WITH EMPLOYEES

The Group has positioned itself to attract and retain talented people and provided our employees with a fair and inclusive working environment. We will maintain good relationship with our employees. At the same time, we will continue to enhance our competitiveness by building on the capabilities of its employees. The Group will maintain support to the development of employees with training and encourage them to engage in lifelong learning.

PRINCIPAL RISKS AND UNCERTAINTIES

Our revenue relies on successful tenders of marble and granite work projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers. Marble and granite may fail to gain market acceptance due to changes in our customers' consumption pattern.

Whether we are able to submit tender proposal at a competitive price with adequate profit margin and maintain our profitability depends on various factors. We generally prepare our tender and quotation based on our estimated project costs (which mainly include subcontracting costs and material costs) plus a mark-up margin at the time when we submit our tender for projects or our initial proposals to our potential customers. When we determine the tender price, we also take into account factors including (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group's resources and expertise; (vi) market conditions; (vii) our working capital and financial condition; (viii) our relationship with the customers; and (ix) capacity of our project management team. However, our profit may be substantially reduced if our subcontracting and material costs significantly increase after tender or if we encounter delays in completing our projects.

In addition, our cash flows may deteriorate due to potential mismatches in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers. We generally incur significant costs including materials costs and service fees of our fabricators and installation subcontractors before we receive the progress payments from our customers for our projects. The mismatch in time between receipt of payments from our customers, and payments to our subcontractors and suppliers may materially and adversely affect our liquidity and financial condition. For example, the control policy in relation to the spread of the novel coronavirus in year 2020 has affected our project status, and thus the collection of certain receivables have been unexpectedly prolonged due to the overall work status of the Group's projects were delayed.

GOING CONCERN AND MITIGATION MEASURES

For the year ended 31 December 2020, the Group reported a net loss attributable to the equity holders of the Company of approximately HK$34.1 million (2019: a net profit attributable to the equity holders of the Company of approximately HK$2.1 million) and had a net cash used in operations of approximately HK$18.4 million (2019: approximately HK$4.5 million) for the year ended 31 December 2020. As at 31 December 2020, the Group's current bank borrowings was HK$158,819,000 (2019: HK$146,405,000), while its total cash and bank balance was HK$34,725,000 (2019: HK$40,307,000) which included pledged bank deposits of HK$34,507,000 (2019: HK$37,385,000). Out of the total bank borrowings of HK$132.8 million as at the 31 December 2020, the balance amounted to HK$91.7 million was overdue.

GOING CONCERN AND MITIGATION MEASURES *(Continued)*

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and in an effort to remediating the delayed repayments to the relevant banks, which are set out in Note 2.1(a) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties as stated in the independent auditor's report, including (i) the successful negotiation with the banks for extension of the bank borrowings and granting waiver of their rights arising from the events of default; (ii) performance bonds issued through bank guarantee would not be cancelled; (iii) the successful conclusion of the Holdco Facility as mentioned in Note 2.1(a) to the consolidated financial statements, the successful draw down by the Group to the extent of HK$150,000,000, as and when necessary, and continuing support from the immediate holding company to enable the granting of this facility and to observe whatever requirements imposed by the lender to ensure continuing availability of this facility; (iv) the successful implementation of the business plans to monitor the on-going impact of the COVID-19 outbreak on the business and to accelerate the certification, billing and collection process with customers for completed projects and accelerate the stone sales; (v) the successful negotiation with customers for payments of deposits prior to the commencement of projects and suppliers and subcontractors to extend the settlement terms for its purchase; (vi) the receipt of the proceeds from the two directors for the exercised share options; and (vii) the successful obtaining of additional new sources of financing as and when needed.

The management, taking into the following factors based on the existing facts and circumstances, considers that the Company would have the sufficient working capital to meet its financial obligations within the next twelve months:

— As at 31 December 2020, the Group's liquidate assets, including contract assets, receivables, deposits and prepayments, inventories and cash on hand (including pledged deposits) were approximately HK$330.6 million while its short-term liabilities, including bank borrowings and payables were only HK$199.6 million. Its financial assets are sufficient to cover its financial liabilities.

— The Group had negotiated with the banks for extension of the overdue bank borrowings and granting waiver of their rights arising from the events of default. Based on the management's best understanding, the banks in principle accepted the repayment plan(s) proposed by the Company, of which the Company would settle the outstanding loan balances subsequent to the balance sheet date by different phases and within year 2021. Such proposed timeline of the repayment plan in general aligned with the accounts receivable cycle of the Group. As agreed, the Group has repaid HK$34,851,000 in relation to these overdue borrowings during the post balance sheet period ended 31 March 2021. Based on the latest communications, in light of the above repayment under the current economic and based on the discussions with the relevant banks, the banks would not issue formal demand letters to the Company for immediate repayment at the moment, and would communicate with the management on the Group's financial position. Until all overdue outstanding loan could be settled, the banks would not grant any waiver to the Company to release their relevant rights under the clause of event of default as stipulated in the facilities. The performance bonds granted under the bank facility is still in good standing.

— In light of the latest development of COVID-19 pandemic and the vaccine rollout timetable, it is expected that the business operation of the Group starts to recover with progressively loosening lockdown restrictions on the economic activities in Hong Kong and Macau.

GOING CONCERN AND MITIGATION MEASURES *(Continued)*

— The management prepared the cashflow forecast and monitored its working capital from time to time. Given the cash flows forecast, there noted positive position of cashflow at the end of each month for financial year ending 31 December 2021. The cashflow forecast is prepared on a number of conservative assumptions with reference to financial parameters in financial year 2020, including the ability to obtain new financing other than the banks, the successful implementation of the business plans and to accelerate the certification, billing and collection process with customer for completed projects, the successful obtaining deposits from new customers and accelerating the stone sales would improve the operating cash inflow positions of the Group, and the successful extension of the settlement terms with the Company's major suppliers and subcontractors for approximately 30 to 60 days.

Considering the above, the management believe that the consolidated financial statements shall be prepared based on a going concern basis.

The audit committee of the Company ("**Audit Committee**") understands the uncertainties in relation to going concern and has discussions with the management in this regard. The Audit Committee concurs the view with the management, particularly, deliberations were focused on the uncertainty and difficulties faced by the Company in the COVID-19 pandemics. The Audit Committee is of the view that the Group could address the issue of uncertainties relating to going concern.

ADDITIONAL INFORMATION REGARDING THE DISCLAIMER OF AUDIT OPINION

In consider the fundamental uncertainties relating to the going concern basis of presentation of financial statements which stated in the independent auditor's report and Note 2.1(a) to the consolidated financial statements, the auditor had issued the disclaimer opinion on the Group's consolidated financial statements for the year ended 31 December 2020.

The Audit Committee agreed with the management that the Group should have sufficient working capital to meet its financial obligation within the next twelve months. However, the Audit Committee do not disagree with the auditor that there might be some uncertainties underlying the ongoing business operation in the next twelve months.

The Company is actively taking actions to alleviate the uncertainties raised by the auditor, this included:

— When the Group has strived to settle over 50% of the overdue bank borrowings in the extremely difficult business environment during the last six months, the directors will keep close communication with our major banks to make the repayment as agreed. Although the banks did not issue waiver letters for their rights to request immediate repayment, they had discussed with the chief executive officer of the Group to agree with the repayment plans. Up to the date of this report, the Group was able to meet the repayment plans. Given the latest assessment and our positive initiatives, the management consider that the uncertainties of immediate request of bank borrowings is remote.

— The Group would still seek for the alternate source of financing in case of contingency in relation to working capital position.

— The Group would take action to speed up its cash collection cycle with its customers.

— For new contracts concluded in the future, the Group would request sufficient deposits prior to the commencement of projects.

ADDITIONAL INFORMATION REGARDING THE DISCLAIMER OF AUDIT OPINION *(Continued)*

— The Group would obtain supports from its executive directors if there noted short-term cash flows financing needs.

The directors of the Company will continue to devote their efforts to improve the cashflow position by taking the measures above.

According to the latest repayment plans with the relevant banks, the Group would be likely to settle all the overdue bank borrowings in year 2021. At the same time, it is expected the adversities of COVID-19 pandemic on the construction industry would be substantially reduced in light of the latest development and thus the cash collection cycle with customers would speed up by then. Therefore, it is expected that the audit modifications could be resolved satisfactorily by the end of 2021.

IMPACT OF COVID-19

The control policies, including the travel restriction and other public health measures imposed by the Hong Kong SAR Government and the Government of Mainland China had adversely affected the work progress of the Group's projects on hand since early 2020. Although it did not post a significant negative impact on the Group's financial situation in early 2020, the unexpected prolonging of the epidemic has affected the project status and the recoverability of accounts receivables in particular since the second quarter of 2020. As a result, the Group's turnover had been rapidly decreased after the first quarter of 2020 and the operation cash inflows had been significantly dropped.

The Group's revenue decreased in 47.5% in 2020 as compared with 2019. The Group recorded an operating loss and loss before income tax for approximately HK$25.7 million and HK$34.1 million representatively. It's net cash flows decreased by HK$12.8 million. Its cash and bank balances also dropped significantly by approximately HK$92.5% to HK$0.2 million. This tighten the working capital of the Group and caused certain bank borrowings were overdue as described in Note 2.1(a) to the consolidated financial statements. However, no formal demand letters for immediate repayment had been issued to the Group and/or its subsidiaries by the relevant banks. The Group had actively discussed the subsequent repayment plans with the relevant banks. The banks facilities, nevertheless, have been renewed without material changes in its key terms and conditions.

Certain measures such as cost control and adjustment to the Group's business plans had been taken to manage the impact of the Covid-19 pandemic. The management has also assessed the Group's liquidity positions and working capital sufficiency with reference to the operations and capital commitments. Accordingly, the Group's current ratio and quick ratio in 2020 was 1.6 and 1.2 representatively. Besides, taking into on the results of cash flow forecasts and the latest business recovery environment, though slow, the management concluded that the Group will have adequate resources to continue and resume its business operations and to meet its financial obligations as and when they fall due in the next 12 months from the year end date. The Group would also seek for the alternate source of financing in case of contingency in relation to working capital position. At the same time, certain projects have been resumed in the last quarter of 2020 and the working capital of the Group has improved in early 2021.

The management will continue to monitor closely the status of our projects on hand and assess the impact of the overall business environment on the Group.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Environment, Social and Governance Report of the Company for the year ended 31 December 2020 contained the information required under Appendix 27 to the Listing Rules is set out in pages 21 to 43 of this report.

EMPLOYEES AND REMUNERATION POLICY

We outsourced the stone processing to our fabricators who were responsible for fabricating the stones to meet the specifications as requested by our customers and delivering the processed stones to the construction sites. We also rely on installation subcontractors in Hong Kong to install the cut-to-size panels. As at 31 December 2020, the Group had 21 full-time employees who were directly employed by the Group.

Total staff costs including directors' emoluments for the year ended 31 December 2020 amounted to approximately HK$9.7 million (2019: approximately HK$14.4 million). The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee. During the year ended 31 December 2020, there has not been any incident of strike or labour shortage which adversely affected the Group's operations. In addition, the Group has not experienced any significant problem with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

The Group joined the "Employment Support Scheme" launched by the Government of Hong Kong SAR during the year. As part of the cost cutting measures, the key management's overall remuneration has been reduced during the year.

TREASURY POLICY

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2020 and as at the report date, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operation of the Group.

SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE AND UP TO THE REPORT DATE

Details of events occurring after the reporting period are listed as follows:

On 24 February 2021, the Company allotted 23,200,000 shares at HK$0.249 each upon two directors exercised their share options of 12,000,000 shares and 1,200,000 shares respectively, and allotted 10,000,000 shares at HK$0.249 each upon a consultant of the Group exercised his share options.

On 30 March 2021, PMG Investments Limited, the substantial shareholder of the Company which Mr. Lui Yue Yun Gary (being an executive director of the Company) is the sole director of it, had been force sold 10,000,000 shares of the Company during the relevant black-out period of directors at HK$1.2 per share by a stockbroker of it under a financing arrangement. This is under an exceptional circumstance within the meaning of paragraph C.14 of Appendix 10 to the Listing Rules. The shares being sold represented 0.8% of the total issued share capital of the Company as at 30 March 2021.

USE OF PROCEEDS FROM SHARE OFFER

On 4 July 2018, the Company issued a total of 300,000,000 shares by way of public offering and placing at a price of HK$0.4 per share, and successfully listed its share on the Hong Kong Stock Exchange Limited. The net proceeds of the share offer received by the Company in relation to the listing of its share were approximately HK$73.2 million, after deduction of underwriting fee, commissions and all related expenses. The table below sets out the proposed application of the net proceeds and its utilisation status as at 31 December 2020.

	Percentage of net proceeds %	Net proceeds HK$'million	Amount utilized HK$'million	Amount remaining HK$'million	Expected timeline
Financing the start-up costs for awarded or potential projects submitted	79.5	58.2	(58.2)	–	Not applicable
Strengthening project management team	3.6	2.6	(1.3)	1.3	In considering the impact of COVID-19 to the Group's financial performance, the Group extended the project team enhancement plan to year 2022.
Enhancing services and increasing sales and marketing efforts	4.1	4.4	(4.4)	–	Not applicable
Implementing a computerised ERP system and recruiting additional technology staff to support the ERP system	3.0	2.2	(0.2)	2.0	In considering the impact of COVID-19 to the Group's financial performance, the Group extended the ERP system development to year 2022.
Repaying outstanding trust receipt loan	8.0	5.8	(5.8)	–	Not applicable
Total	**100.0**	**73.2**	**(69.9)**	**3.3**	

As at the report date, the Directors consider that these proceeds have been applied in accordance with the proposed application set out in the Prospectus dated 20 June 2018. The unutilised amount of the net proceeds have been deposited in the bank accounts of the Company and its subsidiaries.

OUTLOOK AND PROSPECTS

The Group's performance in 2020 did not demonstrate a sanguine outlook. However, this is mainly affected by the COVID-19 pandemic which the Board believes that the continuous strong demand in the luxury construction material, such as marble, still existed in Hong Kong. The local and global economic environment would become active again when the COVID-19 pandemic being overcome, and the Group's business would be able to catch up.

FINANCIAL REVIEW

OPERATING RESULTS

The Group is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. Having accumulated over 25 years of experience in the industry, the Group has undertaken various sizeable stone supply projects and stone supply and installation projects in Hong Kong and Macau.

The Group's overall performance in 2020 was not satisfactory. Its profit for the year ended 31 December 2020 had significantly decreased and the Group recorded a loss for the year of approximately HK$34.1 million.

The profit decrease was mainly due to (i) the worsen of the impact of the COVID-19 pandemic in the year caused delaying in the progress of most of the stone supply and installation services projects undertaken by the Group. As a result, the Group recorded a significantly decrease in gross profit for approximately HK$24.2 million as compared with the gross profit for the corresponding period in 2019; (ii) the slightly decrease in gross profit margin from approximately 13.4% in 2019 to 11.2% in 2020; (iii) the provision for loss allowance of the contract assets, trade and retention receivable of approximately HK$25.4 million for certain projects based on the impairment assessment by management; and (iv) the increase in finance cost of approximately HK$0.97 million due to the extension of certain trust receipt loans with banks and the additional interest charged from certain overdue borrowings as described in Note 2.1(a) to the consolidated financial statements.

The decrease in profit during the year had been offset by the significant decrease in administrative expenses by approximately HK$9.7 million, which mainly due to the decrease in employee benefit expenses under the cost cutting measures of the Group and the decrease in the legal and professional fees.

FINANCIAL REVIEW

REVENUE

The Group generated revenue from the foundation projects we undertook. The Group recorded a revenue of approximately HK$170.3 million for the year ended 31 December 2020, representing a significant decrease of 47.5% compared with that in the year ended 31 December 2019. The decrease is mainly due to the fact that majority of the projects undertaken by the Group were delayed.

Hong Kong

Revenue in Hong Kong decreased by approximately HK$148.7 million or 57.7% in 2020 since most of the projects undertaken by the Group were delayed in the year. For certain projects' variation orders, the certification and quality review procedures had been longer due to the impact of COVID-19 pandemic.

Macau

The Group focus primarily on hotel development projects in Macau. Revenue in Macau had slightly decreased by approximately HK$5.2 million or 7.8% in 2020.

GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales mainly includes the cost of raw materials, fabrication expenses, transportation and subcontracting costs. The Group's overall gross profit margin has declined from around 13.4% in 2019 to around 11.2% in 2020, mainly due to the change in project mix and the general increase in the cost of projects.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Group in 2020 was approximately HK$21.5 million, representing a decrease of approximately HK$9.9 million or 31.5% as compared to approximately HK$31.3 million in 2019. The decrease was mainly due to: (i) the decrease in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK$4.7 million mainly due to the cost cutting measure of the Group and the decrease in overall headcount; and (ii) the decrease in legal and professional fee by approximately HK$1.7 million since the Group had terminated the potential major transactions as compared to that of 2019.

The travelling expense and other general administrative expense had also decreased under the cost cutting measures.

FINANCE COSTS

The increase in finance cost was mainly due to the extension of certain trust receipt loans and additional interest cost for certain overdue bank borrowings.

INCOME TAX EXPENSE

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

No provision for income tax expense has been made in 2020 as the Group (and its subsidiaries) recognized loss for the year.

No provision for deferred taxation has been made in 2020 since no significant deferred taxation liability was expected to crystallise.

LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Based on the above, loss attributable to equity holders of the Company was approximately HK$34.1 million for the year ended 31 December 2020, as compared to the profit attribute to equity holders of approximately HK$2.1 million for the year ended 31 December 2019.

(LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The basic losses per share was approximately 2.82 HK cents (2019: basic earnings per share 0.17 HK cents). The decrease is due to the significant decrease in profit and a loss for the year was recorded in 2020. As the impact of dilutive element was not significant, the diluted losses per share was also approximately 2.82 HK cents (2019: diluted earnings per share 0.17 HK cents).

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2020, the Company has not considered the effect of the share options given that the effect is anti-dilutive.

DIVIDEND

The directors do not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded the liquidity and capital requirements primarily through its retained profits, borrowings and cash inflows from operating activities. As at 31 December 2020, the capital structure of the Group consisted of equity of approximately HK$124.0 million (31 December 2019: HK$152.1 million) and debt (the most significant portion is the bank borrowings) of approximately HK$158.8 million (31 December 2019: HK$146.4 million). For details, please refer to the paragraph headed "Bank borrowings" below.

Due to the difficult operation environment in 2020, most of the projects' work were delayed and thus the receivables collection cycle of the Group had unexpectedly procrastinated. As a result, the Group failed to repay certain trust receipt loans by the due date during the year. Such trust receipt loans were secured by the assets of the Group, including the trade and retention receivables, pledged deposits and contract assets, and were cross guaranteed by the Group's subsidiaries to the relevant banks.

As at the report date, the Group has not received any formal demand letters from the relevant banks for immediate repayment of full balance, and the bank borrowing facilities granted to the Group were still effective.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to the banks, including speed up the project status and receivable collection cycle, the repayment of trust receipts loan principal and interest of approximately HK$34.9 million to the bank subsequent to the balance sheet date and actively discussed and agreed the repayment plans with the relevant banks to extend the principal subsequent to the due date. The Group expected that there would be no overdue payments to the banks in late 2021 by settling the overdue balance in accordance with the repayment plans. In addition, since status of the on-going projects have been caught up gradually since late 2020, the Group is able to speed up the receivable collection period in 2021.

Based on the cash flow projections cover a period of not less than twelve months from 31 December 2020 and the measurements mentioned in Note 2.1(a) to the consolidated financial statements, the Group is expected to have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020, subject to the multiple uncertainties as mentioned in Note 2.1(a) to the consolidated financial statements.

The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

CASH POSITION AND FUND AVAILABLE

The Group maintained the liquidity position by managing its gearing ratio and its current ratio. As at 31 December 2020, the current ratio of the Group was approximately 1.6 times (31 December 2019: 1.8 times). Its gearing ratio was 50% (31 December 2019: 41%).

The Group's current ratio was calculated as the current assets divided by the current liabilities as at the end of the respective years. Its gearing ratio was calculated as the net debts (bank borrowings less the bank and cash balance and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%.

As at 31 December 2020, the Group's bank and cash balance were approximately HK$0.2 million (31 December 2019: HK$2.9 million). It has pledged bank deposits of approximately HK$34.5 million (31 December 2019: HK$37.4 million) to secure the Group's banking facilities. The decrease in cash and cash equivalents was mainly due to the increase in inventories and contract assets for the projects undertaken during the year, while most of the projects of the Group were delayed in their work status.

BANK BORROWINGS

As at 31 December 2020, the Group had total bank borrowings of approximately HK$158.8 million (31 December 2019: HK$146.4 million). As at 31 December 2020, the Group had aggregate banking facilities of approximately HK$174.9 million (2019: HK$174.9 million).

The bank facilities were still effective as at the report date.

As at 31 December 2020, certain bank borrowings whose principal amount of HK$30,091,000 were overdue. Subsequent to the balance sheet date, other bank borrowings with a total principal amount of HK$61,612,000 became overdue. However, the Group has repaid HK$34,851,000 to the banks subsequent to the balance sheet date. The Group also communicated the repayment plans with the relevant banks in year 2021.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Details of the going concern assessment by the directors are set out in Note 2.1(a) to the consolidated financial statements.

GEARING RATIO

The gearing ratio was calculated as the net debts (bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%. The gearing ratio of 2020 was 50% (31 December 2019: 41%).

NET CURRENT ASSETS

As at 31 December 2020, the Group had net current assets of approximately HK$124.2 million (31 December 2019: HK$148.9 million). The decrease in net current assets position was mainly attributable to the increase in trade and retention payables and bank borrowings during the year.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements.

PLEDGE OF ASSETS

As at 31 December 2020, except for the pledged bank deposits stated in the paragraph headed "Cash position and fund available" above, certain trade and retention receivables and contract assets set out in Note 22 to the consolidated financial statements, the Group has no other pledged assets.

THE BANK BORROWINGS COVENANTS

Except for the overdue borrowings as set out in Note 2.1(a) to the consolidated financial statements, the Group had complied with all the financial covenants as at 31 December 2020. Details of the bank borrowings are set out in Note 22 to the consolidated financial statements.

CASH FLOWS

The Group's cash flows has been presented in the consolidated statement of cash flows and Note 28 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2020.

FOREIGN EXCHANGE RISK

The Group mainly operates in Hong Kong and most of the operating transactions, including the Macau projects, such as revenue, expenses, monetary assets and liabilities, are denominated in Hong Kong dollars. As such, the directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$5,138,000 (2019: HK$1,466,000). Among these performance bonds, approximately HK$1.5 million were related to the construction contracts that completed or substantially completed during the year.

During the year ended 31 December 2020, the legal cases of the Group were as follows:

(i) The workers of the Group's subcontractors initiated claims for personal injuries against certain subsidiaries of the Group. The amount being claimed for all these cases was HK$878,000. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claims through mediation and the amount of the possible obligation cannot be measured with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment of service rendered of HK$8,763,000. As at the date of this report, the Group took legal actions to defend against the claim and the likelihood of the plaintiff succeed in the whole of its claim is remote.

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group is one of the leading and well-established subcontractors in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. We believe sustainability is a key to achieve continuous success and we have integrated it into our business strategies.

This Environmental, Social and Governance Report (the "**ESG Report**") summarises the environmental, social and governance ("**ESG**") initiatives, plans and performances of the Group and demonstrates its commitment to sustainability development.

The ESG Governance Structure

The Group has set up an ESG working taskforce (the "**Taskforce**"), composed of staff from relevant departments during the year, in which, full-time staff has been assigned to collect the data relevant to ESG and compile an ESG report. The Taskforce would periodically report to the directors, assisting in the assessment and identification of the risk management of the Group on ESG aspects and whether its internal control system is appropriate and effective. The Taskforce reviews the ESG performance of the Group, including environmental, labour practices, and other ESG aspects. The directors set the tone at the top for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

SCOPE OF REPORTING

Unless specified otherwise, the ESG Report covers the Group's business activities in Hong Kong office, which represents the Group's major sources of revenue. The ESG Report covers the Group's policies, compliance issues as well as key performance indicators ("**KPI**") in Environmental and Social areas. The ESG KPI data is gathered and included subsidiaries under the Group's direct control. The Group will extend the scope of disclosures when it becomes applicable to do so.

REPORTING FRAMEWORK

The ESG Report was prepared in compliance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") contained in Appendix 27 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited.

For the Group's corporate governance practices, please refer to pages 44 to 60 for the section "Corporate Governance Report" contained in the Group's 2020 Annual Report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2020.

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have maintained close communication with our key stakeholders, including but not limited to shareholders and investors, customers and business partners, employees, suppliers and subcontractors, as well as media, non-governmental organisations ("**NGOs**") and the public. We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, as shown below.

Stakeholders	Communication channel
Shareholders and investors	• General Meeting and Other Shareholder Meetings • Annual Reports and Interim Reports • Announcements and Circulars • Website
Customers and business partners	• Customer Support Hotline and Email and Liaison with the Responsible Staff
Employees	• Trainings, Seminars and Briefing Sessions • Regular Performance Reviews
Suppliers and subcontractors	• Supplier Management Meetings and Events • Procurement Manager
Media, NGOs and the public	• ESG Report

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The management and staff of the Group's respective major operations have participated in the preparation of the ESG Report to assist the Group in reviewing our operations and identifying relevant ESG issues and assess the importance of related matters to our businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

The following table is a summary of the Group's material ESG issues included in this ESG Report:

The ESG Reporting Guide	Material ESG aspects of the Group	
A. Environment		
A1. Emissions	Exhaust Gas and Greenhouse Gas ("**GHG**") Emissions	P.25
	Waste Management	P.27
A2. Use of Resources	Electricity and Energy Consumption	P.29
A3. The Environment and Natural Resources	Environmentally Friendly Installation Methods	P.31

MATERIALITY ASSESSMENT *(Continued)*

The ESG Reporting Guide	Material ESG aspects of the Group	
B. Social		
B1. Employment	Recruitment, Remuneration, Promotion and Dismissal	P.32
	Communication Channels	P.32
	Diversity, Equal Opportunities and Anti-discrimination	P.33
B2. Health and Safety	Safety Plans and Trainings	P.34
B3. Development and Training	Training and Development Management	P.34
B4. Labour	Prevention of Child and Forced Labour	P.35
B5. Supply Chain Management	Supply Chain Management Structure	P.35
	Environmental and Social Responsibilities of Suppliers	P.36
	Fair and Open Procurement	P.36
B6. Product Responsibility	Quality Control of Projects	P.37
	Customer Privacy Protection	P.38
	Customer Services	P.38
	Protection of Intellectual Property ("**IP**") Rights	P.38
B7. Anti-corruption	Anti-corruption	P.39
B8. Community Investment	Community Participation	P.40

As at the year ended 31 December 2020, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You can provide valuable advices in respect of the ESG Report or our performances in sustainable development by info@anchorstone.com.hk.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and KPIs

The Group principally engages in the subcontracting of the supply and installation of marble and granite for construction projects. We recognise our responsibilities towards the potential direct and indirect negative environmental impacts associated with our business operations.

By integrating environmental consideration into our decision making processes, we embrace our responsibilities to create an environmentally sustainable business. We are also committed to raising our employee's environmental awareness and complying with relevant environmental laws and regulations. The Group complies with applicable laws and regulations, including but not limited to the Waste Disposal Ordinance, Air Pollution Control Ordinance and Noise Control Ordinance under the Hong Kong laws during the year.

To enhance our environmental governance practice and mitigate the environmental impacts produced by our operations, we have implemented relevant environmental protection policies and communicated such policies to our employees. These policies encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method and planning their works to efficiently eliminate waste to the maximum extent with the view to achieving long-term costs savings. The concept of "reduction at source" is adopted in our Waste Management Practices, encouraging staff to consider the environment before printing the tender documents and recycling waste papers. In the long run, we will continue to enhance our environmental management strategies in monitoring and minimising the environmental impacts brought by our businesses regularly in the coming years.

During the year, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

As a corporation providing subcontracting services on the supply and installation of marble and granite, the Group's daily operations have minimal impacts on the environment while its emissions are limited to GHG, domestic waste water, and non-hazardous wastes. Nevertheless, we still focus on nurturing and strengthening our employees' awareness of environmental protection in their daily work processes, and actively implement the Group's environmental protection measures, with the aim to lower the GHG emissions and reduce non-hazardous wastes generation.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions

Exhaust Gas Emission

Due to our business nature, the Group considers the relevant air emission generated is not significant. However, we still strive to mitigate the exhaust gas generated from our operation process as much as possible. For example, we have stringent quality control measures on stone fabrication, which help to avoid the need to carry out on-site remedial fabrication works so as to cut down dust emission.

GHG Emissions

The principal GHG emissions of the Group are generated from the gasoline consumption of vehicles (Scope 1) and purchased electricity (Scope 2).

We have adopted the following measures to mitigate the direct GHG emission from gasoline consumption in our operations:

- Select the shortest route to and from the site of the Group and the targeted venue;
- Switch off engine whenever the vehicle is left in an idle position; and
- Provide maintenance service to the vehicles on a regular basis to ensure engine performance and efficient use of fuel.

Consumption of electricity is accounted for the most significant source of indirect GHG emission. The Group has implemented measures stated in “Electricity and Energy Consumption” of Aspect A2 below in order to reduce energy consumption, and thereby minimising carbon footprint.

Through these GHG emissions mitigating measures, the employees’ awareness on GHG emissions mitigation has been enhanced.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Exhaust Gas and GHG Emissions *(Continued)*

GHG Emissions (Continued)

The summary of GHG emissions performances:

Indicator[1]	Total emissions (calculated in tCO_2e)	Intensity[2] (tCO_2e/employee)
For the year ended 31 December 2019		
Direct GHG emissions (Scope 1) — Gasoline	24.26	0.81
Indirect GHG emissions (Scope 2) — Electricity	26.21	0.87
Total GHG emissions (Scope 1 and Scope 2)	50.47	1.68
For the year ended 31 December 2020		
Direct GHG emissions (Scope 1) — Gasoline	27.84	1.27
Indirect GHG emissions (Scope 2) — Electricity	25.71	1.17
Total GHG emissions (Scope 1 and Scope 2)	53.55	2.43

Notes:

1. GHG emission data is presented in terms of carbon dioxide equivalent and is based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, emission factor released by Hong Kong Electric Investments in 2017, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5).

2. As at 31 December 2020, the Group had 21 full-time direct employees in total (2019: 30). The data is also used for calculating other intensity data.

The direct GHG emissions increased this year, which was mainly due to transportation usage on more frequent site visits for our operation needs. Meanwhile, we did put in effort to promote green office which lead to a decrease in indirect GHG emissions this year. The GHG emission intensity increased this year mainly due to decrease in average headcount.

Sewage Discharge

We do not consume significant volume of water through our business activities, and therefore our business activities do not generate material portion of discharge into water. The majority of the water supply and discharge facilities are provided and managed by property management company.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management

Hazardous waste handling method

Despite the Group did not generate hazardous wastes during the year due to our business nature, we have established guidelines in governing the management and disposal of hazardous wastes. In case there is any hazardous waste produced, we must engage a qualified chemical waste collector to handle such waste, which is complied with the relevant environmental regulations and rules.

Non-hazardous waste handling method

The Group's wastes mainly come from office operation, including non-hazardous wastes such as paper. With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, the Group has implemented measures to handle such wastes and launched different reduction initiatives.

We have implemented the following procedures to encourage employees to share responsibilities in waste management and minimise waste generations:

- Uses double sided printing or photocopying wherever possible;
- Utilises electronic media for communication;
- Recycles one-sided printed paper;
- Avoids single-use disposable items; and
- Places "Green Message" reminders on office equipment.

While for wastes generated in the installation processes, subcontractors are responsible for the disposal processes. We require our subcontractors to comply with the Waste Disposal Ordinance, ensuring all waste materials are properly handled, stored and disposed. Our project coordinators or site managers, who station in the construction sites, will request the subcontractor or person-in-charge to clean up and discard the wastes generated during installation to keep the workplace clean. Therefore, we do not generate installation wastes directly in our operational processes.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and KPIs *(Continued)*

Waste Management *(Continued)*

Non-hazardous waste handling method (Continued)

The summary of major non-hazardous wastes discharge performance:

Category of waste	Total discharge (pieces)	Intensity (pieces/employee)
For the year ended 31 December 2019		
Paper[3]	345,155	11,505
For the year ended 31 December 2020		
Paper[3]	205,000	9,318

Note:

3. Equivalent to approximately 0.93 tonnes for the year ended 31 December 2020 (2019: 1.51 tonnes).

The decrease in number of paper waste this year was mainly as a promotion of green office environment and encourage of double-pages printings.

A2. Use of Resources

General Disclosure and KPIs

The Group strives to optimise resource usage in our business operations and take initiatives to introduce measures on promoting resource efficiency and adopting eco-friendly approaches in our operations. In our operations, gasoline, electricity and water are frequently consumed, and the Group has established relevant policies and procedures in governing the efficient use of resources, in reference to the objective of achieving higher energy efficiency and reducing the unnecessary use of materials. Internal memos are circulated to staff, encouraging the environmentally friendly practices. We have also encouraged our subcontractors to adopt similar principles.

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Electricity and Energy Consumption

The major energy consumption of the Group in daily operation is electricity consumption in the operation and gasoline consumption via transportation.

The Group has formulated rules and regulations to achieve the goal of electricity saving and efficient consumption. The relevant specific measures are as follows:

- Selects energy-efficient equipment and electrical appliances for production, office and domestic electricity use;
- Forbids the use of large-power electrical appliances such as heaters, kettles, refrigerators, etc., to avoid electricity overload. Employees should turn off all electrical appliances used by them when they leave office;
- Turns off all unnecessary lights, air conditioners, computers and other office equipment in office areas, conference rooms and corridors when they are not in use to avoid waste of electricity;
- Uses LED lamps instead of traditional lamps;
- Regulates the use of air conditioners strictly to prevent waste of electricity;
- Turns off computers (host or monitor) when employees go out for a long time, and switches computers to standby or sleep mode when employees go out for lunch; and
- Enhances the maintenance and overhaul of equipment, maintain the best condition of all electronic equipment for effective use of electricity.

As a result, the employees' awareness of energy conservation has been increased through these energy-saving measures.

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Electricity and Energy Consumption *(Continued)*

During the year, the energy consumption of the Group and its intensity were as follows:

Type of energy	Energy consumption (unit)	Intensity (unit/employee)
For the year ended 31 December 2019		
Gasoline[4]	8,959 litres	298.63 litres/employee
Electricity	33,182 kWh	1,106.07 kWh/employee
For the year ended 31 December 2020		
Gasoline[4]	10,281 litres	467.32 litres/employee
Electricity	31,857 kWh	1,448.05 kWh/employee

Note:

4. In reference to the conversion provided on U.S. Energy Information Administration Energy Conversion Calculators, gasoline consumption equivalent to approximately 93,560.10 kWh for the year ended 31 December 2020 (2019: 83,550.33 kWh).

We consumed more gasoline this year, which was mainly due to more construction site visit activities taken place in order to catch up the work status. Meanwhile, we did consume less electricity this year as our management encouraged energy saving in office and promote a green office environment.

Water Consumption

Water consumption of the Group is mainly for basic business operation, cleaning and sanitation. We encourage all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to use water reasonably.

Due to our business nature, we do not consume significant amount of water through our business activities. The majority of the water supply facilities are provided and managed by property management company, so the procurement of suitable water sources is not relevant to the Group.

Use of Packaging Material

Due to our business nature, the Group do not consume significant amounts of package materials for product packaging as it has no industrial production or any factory facilities.

A. ENVIRONMENTAL *(Continued)*

A3. The Environment and Natural Resources

General Disclosure and KPIs

Although the core businesses of the Group have limited impact on the environment and natural resources, as an ongoing commitment to corporate social responsibility, we recognise the importance of minimising the negative environmental impacts of our business operations. We are also devoted to achieve sustainable development for generating long-term values to the community and our stakeholders.

We spend efforts in mitigating our potential environmental impacts through adopting industry best practices targeted at reducing natural resources consumption and effective environmental management. We regularly assess the environmental risks of our businesses, adopt preventive measures to reduce potential risks and ensure compliance with relevant laws and regulations.

The Group believes that it is essential for us to act as an environmentally responsible contractor to meet the customers' demands in environmental protection and the expectation of the community for a healthy living environment.

Environmentally Friendly Installation Methods

Our environmental protection related policies encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method. We emphasise on the planning of work in order to utilise materials used and eliminate waste of resources to the maximum extent. Our project managers, site managers or site coordinators will monitor the projects to ensure they are operated in line with the related environmental protection policies.

B. SOCIAL

B1. Employment

General Disclosure

Human resources are the foundation for the Group's continuous development. Hence, we established relevant employment policies adopting people-oriented management and realising the full potential of employees. Relevant employment policies are formally documented, covering recruitment, compensation, promotion, working hours and rest periods, diversity and equal opportunities, etc. We review these policies and our employment practices periodically to ensure continuous improvements of our employment standards.

During the year, the Group was not aware of any material non-compliance with employment-related laws and regulations including but not limited to the "Employment Ordinance", that would have a significant impact on the Group.

Recruitment, Remuneration, Promotion and Dismissal

We adopt robust and transparent recruitment processes based on merit selection against the job criteria. Recruitment of individuals are based on their suitability for the position and potential to fulfil the Group's current and future needs. We ensure our employees and applicants are treated and evaluated in a fair way. The basis for compensation and promotion are job-related skills, qualifications and performances. Employee promotion of the Group is subject to annual appraisal. The Group has established objective performance indicators for annual performance evaluation. We compensate employees relative to the industry and local labour markets that we operate, which consists of competitive level of fixed and variable compensation including cash and other benefits. Remuneration packages include holidays, annual leave, discretionary bonuses and allowance, etc. We review the performance of our employees from time to time in order to determine salary adjustments and promotion appraisals.

Communication Channels

We recognise the importance to maintain close and open communication with our employees. Employees are encouraged to exchange information, ideas and views about matters of mutual interest and concern through both formal and informal channels. We have established various communication channels with our employees, including mailbox for recommendation, performance review meeting and employee satisfaction survey. Management reviews the result of the survey and implement corresponding improvement actions.

B. SOCIAL *(Continued)*

B1. Employment *(Continued)*

General Disclosure *(Continued)*

Diversity, Equal Opportunities and Anti-discrimination

A diverse and skilled workforce is crucial for the success of our business. The Group is committed to creating and maintaining an inclusive and collaborative workplace culture. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace that is free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation. We also strive to ensure that complaints, grievances and concerns, including whistle blowing, are dealt with promptly and confidentially. We have zero tolerance on sexual harassment or abuse in the workplace in any form.

B2. Health and Safety

General Disclosure

The Group is committed to providing a safe and healthy working environment for the benefit of our employees and subcontractors. We have established a safety plan which sets out a health and safety management programme for safety assurance and accident prevention. We review the related policies and practices on an annual basis to ensure continuous improvements of our health and safety standards.

During the year, the Group was not aware of any material non-compliance with health and safety-related laws and regulations including but not limited to Occupational Safety and Health Ordinance, that would have a significant impact on the Group.

We will continue to invest sufficient resources and devote efforts to maintain and enhance safety management so as to reduce the risks involved in health and safety.

B. SOCIAL *(Continued)*

B2. Health and Safety *(Continued)*

General Disclosure *(Continued)*

Safety Plans and Trainings

We conduct regular safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to persons and properties. Emergency and evacuation procedures were established to respond timely and orderly in any major safety accidents. Employees are free to provide feedbacks on improving the workplace safety and report any potential hazards that may lead to injury or danger.

Our direct employees are not engaged in the provision of any installation works and the principal exposure of our direct employees to any work safety occurs when they are required to be on-site for construction site visits and perform inspection of the progress of our projects. We emphasise the importance of strict compliance with safety requirements to our employees, to ensure that there is no accident to themselves or others that work on our projects. We also require our subcontractors to abide by all applicable laws, regulations and safety requirements imposed by the relevant government authorities.

We believe that our employees are important assets to the Group. All employees at the sites should attend the training organised by the Group on occupational safety and environmental control. We also provide on-the-job trainings to our employees and they are required to attend occupational safety courses provided by Construction Industry Council.

B3. Development and Training

General Disclosure

Training and Development Management

The Group recognises the valuable contribution of our talents for the continued success. Nurturing talents and polishing the skills of our human capital is crucial in leading us to excellence. This is achieved through development of training strategy that focuses on creating values and serving the needs of our customers, talents and society.

We recognise the importance of training and development for our staff to keep abreast of the latest trend in the industry and the dynamic pace in current domestic market. To ensure effective training programs are implemented, the Group has established policies in controlling the training related procedures. Training contents are regularly updated to ensure contents are relevant to stakeholders' changing needs such as laws and regulations, technological changes, market trends, product trends and customer behavioural changes. We review these policies and our training and staff development activities annually to improve relevant provision continuously.

We also encourage our employees to attend trainings and obtain professional qualifications. Various training programs such as induction trainings and vocational trainings are organised, allowing employees to have a better understanding of the Group's business model and enhance their basic skills and expertise.

B. SOCIAL *(Continued)*

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. The Group strictly complies with local laws and conducts recruitment based on the "Employment Ordinance".

Personal data is collected during the recruitment process to assist the selection of suitable candidates and to verify candidates' personal data. The Human Resources Department also ensures identity documents are carefully checked. If violation is involved, it will be dealt with in the light of the circumstances.

Furthermore, employees of the Group work overtime on a voluntary basis to prevent any breach of labour standards. At the same time, the Group will not use suppliers and services of those vendors and contractors with records of using child or forced labour.

During the year, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, including but not limited to the "Employment Ordinance" that would have a significant impact on the Group.

B5. Supply Chain Management

General Disclosure

Supply Chain Management Structure

The Group highly values our relationship with suppliers (including sub-contractors) and regards them as important business partners. All suppliers are evaluated carefully and subjected to regular monitoring and assessment. The Group has formulated related policies and procedures to manage its suppliers and to ensure the policies and procedures are reviewed annually.

Our purchase contracts are entered with our suppliers on a case-by-case basis, where we generally specify the type, quantity, price and delivery of the materials that we purchase. Suppliers are responsible for the following processes:

- Procuring the blocks or slabs from the stone suppliers designated by us;
- Providing the cut-to-size panels based on the specifications provided by us;
- Delivering the cut-to-size panels to the location designated by us;

B. SOCIAL *(Continued)*

B5. Supply Chain Management *(Continued)*

General Disclosure *(Continued)*

Supply Chain Management Structure *(Continued)*

- Submitting the samples of cut-to-size panels for our prior approval; and

- Replacing any defective or substandard cut-to-size panels at its own costs based on our inspection findings.

While the Group is responsible for:

- Inspecting the cut-to-size panels upon their arrival at the construction site; and

- Paying the contract price based on the actual quantity of cut-to-size panels provided and the unit price specified in the contract.

Since the installation subcontractors are not our employees or agents, our subcontracting contracts with them, to certain extent, vary in accordance with the terms of the main contracts with our customers for meeting the contractual requirements of our customers.

In order to manage the progress and quality of work conducted by our subcontractors, we typically engage subcontractors we have worked with for a number of years. Our site managers and/or project coordinators regularly review the work progress with the appointed subcontractors.

Environmental and Social Responsibilities of Suppliers

Apart from managing quality and progress of work, we also take suppliers' environmental and social responsibilities into considerations during our procurement processes. The Group will continue to monitor its supply chain regarding the environmental and social standards. Looking forward, the Group will continue to require business partners to attach more importance to the sustainable development performances, so as to promote the sustainable development of the industry as a whole.

During the year, the Group was not aware of any key supplier that had any action or practice which have a significant negative impact on business ethics, environmental protection, human rights and labour practices.

Fair and Open Procurement

Rules are formulated to ensure that suppliers can participate in competitions in an open and fair way. The Group does not have differentiated or discriminated treatment on suppliers. We will strictly monitor our staff and personnel to prevent any business bribery. Employees or personnel having any interest relationship with the supplier should not be involved in the related business activity.

B. SOCIAL *(Continued)*

B6. Product Responsibility

General Disclosure

The Group highly values customers' satisfaction and end-users' requirements in our services provided. In pursuit of excellence in the quality of products we produce, we have assigned our quality assurance and quality control staff to oversee the procurement and fabrication process.

The quality management system of the Group is applicable to all operation related departments. Regular internal audit on the effectiveness and level of compliance of quality management system are carried out on an annual basis. Moreover, management review meeting is conducted at least once a year to ensure the stability adequacy and effectiveness of the quality management system.

During the year, we were not aware of any incident of non-compliance with laws and regulations, including but not limited to the Personal Data (Privacy) Ordinance, Supply of Services (Implied Terms) Ordinance and Trade Descriptions Ordinance, that have a significant impact on the Group, concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Quality Control of Projects

Quality assurance serves as a preventive measure to ensure the fulfilment of stones quality requirements and specifications of our customers. The quality control processes can be categorised into four different processes.

- Stone selection: Our quality assurance and control manager, together with the facade or design consultant representative, architect representative (if any) and representative of our customers will conduct physical visit to target quarry to carry out work including (i) choosing the desired stone colour range; (ii) establishing the bench, layer and locations where the particular colour range will be quarried; and (iii) determining if there is sufficient stones of the desired colour for the project.

- Blocks selection: Our quality control staff will examine the blocks. Blocks with defects including cracks, badly chipped edges, stress fractures, excessive microcracking, holes, pits, inclusions, surface weathering, staining or any feature which the architect considers unacceptable or detrimental to the performance of the stone will be rejected. Testing of stone will be carried out to ensure compliance with the stone specification and the requirements of any relevant regulatory authorities.

- Fabrication: Once the block has been sawn and the slabs exposed, each cut-to-size panel will be individually inspected, ensuring that the cut-to-size panel produced will correspond to the control samples previously selected. After the slabs have been cut into finished pieces, we will carry out a prelaying check to inspect the size and colour range of the panels. With respect to marbles and granites for exterior use, further testing will also be carried out on a sampling basis to ensure that any deviation is within the manufacturing tolerances in accordance with the stone specifications and the panels fulfil the strength requirements.

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Quality Control of Projects *(Continued)*

- Installation: Our site manager or project co-ordinator will monitor the installation work carried out by our subcontractors to ensure that the stone panels are handled and transported in the construction site in a safe manner to prevent any damage, and that the stone panels are installed in the correct alignment and in accordance with approved drawing. We will also coordinate with other contractors on site to ensure the proper installation of our marbles and granites.

Customer Privacy Protection

The Group respects the values and rights of customers' information assets, and strictly complies with the customers' information security management systems and standards. We adhere to the "Personal Data (Privacy) Ordinance" of Hong Kong and expressly reiterates confidentiality obligations in the Code of Conduct. To prevent leakage of confidential information data or information, we have installed firewall, anti-virus and anti-spam solutions in our IT systems and are being upgraded constantly.

Customer Services

To provide a pleasant user experience for our customers, the Group has long established a set of procedures to handle customers' feedbacks or complaints in a professional manner. Customers' information will be recorded and enquiries or complaints cases received will be transferred to the Business Development Department for further handling. Reviews on feedback or complaints is conducted, and action plans are in place promptly to address the identified issues. Customers' satisfaction is evaluated after the cases are settled, and feedbacks or complaints may be circulated to management if necessary.

Protection of IP Rights

The Group registered a trademark of our company logo in Hong Kong by using "Anchorstone" as its brand name while our principal subsidiaries that undertaken projects during the year, including Pacific Marble & Granite Limited and PMG Engineering Limited, branded their businesses by using "PMG" as their brand names.

We are also the registered owner of the domain name www.anchorstone.com.hk. For any infringement of our IP, we will urge infringers to cease such action. The directors will take further action if infringement continues.

As the Group's operational process does not involve advertising and labelling practices, the information relating to advertising and labelling is considered as immaterial to the Group.

B. SOCIAL *(Continued)*

B7. Anti-corruption

General Disclosure

The Group has zero tolerance on corruption, fraud and all other behaviours violating work ethics. We value and uphold integrity, honesty and fairness in the way we conduct businesses.

The Group's major operations formulated such policies on the control and prevention of bribery, extortion, fraud and money laundering between shareholders and related parties in each business operation and trade activity.

During the year, the Group did not notice any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Prevention of Bribery Ordinance.

Anti-corruption

Basic standards of expected conducts for all employees are clearly set out in related anti-corruption policy and code of conduct. Any incidence that may have conflict of interest with the Company must be reported. Employees will be subjected to disciplinary actions if violation of related anti-corruption policy and code of conduct are found after investigation. Disciplinary actions include verbal or written warnings, demotion and dismissal, and the case may be reported to law-enforcement authorities for possible prosecution, depending on the situation.

In addition, an Audit Committee is established for continuous evaluation of the Group's internal control effectiveness, detecting potential deficiency, and identifying areas of improvement. Internal control report is distributed to the responsible department for timely remediation. The Board of Directors and Audit Committee will supervise and review the implementation and effectiveness of the related anti-corruption policies on a regular basis.

Whistle-blowing System

The Group has established a whistle-blowing system and implemented the whistle-blowing policy. This allows stakeholders to report negligence, corruption, bribery and other misconduct to the Group. The Group will process the reports promptly, fairly and confidentially.

B. SOCIAL *(Continued)*

B8. Community Investment

General Disclosure

The Group believes that returning to the society through social participation and contribution is a form of showing corporate responsibility. We also see the potential to nurture corporate culture and inspire our employees towards social concerns in the daily work life. We would embrace the human capital into the social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

Community Participation

We participate in various community activities to help the needy in society. To have a better understanding of the needs in society and strengthen the connection with local communities, we regularly communicate with local charities. We also encourage our employees to participate in community activities, suggest areas of contribution based on their personal experiences in the community, and actively participate in social voluntary work.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("**comply or explain**")	The types of emissions and respective emissions data.	Emissions — Exhaust Gas and GHG Emissions, Sewage Discharge, Waste Management
KPI A1.2 ("**comply or explain**")	GHG emissions in total (in tonnes) and intensity.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.3 ("**comply or explain**")	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management Not applicable — Explained
KPI A1.4 ("**comply or explain**")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("**comply or explain**")	Description of measures to mitigate emissions and results achieved.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.6 ("**comply or explain**")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

(Continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("**comply or explain**")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Electricity and Energy Consumption
KPI A2.2 ("**comply or explain**")	Water consumption in total and intensity.	Use of Resources — Water Consumption
KPI A2.3 ("**comply or explain**")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Electricity and Energy Consumption
KPI A2.4 ("**comply or explain**")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption
KPI A2.5 ("**comply or explain**")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Material Not applicable — Explained
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("**comply or explain**")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Environmentally Friendly Installation Methods
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Employment

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

(Continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

(Continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group committed to maintain high standards of corporate governance. The directors of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. We attach importance to our staff, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect and are committed to comply with the laws, rules and regulations of each country and area in which we operate, and we strive to ensure a healthy and safe working environment for our staff, which is our paramount concern.

Throughout the year 2020, the Group has applied the principles and complied with all code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the HKEX, except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the roles of the chairman and chief executive of the Company have not been segregated as required by the code provision A.2.1 of the CG Code. Mr. Lui Yue Yun, Gary is the chairman of the Company and the founder of the Group.

The Board considers that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is adequately ensured by the Board which comprise experienced and high caliber individuals with a sufficient number of them being independent non-executive directors of the Company ("**Independent Non-Executive Directors**" or "**INEDs**"). Therefore the Board has a strong independent element in its composition. In addition, the Board believes that the balance of power and authority is adequately ensured by the Board comprising experienced and high caliber individuals with a sufficient number thereof being INEDs. Beside, all directors (including INEDs) are subject to retirement by rotation in accordance with the Company's Articles of Association.

Paragraphs A.3(a)(i) of Appendix 10 to the Listing Rules stated that a director must not deal in any securities of the listed issuer on any day on which its financial results are published and: (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (ii) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results, unless the circumstances are exceptional, for example, where a pressing financial commitment has to be met as described in section C below. In any event, the director must comply with the procedure in rules B.8 and B.9 of this code.

The Company's blackout period commenced from 29 January 2021 to 31 March 2021 (both days inclusive). On 30 March 2021, PMG Investments Limited, the substantial shareholder of the Company which Mr. Lui Yue Yun Gary (being an executive director of the Company) is the sole director and beneficial of it, had been force sold 10,000,000 shares of the Company during the relevant black-out period of directors at HK$1.2 per share by a stockbroker of it under a financing arrangement (the "Disposal"). Mr. Lui Yue Yun had notified the board at a board meeting before the Disposal. The Company's directors (except Mr. Lui) are satisfied that the Disposal were occurred due to exceptional circumstances under paragraph C.14 of Appendix 10 to the Listing Rules. A written record had been maintained by the Company that the appropriate notification was given and acknowledged pursuant to rule B.8 of this code, and for the director concerned to have received written confirmation to that effect.

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Looking ahead, we will keep our governance practices under continuous review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

Pursuant to code provision C.1.3, where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the issuer's ability to continue as a going concern, they should be clearly and prominently disclosed and discussed at length in the Corporate Governance Report.

The auditors of the Company issued a disclaimer of opinion over the Group's ability to continue as a going concern due to multiple uncertainties relating to going concern that may cast doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. They are: (i) due to the overdue borrowings, the banks may request immediate repayable in accordance with the underlying bank facilities letters. Although the Group has not received any formal demand letters from the relevant banks, all the aforementioned bank borrowings have been classified as current liabilities as at 31 December 2020; (ii) performance bonds related to the bank facilities might be cancelled by a bank , which might result in non-compliance with the relevant construction contracts if the Group is not able to replace them with other equivalent performance bonds; and (iii) the Group might not able to achieve the plans and measures.

The Board has adopted and considered different measures with different dimensions to further improve its cash flows, which has been stated in the "Business Review, Management Discussion and Analysis" section of this report. In view of the aforesaid, the Board, including the Audit Committee, believes that the above measures, if materialised, will not only bring to the Group a significant improvement on the financial performance but also help to address the Disclaimer of Opinion of the Auditor, and accordingly is of the view that the Group could continue as a going concern.

For more details regarding the uncertainties relating to going concern are disclosed in the section "Management Discussion and Analysis" and Note 2.1(a) to the consolidated financial statements.

BOARD OF DIRECTORS

Overall Accountability

The Board is responsible for the leadership and control of the Company. The members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Group. The Board provides direction and approval in relation to matters concerning the Group's business strategies, policies and plans whilst the day-today business operations are delegated to the executive management.

As the Board is accountable to the shareholders and in discharging its corporate accountability, directors of the Company are required to pursue excellence in the interests of the shareholders and fulfill their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements and laws.

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his or her responsibilities. The Board is of the view that all directors have given sufficient time and attention to the affairs of the Group and the Board operates effectively as a whole.

BOARD OF DIRECTORS *(Continued)*

Board Composition

As at the date of this report, the Board comprises 4 executive directors ("**Executive Directors**" or "**EDs**") and 3 INEDs. They are:

Mr. Lui Yue Yun Gary *(Chairman)*
Mr. Fung Wai Hang
Ms. Lui Po Kwan Joyce
Mr. Lui Edwin Wing Yiu
Mr. Ko Tsz Kin
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of the Group's business.

INEDs comprise 42.9% (3 out of 7) of the Board, which satisfy the requirement of representing at least one-third of the Board. As required under Rule 3.10 of the Listing Rules, at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise. Mr. Ko Tsz Kin is a certified public accountant with the appropriate professional qualifications. The Company has received from each INED a confirmation of his or her independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all INEDs are independent.

The three INEDs are persons of high caliber, with academic and/or professional qualifications in the field of business, management, accounting and finance. With their experience gained from various sectors, they provided strong support towards the effective discharge of the duties and responsibilities of the Board. Each INED has confirmed his independence to the Company, and the Company considered each and every of them independent under Rule 3.13 of the Listing Rules.

Brief biographical particulars of the directors are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

All directors, including the INEDs, have a specific term of appointment which is not more than three years since his/her re-election by shareholders at the general meeting. Each director has entered into an appointment letter with the Company and pursuant to Article 104(A) of the Company's Articles of Association, every director, including the INEDs, shall be subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Separate resolutions are proposed for the election of each director. One-third of the directors, or if their number is not three or a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

Board Diversity Policy

The Board adopted a board diversity policy to recognise and embrace the benefits of diversity in the Board and is committed to enhancing quality of opportunity in all aspect of its business. The Company seeks to achieve Board diversity through the consideration against a range of objective criteria, including but not limited to gender, age, culture and educational background, ethnicity, professional qualification, experience, skill and knowledge. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy *(Continued)*

During the year ended 31 December 2020 and as at the date of this report, the Board compromises seven directors, one of whom is female. The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The following tables further illustrate the diversity of the Board Members as of the date of this annual report:

	Age group		
Name of directors	**Age (30–39)**	**Age (40–59)**	**Age (60 and above)**
Executive Directors:			
Mr. Lui Yue Yun Gary			✔
Mr. Fung Wai Hang	✔		
Ms. Lui Po Kwan Joyce	✔		
Mr. Lui Edwin Wing Yiu	✔		
INEDs:			
Mr. Ko Tsz Kin		✔	
Mr. Choi Hok Ya			✔
Mr. Ng Yau Wah Daniel			✔

	Professional experience and knowledge			
Name of directors	**Business and management**	**Construction and subcontracting**	**Accounting and finance**	**Other professional knowledge**
Executive Directors:				
Mr. Lui Yue Yun Gary	✔	✔		
Mr. Fung Wai Hang			✔	✔
Ms. Lui Po Kwan Joyce	✔			
Mr. Lui Edwin Wing Yiu		✔		
INEDs:				
Mr. Ko Tsz Kin			✔	
Mr. Choi Hok Ya	✔			
Mr. Ng Yau Wah Daniel	✔			

The Nomination Committee will monitor the implementation of the board diversity policy and report to the board annually. It will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

BOARD OF DIRECTORS *(Continued)*

Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should particular in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has regular updates with all existing directors with an aim to improve their general understanding of the Group's business, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. In addition, directors may also choose to attend external courses, conferences, seminars and luncheons organised by various local organisations.

Every newly appointed director is provided with a package comprising the induction materials such as the duties and responsibilities of directors under the Listing Rules and the Companies Ordinance, guidelines for directors issued by the Companies Registry of Hong Kong, legal and other regulatory requirements and the governance policies of the Company.

All directors from the Listing Date and up to the date of this report have participated in continuous professional development and provided to the Company a record of training they received for the year.

Board Responsibilities and Delegations

The Board collectively determines the overall strategies of the Group, monitors performance and the related risks and controls in pursuit of the strategic objectives of the Group. Day-to-day management of Group is delegated to the Executive Directors or officer in charge of each business function who reports back to the Board. Every director ensures that he/she gives sufficient time and attention to the affairs of Group.

All Board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of Group, including reports and recommendations on significant matters. All Board members are provided with monthly management updates of the business operations of the Group. Should separate independent professional advice be considered necessary by the directors, it will be made available to the directors upon request.

BOARD MEETING AND ATTENDANCE

The Board meets regularly at least four times a year to review financial and operating performance of the Group and to discuss future strategy and development. During the year ended 31 December 2020, four Board meetings were held. At the Board meetings, the Board reviewed significant matters including the financial information, annual budget, results announcement, proposals for dividends (if any), annual report, interim report and other business matters.

All minutes of the Board meetings are kept at the Company Secretary's office. The minutes are available to all directors for inspection.

Pursuant to the Company's Articles of Association, a director will abstain from voting on resolution(s) approving any contract, transaction or arrangement in which he/she or any of his/her close associates is materially interested in and such director is not counted for quorum determination purposes.

For the regular Board meetings, a schedule of Board meetings dates is fixed for each year in advance. At least 14 days' formal notice of all regular Board meetings is given to all directors and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all directors by email or by post at least 3 days in advance of every regular Board meeting.

Name of directors	Number of attendance
Mr. Lui Yue Yun Gary	4/4
Mr. Fung Wai Hang	4/4
Ms. Lui Po Kwan Joyce	3/4
Mr. Lui Edwin Wing Yiu	4/4
Mr. Ko Tsz Kin	4/4
Mr. Choi Hok Ya	3/4
Mr. Ng Yau Wah Daniel	4/4

Code Provision A.2.7 stipulates that the Chairman should at least annually hold meetings with the INEDs without the presence of other directors. During the year ended 31 December 2020, the Chairman has held one meeting with all INEDs without the presence of other Executive Directors.

GENERAL MEETING

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meeting or other general meetings to communicate with them and encourage their participation.

In 2020, one general meeting was held at Units 5906–12, 59/F, The Center, 99 Queen's Road Central, Hong Kong on Monday, 29 June 2020 at 3:00 p.m.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference on 3 July 2018 and revised on 31 December 2018.

The Audit Committee, with its terms of reference established in compliance with the Listing Rules, is composed of all three Independent Non-executive Directors (Mr. Ko Tsz Kin, Mr. Choi Hok Ya and Mr. Ng Yan Wah Daniel). The Audit Committee has reviewed the management and accounting policies adopted by the Group and discussed auditing, risk management and internal control system, and financial reporting matters.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee shall review the interim and annual reports before submission to the Board. The Audit Committee focuses not only the impact of the changes in accounting policies and practices but also the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

For the year ended 31 December 2020, the Audit Committee held two meetings:

Name of directors	Number of attendance
Mr. Ko Tsz Kin	2/2
Mr. Choi Hok Ya	2/2
Mr. Ng Yau Wah Daniel	2/2

The Audit Committee noted the existing risk management and internal control systems of the Group and also noted that review of the same will be carried out annually.

The Group's consolidated financial statements for the year ended 31 December 2020 were audited by PricewaterhouseCoopers whose term of office will expire upon the conclusion of the forthcoming annual general meeting of the Company. On 31 March 2021, the Audit Committee has recommended to the Board that PricewaterhouseCoopers be re-appointed as the auditor of the Company at the forthcoming annual general meeting.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference on 3 July 2018 in compliance with the Listing Rules, which was set up with the responsibility of making recommendations to the Board the remuneration policy of all the directors and the senior management. The Remuneration Committee is composed of the Chairman of the Board (Mr. Lui) and two Independent Non-executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin).

For the year ended 31 December 2020, the Remuneration Committee held two meetings:

Name of directors	Number of attendance
Mr. Ng Yau Wah Daniel	2/2
Mr. Ko Tsz Kin	2/2
Mr. Lui Yue Yun Gary	2/2

The emoluments payable to directors and senior management depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of Remuneration Committee, the performance of the Group, the prevailing market condition and other necessary factors. Details of the remuneration of the directors and senior management are set out in Note 9 to the consolidated financial statements.

Senior Management's Remuneration

The remuneration of every senior management for the year ended 31 December 2020 is set out below:

Name of senior management	HK$'000
Mr. Lui Yue Yun Gary	3,611
Mr. Fung Wai Hang	899
Ms. Lui Po Kwan Joyce	633
Mr. Lui Edwin Wing Yiu	779
Mr. Kan Shu Kai Rale	833

NOMINATION COMMITTEE

The Company established the Nomination Committee with written terms of reference on 3 July 2018 in compliance with the Listing Rules, which is composed of the Chairman of the Board (Mr. Lui) and two Independent Non-Executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin). The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed change.

For the year ended 31 December 2020, the Nomination Committee held two meetings:

Name of directors	Number of attendance
Mr. Lui Yue Yun Gary	2/2
Mr. Ko Tsz Kin	2/2
Mr. Ng Yau Wah Daniel	2/2

Nomination Policy and Directors Selection Criteria

A nomination policy has been adopted by the Board to enable the Nomination Committee to consider and make recommendations to the shareholders for election as directors at general meetings or to the directors for appointment to fill casual vacancies.

In considering the nomination of new directors, the Nomination Committee will take into account the factors listed below as reference in assessing the suitability of a proposed candidate:

(1) reputation for integrity;

(2) accomplishment and experience in the business in which the Group is engaged in;

(3) commitment in respect of available time and relevant interest;

(4) diversity in all its aspects, including but not limited to race, gender, age (18 years or above), education background, professional experience, skills and length of service;

(5) qualification which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(6) the number of existing directorships and other commitments that may demand the attention of the candidate;

(7) 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 Rules 3.08, 3.09 and 3.13 of the Listing Rules;

NOMINATION COMMITTEE *(Continued)*

Nomination Policy and Directors Selection Criteria *(Continued)*

(8) Board Diversity Policy of the Company and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(9) such other perspectives appropriate to the Company's business.

Director Nomination Procedures

Subject to the provisions in the Articles of Association of the Company and the Listing Rules, if the Board recognises the needs for an additional director or a member of senior management, the following procedures will be followed:

(1) the Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors when necessary;

(2) the Nomination Committee and/or the Company Secretary of the Company will then provide 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 then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointments;

(4) the Nomination Committee should ensure that 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 should obtain all information in relation to the proposed director to allow the Board to adequately assess the independence of the director in accordance with the factors set out in Rules 3.08, 3.09 and 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 will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions are performed by the Board. They are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements, to oversee the Company's orientation program for new director, to review and monitor the training and continuous professional development of directors and senior management, to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors, and to review the Company's disclosure in the Corporate Governance Report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the remuneration paid/payable to the Company's auditor are set out below:

	HK$'000
Audit services	1,550
Non-audit services	–

COMPANY SECRETARY

The Company has appointed Mr. Fung Wai Hang, who is an employee of the Company, as its Company Secretary. Mr. Fung Wai Hang is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Chartered Secretaries and a fellow member of the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators). He confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2020. The biography of Mr. Fung Wai Hang is set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by directors of Listed Issues ("**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code throughout the year. The interests held by individual directors in the Company's securities as at 31 December 2020 are set out in the section headed "Disclosure of interests — directors' and chief executive's interests" in the Report of the Directors.

In addition to the requirements set out in the Company's code of conduct, the Company Secretary regularly writes to executive management and other relevant employees who are privy to unpublished inside information/price sensitive information, as reminders of their responsibilities to comply with the provisions of the Model Code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to Convene an EGM

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted at the EGM. The Requisition must be signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity, and the shareholding of the Eligible Shareholder will be verified with the Company's share registrar. If the Requisition is found to be proper and in order, the Company Secretary will request the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong by post or by email to Mr. Fung Wai Hang at ricofung@anchorstone.com.hk.

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for Shareholders to Propose a Person for Election as a Director

If a shareholder of the Company wishes to propose a person other than a director of the Company for election as a director, the shareholder must deposit a written notice (the "**Notice**") to the principal place of business of the Company in Hong Kong at Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong, or the share registrar of the Company at Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, for the attention of the Company Secretary.

The Notice must state clearly the name, the contact information of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a director, including the person's biographical details as required by Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and be signed by the shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "**Letter**") signed by the person proposed to be elected on his/her willingness to be elected as a director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the dispatch of the notice by the Company of the general meeting appointed for election of directors and end no later than seven days prior to the date of such general meeting.

The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Nomination Committee and the Board to consider including the resolution in the agenda for the general meeting proposing such person to be elected as a director.

Procedures for Shareholders to Put Forward Proposals at General Meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "**Proposal**") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's share registrar in Hong Kong at their respective address and contact details set out on page 3 of this annual report.

The request will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than twenty-one clear days and not less than twenty clear business days in writing if the Proposal requires approval in an annual general meeting of the Company; and

(2) Notice of not less than fourteen clear days and not less than ten clear business days in writing if the Proposal requires approval in an extraordinary general meeting of the Company.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of the coming annual general meeting will be voted by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

— Delivery of annual and interim reports to all shareholders;

— Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

— The general meeting of the Company is also an effective communication channel between the Board and shareholders.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2020, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. For details, please refer to Note 2.1(a) to the consolidated financial statements.

The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to provide guidelines for the Board to determine whether dividends are to be declared and paid to the shareholders and the level of dividends to be paid. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, the following factors:

(1) the Group's actual and expected financial performance;

(2) the Group's expected working capital requirements, capital expenditure requirements and further expansion plans;

(3) retained earnings and reserves of the Company and each of the members of the Group;

(4) the Group's liquidity position;

(5) interest of the shareholders;

(6) taxation consideration, if applicable;

(7) potential effect on creditworthiness;

(8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

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

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong, the Company's Memorandum and Articles of Associations and other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. The internal control systems of the Group are structured to assist in the achievement of the Group's goals, to safeguard the Group's assets and to ensure the maintenance of proper accounting records and compliance with applicable laws, rules and regulations. 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 Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year. A review of the effectiveness of the risk management and internal control systems have been conducted by the Board at least annually.

Risk Management

The Company has already reviewed its risk management framework and processes and has implemented relevant measures resulting from this exercise that aim to enhance its framework and processes. In particular, the Company has developed, approved and implemented a risk management system, which is defined and supported by its endorsed risk management policy. The system comprises the following phases:

— *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

— *Analysis:* Analyze the existing control, likelihood and consequence of risks and evaluate the risk portfolio accordingly.

— *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control Measures

The internal control system of the Group covers its major business aspects such as revenue management, expenditure management, human resources and payroll, cash and treasury management, financial reporting, compliance and information technology. The internal control measures are supervised by management team including Executive Directors of the Company. The management team is responsible to identify risks and internal control deficiencies, evaluate the internal control system of the Group from time to time and implementing additional control measures, if necessary, to improve the internal control system. Results of the internal assessments, internal surveys and routine inspections will be reported to the Audit Committee of the Board, which is responsible to review the financial information and supervise the financial reporting system and internal controls system of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Internal Audit Function

The Board conducted an annual review on the effectiveness of risk management and internal control systems, covering all material controls such as financial, operational and compliance controls. In addition, the Board has appointed an external internal control review consultant to review the internal control systems of the Group on an on-going basis.

For the year ended 31 December 2020, the review covered key processes of revenue and sales, payment processing and the payroll compliance of the Group. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of the Company for the year ended 31 December 2020 were effective and adequate.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has established and maintained procedures and internal controls for the handling and dissemination of insider information. The Company has adopted a code of conduct for dealing in the securities of the Company by the directors in accordance with Appendix 10 of the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lui Yue Yun Gary ("Mr. Lui")

Mr. Lui, aged 65, an Executive Director, the Chairman and the Chief Executive Officer of the Group since February 2016. Mr. Lui is one of the co-founder of the Group and is the actual controlling shareholder of the Company.

Mr. Lui is responsible for our Group's overall corporate strategies, management and business development. Mr. Lui is also a director of all the subsidiaries of the Group.

Mr. Lui obtained a Bachelor's degree in Civil Engineering from University of Toronto, Canada. He has over 38 years of experience in marble and granite outfitting works and has been involved in numerous projects throughout the years. Mr. Lui had experience in leading certain stone supply and installation projects in Hong Kong, Macau and the Mainland China, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plaza and office towers; and (iii) residential properties. With extensive experience in the stone supply and installation business, Mr. Lui has established a strong rapport with different main contractors and architects for various types of projects and brings in extensive knowledge of marble and granite selection and project management to the Group.

Mr. Lui is the sole shareholder and the sole director of PMG Investments Limited, the substantial shareholder of the Company. He does not have any current or past directorship in any listed company in the last three years.

Ms. Lui Po Kwan Joyce ("Ms. Lui")

Ms. Lui, aged 35, an Executive Director and the head of marketing department since October 2017. Ms. Lui is responsible for the marketing and promotion of the Group. Ms. Lui is also a director of certain subsidiaries of the Group.

Ms. Lui obtained a Master degree in Arts from the University of Manchester, United Kingdom.

Ms. Lui is the daughter of Mr. Lui and cousin of Mr. Lui Edwin Wing Yiu, both are the executive directors of the Company.

Ms. Lui does not have any current or past directorship in any listed company in the last three years.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Lui Edwin Wing Yiu ("Mr. Edwin Lui")

Mr. Edwin Lui, aged 34, an Executive Director since January 2019. He is mainly responsible for the business development and construction project work management of the Group. Mr. Edwin Lui is also a director of certain subsidiaries of the Group.

Mr. Edwin Lui obtained a Bachelor's degree in computer science from Worcester Polytechnic Institute. Prior to joining the Group, Mr. Edwin Lui worked for Cheong Wah Metal Company Limited and Multi-trade Industries Limited. He has approximately 10 years of experience in business development and general management.

Mr. Edwin Lui is the nephew of Mr. Lui and the cousin of Ms. Lui respectively.

Mr. Edwin Lui does not have any current or past directorship in any listed company in the last three years.

Mr. Lui Edwin Wing Yiu is a committee member of the Hong Kong Marble & Granite Merchants Association (2019–2021) since July 2019.

Mr. Fung Wai Hang ("Mr. Fung")

Mr. Fung, aged 35, an Executive Director since January 2019. Mr. Fung has also been the Company Secretary and the Chief Financial Officer since October 2017 and January 2019 respectively, and is mainly responsible for overseeing the finance and accounting functions of the Group and performing the company secretarial duties. Mr. Fung is also a director of certain subsidiaries of the Group.

Mr. Fung obtained a Master's degree in business administration from Fudan University and a Bachelor's degree in business administration from The Chinese University of Hong Kong. He completed the global exchange program courses at the MIT Sloan School of Management and the University of Oxford in 2019 and 2020 respectively.

Mr. Fung is currently a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators), a chartered global management accountant of the Chartered Institute of Management Accountants, a certified financial consultant of the Institute of Financial Consultants, a certified internal auditor of the Association of Chinese Internal Auditors, a member of the Hong Kong Securities and Investment Institute, an accredited mediator (general) of the Hong Kong Mediation Accreditation Association, a panel member of the Hong Kong Mediation Centre, a certified workplace mediator of the International Dispute Resolution and Risk Management Institute and a life member of the Hong Kong Independent Non-Executive Director Association.

Mr. Fung joined the Group as the Financial Controller in August 2017 and was appointed as Company Secretary in October 2017. Prior to joining the Group, Mr. Fung worked for PricewaterhouseCoopers mainly responsible for auditing and assurance works. Mr. Fung has been practising (under part-time mode) as a Certified Public Accountant under his own name since 2018. Mr. Fung has approximately 13 years of experience in accounting, auditing and financial management.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Fung Wai Hang ("Mr. Fung") *(Continued)*

Since June 2020, Mr. Fung has been appointed as an independent non-executive director of Sun Cheong Creative Development Holdings Limited (stock code: 1781), a company listed on the Stock Exchange.

Mr. Fung has hold office in certain public and charity associations at his private time. For example, Mr. Fung was appointed as a member of the Panel of Advisers (Film Censorship) by the Film Censorship Authority of the Government of the Hong Kong SAR from 1 April 2020 to 31 March 2021 and was re-appointed for the same position from 1 April 2021 to 31 March 2022. He is currently the chairman of the Hong Kong Girl Guides Association, Sham Shui Po District, the vice president and the secretary of the Rotary Club of Hong Kong Island East, the vice chairman of the Young Innovative Entrepreneurs Association and a council member of the Council for the Promotion of Guangdong-Hongkong-Macao Cooperation.

Mr. Ko Tsz Kin ("Mr. Ko")

Mr. Ko, aged 51, was appointed as Independent Non-executive Director since June 2018. Mr. Ko is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ko obtained a Bachelor's degree in administrative studies from York University in Canada. He is a practicing member of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Mr. Ko has over 28 years of experience in auditing and accounting. From 1992 to 2015, he joined Robert Chui & Co., Certified Public Accountants, and his last position was the principal of the audit department responsible for the audit and assurance engagements carried out by the firm. Mr. Ko has been practising as a Certified Public Accountant under his own name since 2015.

Mr. Ko does not have any current or past directorship in any listed company in the last three years.

Mr. Choi Hok Ya ("Mr. Choi")

Mr. Choi, aged 66, was appointed as Independent Non-executive Director since June 2018. Mr. Choi is also a member of Audit Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Choi obtained a Bachelor's degree in Arts from University of Toronto, Canada and has over 34 years of experience in manufacturing and management. Upon his graduation, Mr. Choi joined International Carpet Company Limited, responsible for the manufacturing and marketing of the company. Since 1986, Mr. Choi has taken over the company as the managing director.

Mr. Choi does not have any current or past directorship in any listed company in the last three years.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Ng Yau Wah Daniel ("Mr. Ng")

Mr. Ng, aged 65, was appointed an Independent Non-executive Director since June 2018. Mr. Ng is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ng obtained a Bachelor's degree in Economics from York University, Canada and has over 32 years of experience in business operation and general management. In 1989, Mr. Ng was appointed as the executive director of Charter York Real Estate Management Limited, responsible for the daily management of the company. Also in 1989, Mr. Ng was appointed as the executive director of International Carpet Company Limited, responsible for the sales and business development. Since 2008, Mr. Ng has been appointed as the executive director of Gayloy Limited, responsible for managing the company's business. Since 2010, Mr. Ng has been appointed the director of Smart Result Limited, responsible for managing the company's business.

Since 2015, Mr. Ng has been appointed as an independent non-executive director of Guangzhou R&F Properties Co., Ltd. (stock code: 2777), a property developer in China and a company listed on the Stock Exchange.

SENIOR MANAGEMENT

Chief Executive Officer

Mr. Lui has been the Chief Executive Officer of the Group since February 2016. For further details of Mr. Lui, please refer to the paragraph headed "Executive Directors" of this section.

Chief Financial Officer and Company Secretary

Mr. Fung has been the Company Secretary of the Company and the Chief Financial Officer of the Group since October 2017 and January 2019, respectively. For further details of Mr. Fung, please refer to the paragraph headed "Executive Directors" of this section.

Project Director

Mr. Kan Shu Kai Raie ("**Mr. Kan**"), aged 57, has been the Project Director since December 2015. He is responsible for the overall project management of the Group.

Mr. Kan holds a higher certificate in building studies awarded by the Vocational Training Council in July 2005. He joined the Group in July 2008 as a Project Director responsible for overall supervision and management of projects until January 2014. In February 2014, Mr. Kan founded Point's Creative Limited where he served as a director and was responsible for business strategies and engaged in management of sub-contracting work of various construction projects. Mr. Kan re-joined our Group in December 2015 and served as a project director. Mr. Kan has over 30 years of experience in the construction industry.

Mr. Kan does not have any current or past directorship in any listed company in the last three years.

REPORT OF THE DIRECTORS

The directors of the Company submit their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

REGISTERED OFFICE OF THE COMPANY AND PRINCIPAL ACTIVITIES

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 14 to the consolidated financial statements.

BUSINESS REVIEW

A detailed review of the business of the Group is set out in the Business Review, Management Discussion and Analysis Report of this 2020 Annual Report. The discussions thereof form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement in page 79.

DONATIONS

There were no charitable and other donations made by the Group during the year (2019: Nil).

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium of the Company is available for paying distributions of dividends to the Shareholders, subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test.

Distributable reserves of the Company as at 31 December 2020, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$111.8 million (2019: HK$140.1 million).

PROPOSED FINAL DIVIDEND

The directors do not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF REGISTERS OF MEMBERS

For ascertaining shareholders' entitlement to attend and vote at Annual General Meeting which to be held on Tuesday, 29 June 2021, the closure dates of register of members will be on Thursday, 24 June 2021 to Tuesday, 29 June 2021 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, no later than 4:30 p.m. on Wednesday, 23 June 2021.

USE OF PROCEEDS FROM THE COMPANY'S SHARE OFFER

The aggregate net proceeds from the share offer (after deducting listing related expenses borne by the Company) amounted to approximately HK$73.2 million. The proposed application of net proceeds as stated in the Prospectus has been adjusted according to the principles and proposed percentage of utilisation as specified in the section headed "Future plans and use of proceeds" of the Prospectus. The use of proceeds from the listing date to 31 December 2020 is included in the "Business Review, Management Discussion and Analysis" on page 13.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13(a) to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Notes 25 and 32 to the consolidated financial statements.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

The events occurring after the reporting period of the Group are set out in Note 31 to the consolidated financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Lui Yue Yun Gary
Ms. Lui Po Kwan Joyce
Mr. Lui Edwin Wing Yiu
Mr. Fung Wai Hang

Independent Non-executive Directors

Mr. Ko Tsz Kin
Mr. Choi Hok Ya
Mr. Ng Yau Wah Daniel

Biographical details of the directors are set out in pages 61 to 64 of this Annual Report.

Pursuant to the Articles of Association, at each Annual General Meeting, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to the retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

Accordingly, Mr. Lui Yue Yun Gary, Ms. Lui Po Kwan Joyce and Mr. Lui Edwin Wing Yiu shall retire from office by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a term of three years and shall continue thereafter until it is terminated by either party by giving not less than three months' written notice to the other party.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years and shall continue thereafter until it is terminated by either party by giving not less than three months' written notice to the other party.

None of the directors who are proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") pursuant to resolutions passed by the sole Shareholder on 11 June 2018 and 14 June 2018 (the "**Adoption Date**"). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide eligible participants with an opportunity to have a personal stake in the Company and to motivate, attract and retain the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Share Option Scheme

The Board is entitled to determine and make an offer of grant of an option to any person including any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), advisor, consultant of the Company or any of its subsidiaries, suppliers, customers, Shareholders, service providers or business partners who contributed or may contribute to the development and growth of the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of Shares which may be allotted and issued under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the total issued Shares of the Company as at the Listing Date unless the Company obtains an approval from the Shareholders. Therefore, the Company may grant options of up to 120,000,000 Shares (or such number of Shares as result from a subdivision or a consolidation of such 120,000,000 Shares from time to time) to the participants under the Share Option Scheme.

As at the date of this report, a total of 47,200,000 share options had been granted and 82,800,000 Shares, representing approximately 7% of the total issued Shares of the Company, are available for issue under the Share Option Scheme.

SHARE OPTION SCHEME *(Continued)*

4. **Maximum entitlement of Shares of each eligible participant**

The total number of Shares issued and to be issued upon the exercise of all the share options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the total number of Shares in issue.

5. **The period within which the shares must be taken up under an option**

Offer of a share option may be accepted by the grantee within the date as specified in the offer letter issued by the Company, being a date not later than 21 days from the date upon which the letter is made, by which the grantee must accept the offer or be deemed to have declined it, provided that the period from such date shall not be more than ten years after the Adoption Date of the Share Option Scheme or after the termination of the Share Option Scheme.

6. **The minimum period for which an option must be held before it can be exercised**

The share option granted may be exercised in whole or in part by the grantee at any time before the expiry of the period to be determined and notified by the Board to the grantee, which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as prescribed in the Share Option Scheme.

7. **The amount payable on acceptance of an option and the period within which payments shall be made**

A consideration of HK$1.00 is payable on acceptance of the offer of grant of a share option. Such consideration shall in no circumstances be refundable.

8. **The basis of determining the exercise price**

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be at such price as determined by our Board and notified to an eligible person, and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date, which must be a trading day, on which our Board passes a resolution approving the making of an offer of grant of an option to an eligible participant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the share option; and (iii) the nominal value of a Share on the date of grant of the share option.

9. **The remaining life of the Share Option Scheme**

Subject to earlier termination of the Share Option Scheme by the Company in general meeting or by the Board, the Share Option Scheme will remain valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further share options shall be granted. All share options granted prior to the expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

10. **The validity period of share options**

The validity period of the share options is from 8 July 2019 to 7 July 2021 (both days inclusive) and exercisable in whole or in parts. The vesting period shall be the period commencing from the registration date of the grant of share options (8 July 2019) to the first exercise date. The vesting period for the share option scheme shall be 24 months.

SHARE OPTION SCHEME *(Continued)*

11. The closing price

The closing price of the Company's shares immediate before the date of which the options were granted is HK$0.260 per share. The closing price of the Company's shares on the date of which the options were granted is HK$0.249 per share.

On 8 July 2019, the Company granted share options to certain eligible participants (the "**Grantees**") to subscribe for a total of 47,200,000 ordinary shares of HK$0.01 each in the share capital of the Company at an exercise price of HK$0.249 per Share pursuant to the share option scheme adopted by the Company on 11 June 2018. Among the share options granted, a total of 37,200,000 share options were granted to the Executive Directors, including Mr. Lui Yue Yun Gary, Ms. Lui Po Kwan Joyce, Mr. Lui Edwin Wing Yiu and Mr. Fung Wai Hang. All Grantees accepted the share options granted to them.

The following shows the outstanding position as at 31 December 2020 with respect to their share options granted under the Share Option Scheme:

				Number of Share Options				
	Date of Grant	Exercise price per Share (HK$)	Exercise period	Balance as at 1 January 2020	Granted during the year ended 31 December 2020	Exercised during the year ended 31 December 2020	Cancelled/ lapsed during the year ended 31 December 2020	Balance as at 31 December 2020
Name of Directors								
Mr. Lui Yue Yun Gary	8 July 2019	0.249	8 July 2019 to 7 July 2021	1,200,000	–	–	–	1,200,000
Ms. Lui Po Kwan Joyce	8 July 2019	0.249	8 July 2019 to 7 July 2021	12,000,000	–	–	–	12,000,000
Mr. Lui Edwin Wing Yiu	8 July 2019	0.249	8 July 2019 to 7 July 2021	12,000,000	–	(12,000,000)	–	–
Mr. Fung Wai Hang	8 July 2019	0.249	8 July 2019 to 7 July 2021	12,000,000	–	(12,000,000)	–	–
Supplier of goods or services								
In aggregate	8 July 2019	0.249	8 July 2019 to 7 July 2021	10,000,000	–	–	–	10,000,000

On 6 August 2020, Mr. Lui Edwin Wing Yiu and Mr. Fung Wai Hang has exercised 12,000,000 shares each at HK$0.249. As a result, the Company allotted 24,000,000 shares at HK$0.249 each upon the two directors exercised their share options right. The closing price of the Company's share at the share allotment date was 0.34 per shares.

SHARE OPTION SCHEME *(Continued)*

11. The closing price *(Continued)*

Subsequent to the balance sheet date (on 24 February 2021), Mr. Lui Yue Yun Gary and Ms. Lui Po Kwan Joyce has exercised 1,200,000 shares and 12,000,000 shares respectively, each at HK$0.249. The supplier of goods or services (an external consultant) has exercised 10,000,000 shares at HK$0.249 on the same date. As a result, the Company allotted another 23,200,000 shares at HK$0.249 on 24 February 2021. The closing price of the Company's shares at the share allotment date was HK$0.55 per shares.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS — DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

A. Directors' and Chief Executive Interests in Shares and Share Options

As at the date of this report, the interests or short positions of the Company's directors and the chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) required: (a) 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 are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange under the Model Code are as follows:

Long position in shares and underlying shares of the Company as at the date of this report:

Name of director and the chief executive	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation (PMG Investments Limited)	835,135,000 shares	66.96%
Mr. Lui Yue Yun Gary	Beneficial owner	1,200,000 shares	0.096%
Ms. Lui Po Kwan Joyce	Beneficial owner	12,000,000 shares	0.96%
Mr. Fung Wai Hang	Beneficial owner	2,000,000 shares	0.16%

Save as disclosed above, as at the date of this report, none of the directors or chief executives has any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company or Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which he was taken or deemed to have under provision of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

DISCLOSURE OF INTERESTS — DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS *(Continued)*

B. Substantial Shareholder's Interests in Shares and Share Options

As at the date of this report, so far as known by the directors, the following persons (not being a director or chief executive of the Company) had interest or short position in shares or underlying shares and debentures of Company and its associated corporation which would be required to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares and underlying shares of the Company as at the date of this report:

Name of substantial shareholder	Capacity/nature of interest	Total number of share(s) held	Percentage of interest in our Company's issued capital
Mr. Lui Yue Yun Gary	Interest in controlled corporation	835,135,000 shares	66.96%
Mr. Lui Yue Yun Gary	Beneficial owner	1,200,000 shares	0.096%
PMG Investments Limited	Beneficial owner	845,135,000 shares	66.96%

Save as disclosed above, as at the date of this report, no other person had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

C. Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2020 or at any time during the year.

D. Purchase, Sales and Redemption of Shares

Save for Reorganisation as disclosed in Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or their respective close associates is or was interested in any business apart from the Group's business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2020 and up to the date of this report.

Each of the Controlling Shareholders has provided a written confirmation (the "**Confirmation**") to the Company confirming that he/it has fully complied with the Deed of Non-competition for the year ended 31 December 2020. Based on the Confirmation, the Independent Non-Executive Directors have reviewed the Controlling Shareholders' compliance with the Deed of Non-competition and are satisfied that for the year ended 31 December 2020, the Controlling Shareholders have fully complied with the terms of the Deed of Non-Competition and no new competing business was reported by the Controlling Shareholders throughout the year ended 31 December 2020.

The Company is not aware of any other matter concerning the compliance of the undertakings in the Deed of Non-competition and there has not been any change in the terms of the Deed of Non-Competition during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

No other equity-linked agreement was entered into by the Group, or existed during the year ended 31 December 2020.

SUBSIDIARIES

Details of subsidiaries of the Company as at 31 December 2020 are set out in Note 14 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in Note 27 to the consolidated financial statements. The Directors consider that those related party transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2020.

RELIEF OF TAXATION

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

MAJOR SUPPLIERS AND CUSTOMERS

Sales

The percentages of revenue for the year attributable to the Group's major customers are as follows:

The largest customer:	23.8%
Five largest customers combined:	87.1%

Purchases

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier:	26.8%
Five largest suppliers combined:	84.3%

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

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles of Associations of the Company or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group throughout the year.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Lui Yue Yun Gary
Chairman
Hong Kong, 31 March 2021

羅兵咸永道

To the Shareholders of Anchorstone Holdings Limited
(incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Anchorstone Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 79 to 137, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple Uncertainties Relating to Going Concern

As described in Note 2.1(a) to the consolidated financial statements, the Group reported a net loss attributable to the equity holders of the Company of HK$34,099,000 and had a net cash used in operation of HK$18,403,000 for the year ended 31 December 2020. As at 31 December 2020, the Group's current bank borrowings was HK$158,819,000, while its total cash and bank balance was HK$34,725,000 which included pledged bank deposits of HK$34,507,000.

As at 31 December 2020, certain bank borrowings with a total principal amount of HK$30,091,000 were overdue. Subsequent to the balance sheet date, other bank borrowings with a total principal amount of HK$61,612,000 became overdue. In addition, default interests have been charged to the unsettled overdue borrowings by the respective banks. The Group is not able to draw down new borrowings from its bank facilities since 20 November 2020 and any further draw down is subject to approval by the relevant banks.

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BASIS FOR DISCLAIMER OF OPINION *(Continued)*

Multiple Uncertainties Relating to Going Concern *(Continued)*

As at 31 December 2020, the total bank borrowings of HK$132,817,000, including i) the abovementioned overdue balances with a total principal amounts of HK$91,703,000; ii) bank borrowings with a total principal amount of HK$37,114,000 with original contractual repayment dates during the year ending 31 December 2021; and iii) a bank borrowing with principal amount of HK$4,000,000 with original contractual repayment date after one year, all borrowed from the same abovementioned banks, would be immediately repayable if requested by the banks in accordance with the underlying bank facilities letters. Although the Group has not received any formal demand letters from the relevant banks, all the aforementioned bank borrowings have been classified as current liabilities as at 31 December 2020.

In accordance with the underlying bank facilities letters, performance bonds issued through a bank aforementioned of HK$5,138,000 might be cancelled by the bank, which might result in non-compliance with the relevant construction contracts if the Group is not able to replace them with other equivalent performance bonds.

These conditions, together with other matters described in Note 2.1(a) to the consolidated financial statements, indicate the existence of multiple uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and in an effort to remediating the delayed repayments to the relevant banks, which are set out in Note 2.1(a) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiation with the banks for extension of the bank borrowings and granting waiver of their rights arising from the events of default, such that the banks will not enforce their rights of requesting for immediate repayment and the bank facilities will continue to be available to the Group; (ii) performance bonds issued through bank guarantee would not be cancelled by the bank such that the Group will be able to continue to fulfil its obligations under the relevant construction contracts; (iii) the successful conclusion of the Holdco Facility as mentioned in Note 2.1(a), the successful draw down by the Group to the extent of HK$150,000,000, as and when necessary, and continuing support from the immediate holding company to enable the granting of this facility and to observe whatever requirements imposed by the lender to ensure continuing availability of this facility; (iv) the successful implementation of the business plans to monitor the on-going impact of the COVID-19 outbreak on the business and to accelerate the certification, billing and collection process with customers for completed projects and accelerate the stone sales; (v) the successful negotiation with customers for payments of deposits prior to the commencement of projects and suppliers and subcontractors to extend the settlement terms for its purchase; (vi) the receipt of the proceeds from the two directors for the exercised share options; and (vii) the successful obtaining of additional new sources of financing as and when needed. As a result of these multiple uncertainties, the potential interaction of these uncertainties, and, the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.

Should the Group be unable to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE 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 Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. We report 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Wong Ka Keung, Johnny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers	5	**170,348**	324,256
Cost of sales	7	**(151,252)**	(280,944)
Gross profit		**19,096**	43,312
Other gains, net	6	**2,015**	150
Impairment losses on trade and retention receivables and contract assets	3.1(c)	**(25,360)**	–
Administrative expenses	7	**(21,426)**	(31,298)
Operating (loss)/profit		**(25,675)**	12,164
Finance income	10	**206**	189
Finance costs	10	**(8,630)**	(7,662)
Finance costs, net		**(8,424)**	(7,473)
(Loss)/profit before income tax		**(34,099)**	4,691
Income tax expense	11	**–**	(2,601)
(Loss)/profit and total comprehensive (loss)/income for the year and attributable to equity holders of the Company		**(34,099)**	2,090
		2020 HK cents	2019 HK cents
(Losses)/earnings per share attributed to equity holders of the Company			
Basic (losses)/earnings per share	12	**(2.82)**	0.17
Diluted (losses)/earnings per share	12	**(2.82)**	0.17

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property and equipment	13(a)	**564**	925
Right-of-use assets	13(b)	**2,305**	4,611
Total non-current assets		**2,869**	5,536
Current assets			
Inventories	18	**89,922**	62,661
Trade and retention receivables	16	**15,465**	58,776
Contract assets	5	**188,004**	161,329
Deposits, prepayments and other receivables	17	**1,382**	3,805
Income tax recoverable		**1,135**	1,022
Pledged bank deposits	19	**34,507**	37,385
Bank and cash balances	19	**218**	2,922
Total current assets		**330,633**	327,900
Total assets		**333,502**	333,436
EQUITY			
Share capital	24	**12,240**	12,000
(Accumulated loss)/retained earnings		**(78)**	34,021
Reserves	25	**111,831**	106,095
Total equity		**123,993**	152,116

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	13(b)	–	2,275
Loan from a director	27	3,090	–
Total non-current liabilities		3,090	2,275
Current liabilities			
Trade and retention payables	20	28,532	20,586
Accruals and other payables	21	10,767	7,696
Contract liabilities	5	4,532	488
Lease liabilities	13(b)	2,275	2,376
Bank borrowings	22	158,819	146,405
Income tax payables		1,494	1,494
Total current liabilities		206,419	179,045
Total liabilities		209,509	181,320
Total equity and liabilities		333,502	333,436

The financial statements on pages 79 to 137 were approved by the Board of Directors on 31 March 2021 and were signed on its behalf.

Mr. Lui Yue Yun Gary
Director

Mr. Fung Wai Hang
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the Company			
	Share capital HK$'000 (Note 24)	**Reserves** HK$'000 (Note 25)	**Retained earnings/ (accumulated loss)** HK$'000	**Total** HK$'000
At 1 January 2019	12,000	103,264	43,931	159,195
Profit and total comprehensive income for the year	–	–	2,090	2,090
Transactions with equity holders in their capacity as equity holders:				
Recognition of share option expenses (Note 29)	–	2,831	–	2,831
Dividend paid relating to the year ended 31 December 2018 (Note 26)	–	–	(12,000)	(12,000)
At 31 December 2019	12,000	106,095	34,021	152,116
At 1 January 2020	**12,000**	**106,095**	**34,021**	**152,116**
Loss and total comprehensive loss for the year	**–**	**–**	**(34,099)**	**(34,099)**
Transactions with equity holders in their capacity as equity holders:				
Shares issued under share option scheme (Note 29)	**240**	**5,736**	**–**	**5,976**
At 31 December 2020	**12,240**	**111,831**	**(78)**	**123,993**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Net cash used in operations	28(a)	**(18,403)**	(4,502)
Interest received		**206**	189
Income tax (paid)/refund		**(113)**	2,321
Net cash used in operating activities		**(18,310)**	(1,992)
Cash flows from investing activities			
Proceeds from disposal of property and equipment	28(b)	**70**	–
Purchase of property and equipment	13(a)	**(48)**	(16)
Receipt of/(payment for) refundable deposit for potential acquisition, net	17	**1,900**	(2,000)
Withdrawal of pledged bank deposits		**3,030**	–
Placement of pledged bank deposits		**(152)**	(3,189)
Net cash generated from/(used in) investing activities		**4,800**	(5,205)
Cash flows from financing activities			
Interest paid		**(7,684)**	(7,323)
Proceeds from shares issued		**5,976**	–
Proceeds from bank borrowings	28(c)	**194,813**	276,466
Repayments of bank borrowings	28(c)	**(192,454)**	(256,385)
Proceeds from loan from a director	28(c)	**3,090**	–
Proceeds from bond issuance	28(c)	**16,000**	–
Redemption of bond issued	28(c)	**(16,000)**	–
Bond issuing cost paid	23	**(400)**	–
Interest paid on bonds issued	23	**(160)**	–
Principal elements of lease payments	28(c)	**(2,202)**	(2,266)
Interest elements of lease payments	28(c)	**(228)**	(339)
Dividends paid		**–**	(12,000)
Net cash generated from/(used in) financing activities		**751**	(1,847)
Net decrease in cash and cash equivalents		**(12,759)**	(9,044)
Cash and cash equivalents at beginning of year		**734**	9,778
Cash and cash equivalents at end of year		**(12,025)**	734
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	19	**218**	2,922
Bank overdrafts	22	**(12,243)**	(2,188)
		(12,025)	734

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

Anchorstone Holdings Limited (the "**Company**") was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the stone sales and supply and installation of marble products in Hong Kong and Macau.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**") unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Going concern basis

The outbreak of Coronavirus Disease in 2020 (the "**COVID-19 outbreak**") has caused a severe slowdown of property development affecting construction industries in Hong Kong and Macau. It has therefore adversely affected the progress of ongoing project orders as well as future customers' demand of the Group's products and services and thereby affecting the Group's ability to generate adequate cash from its operations to meet its bank borrowings repayment obligations.

For the year ended 31 December 2020, the Group reported a net loss attributable to the equity holders of the Company of HK$34,099,000 (2019: a net profit attributable to the equity holders of the Company of HK$2,090,000) and had a net cash used in operations of HK$18,403,000 (2019: HK$4,502,000) for the year ended 31 December 2020. As at 31 December 2020, the Group's current bank borrowings was HK$158,819,000 (2019: HK$146,405,000), while its total cash and bank balance was HK$34,725,000 (2019: HK$40,307,000) which included pledged bank deposits of HK$34,507,000 (2019: HK$37,385,000).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern basis *(Continued)*

As at 31 December 2020, certain bank borrowings with a total principal amount of HK$30,091,000 were overdue. Subsequent to the balance sheet date, other bank borrowings with a total principal amount of HK$61,612,000 became overdue. Since 1 January 2021, the Group has repaid HK$34,851,000 in relation to these overdue borrowings. In addition, default interests have been charged to the unsettled overdue borrowings by the respective banks. The Group is not able to draw down new borrowings from its bank facilities since 20 November 2020 and any further draw down is subject to the approval by the relevant banks.

As at 31 December 2020, the total bank borrowings of HK$132,817,000, including i) the abovementioned overdue balances with a total principal amounts of HK$91,703,000; ii) bank borrowings with a total principal amount of HK$37,114,000 with original contractual repayment dates during the year ending 31 December 2021; and iii) a bank borrowing with principal amount of HK$4,000,000 with original contractual repayment date after one year, all borrowed from the same abovementioned banks, would be immediately repayable if requested by the banks in accordance with the underlying bank facilities letters. Although the Group has not received any formal demand letters from the relevant banks, all the aforementioned bank borrowings have been classified as current liabilities as at 31 December 2020.

In accordance with the underlying bank facilities letters, performance bonds issued through a bank aforementioned of HK$5,138,000 might be cancelled by the bank, which might result in non-compliance with the relevant construction contracts if the Group is not able to replace them with other equivalent performance bonds.

The aforementioned conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position, and in an effort to remediating the delayed payments to the relevant banks, which include, but are not limited to, the following:

(i) Despite the main bank of the Group renewed the banking facility subsequent to the year end, the Group continued to negotiate with the relevant banks for extension of the overdue bank borrowings and to waive their rights arising from the events of default. The directors are confident that agreements with the bank will be reached in due course. Up to the date of this report, the Group has not received any formal demand letters from the relevant banks. Therefore, management is confident that, these banks will not enforce their rights of requesting for immediate repayment of its outstanding bank borrowings nor cancelation of the performance bonds;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern basis *(Continued)*

(ii) The immediate holding company of the Group, PMG Investments Limited, is in active negotiations with a company having a money lender's licence in Hong Kong (the "**Money Lender**") for a loan facility in an amount of HK$150,000,000 assigned exclusively for the use of the Group ("**Holdco Facility**"). The Group is expecting the Holdco Facility be available by April 2021. According to the draft letter of intent for the facility, the loan will have a term of 24 months from the date of drawn down and bearing interest of 18%p.a. The directors are confident that the Group would be able to draw down from this Holdco Facility to finance the Group's operations and settle its obligation as and when needed;

(iii) The Group is closely monitoring the impact of COVID-19 pandemic on its existing and potential projects. It has implemented measures to accelerate the certification, billing and collection with customers for completed projects. In addition, the Group is in active discussion with a customer to complete the contract in relation to stone sales;

(iv) The Group is also in active negotiations with its customers to request for deposits before commencement of projects and suppliers and sub-contractors to extend the settlement terms for its purchases;

(v) Subsequent to the balance sheet date, the Group obtained two loans from Mr. Lui Edwin Wing Yiu, an executive director, of HK$2,400,000 and HK$846,000, respectively. The loans are unsecured and repayable after twelve months from the date of draw down and interest bearing at 2% per annum;

(vi) Subsequent to the balance sheet date, the Company allotted 23,200,000 shares at HK$0.249 each upon exercise of share options by two directors and a consultant of the Group. Proceed of HK$2,490,000 has been received from the consultant. After this allotment, all share options granted under the Anchorstone Holdings Limited's Share Option Scheme are exercised; and

(vii) The Group is actively looking for other sources of financing including other debt or equity financing to enhance the capital structure and reduce the overall financing expenses.

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 December 2020. They are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern basis *(Continued)*

Notwithstanding the above, significant multiple uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) the successful negotiation with the banks for renewal and extension of the bank borrowings and granting waiver of their rights arising from the events of default, such that the banks will not enforce their rights of requesting for immediate repayment and the bank facilities will continue to be available to the Group;

(ii) performance bonds issued through bank guarantee would not be cancelled by the bank such that the Group will be able to continue to fulfil its obligations under the relevant construction contracts;

(iii) the successful conclusion of the Holdco Facility as mentioned above, the successful draw down by the Group to the extent of HK$150,000,000, as and when necessary, and continuing support from the immediate holding company to enable the granting of this facility and to observe whatever requirements imposed by the Money Lender to ensure continuing availability of this facility;

(iv) the successful implementation of the business plans to monitor the on-going impact of the COVID-19 outbreak on the business and to accelerate the certification, billing and collection process with customers for completed projects and accelerate the stone sales;

(v) the successful negotiation with customers for payments of deposits prior to the commencement of projects and suppliers and subcontractors to extend the settlement terms for its purchases;

(vi) the receipt of the proceeds from the two directors for the exercised share options; and

(vii) the successful obtaining of additional new sources of financing as and when needed.

Should the Group be unable to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 7, HKFRS 9 and HKAS 39 (Amendments)	Interest Rate Benchmark Reform — Phase 1
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) Amended standards early adopted by the Group

The Group has early adopted the following amended standard for the first time for their annual reporting period commencing 1 January 2020:

HKFRS 16 (Amendments)	COVID-19 Related Rent Concessions

The nature and the impact of amendments to HKFRS 16 are set out as Note 2.2.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and amendments not yet adopted

The following new standards and amendments to standards have been published that are not mandatory for the year ended 31 December 2020 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 4, HKFRS 7, HKFRS 9, HKFRS 16 and HKAS39 (Amendments)	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Annual Improvements Project (Amendments)	Annual Improvements to HKFRSs 2018–2020	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments	1 January 2022
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contract	1 January 2023
HK Int 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

The Group has early adopted Amendment to HKFRS 16 Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if the rent concessions were not lease modifications.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions of HK$173,600 have been accounted for as negative variable lease payments and recognised in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

2.3 Principles of consolidation

2.3.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.3.2).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation *(Continued)*

2.3.2 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former equity holders of the acquired business, the equity interests issued by the Group, the fair value of any asset or liability resulting from a contingent consideration arrangement, and the fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Principles of consolidation *(Continued)*

2.3.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the Group's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property and equipment

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

Depreciation of property and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The annual rates used for this purpose are:

Leasehold improvements	Shorter of remaining lease term or 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets

(a) Classification

The Group classifies its financial assets to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing the assets changes.

(b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains, net". Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and retention receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 16 for further details.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.10 Trade and retention receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current.

Trade and retention receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 2.8(d) for a description of the Group's impairment policies.

2.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities. Pledged bank deposits are not included in cash and cash equivalents.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and retention payables

Trade and retention payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Bank borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the year in which they are incurred.

2.17 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

(a) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(b) Retirement benefit obligations

The Group pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on performance of the Group and employees. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

2.19 Share-based payments

Share-based compensation benefits are provided to directors and consultants via the Anchorstone Holdings Limited's Share Option Scheme. Information relating to these schemes is set out in Note 29.

The fair value of options granted under the Anchorstone Holdings Limited's Share Option Scheme is recognised as employee benefits expense and consultancy expenses with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions (eg the entity's share price)

— excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

— including the impact of any non-vesting conditions (eg the requirement for employees to save or hold shares for a specific period of time).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share-based payments *(Continued)*

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Depending on the terms of the contract and the laws that apply to the contract, service may provide over time or at a point in time. Service is provided over time if the Group's performance:

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

If service 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 the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

A contract asset is the Group's right to consideration in exchange for the services that the Group has transferred to a customer. In addition, incremental costs incurred to obtain a new contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost.

A contract liability is the Group's obligation to render the services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group renders the service to the customer. Contract liabilities mainly included the advanced payments received from stone sales and provision of Supply and installation service.

The description of the accounting policy for the principal revenue streams of the Group is as follows.

(a) Stone sales

Revenue from stone sales is recognised when goods are delivered to the locations designated by the customer, which is taken to be the point in time when the Group transfers control over the goods to the customers.

(b) Supply and installation service

The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, 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 actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, supply and installation service is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in supply and installation service to the extent of contract costs incurred that are likely to be recoverable.

On the consolidated balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract asset represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract liability represents liability where the opposite is the case.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other gains, net".

2.23 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Leases

The Group leases certain land and property to operate as its office premises. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as right-of-use assets and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases *(Continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from cash and bank balance and bank borrowings. Interest-bearing financial assets/liabilities issued at variable rates expose the Group to cash flow interest rate risk. Interest-bearing financial assets/liabilities issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2020, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, the Group's profit for the year would decrease/increase HK$631,000 (2019: HK$538,000). The 50-basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Foreign currency risk

The Group mainly operates in Hong Kong with most of the sales transactions and purchase transactions are settled in Hong Kong dollars and thus foreign exchange exposure is considered to be minimal.

(c) Credit risk

The credit risk of the Group mainly arises from trade and retention receivables, contract assets, deposits, and other receivables, cash in bank and pledged bank deposits.

To manage the risk arising from cash in bank and pledged bank deposits, the Group only transacts with reputable banks which are all high-credit-quality financial institutions. There has no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

For deposits and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience, current conditions and forward-looking information on macroeconomic factors. The management believes that the expected credit loss is close to zero.

For trade and retention receivables and contract assets, management makes periodic individual assessment on their recoverability.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and retention receivables and contract assets.

To measure expected credit losses, the Group categorises its trade and retention receivables and contract assets based on the nature of customer accounts and shared credit risk characteristics.

The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk *(Continued)*

On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows for trade and retention receivables and contract assets:

	Trade and retention receivables and contract assets			
	Weighted average expected loss rate	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**	**Net carrying amount HK$'000**
As at 31 December 2020				
Provision on customers with higher credit risk	**100.00%**	**23,846**	**(23,846)**	**–**
Provision on customers with lower credit risk	**1.07%**	**205,663**	**(2,194)**	**203,469**
		229,509	**(26,040)**	**203,469**

	Trade and retention receivables and contract assets			
	Weighted average expected loss rate	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
As at 31 December 2019				
Provision on customers with higher credit risk	100%	680	(680)	–
Provision on customers with lower credit risk (Note)	0%	220,105	–	220,105
		220,785	(680)	220,105

Note: During the year ended 31 December 2019, expected loss rate is assessed to be closed to zero, and therefore loss allowance provision for these balances was not material.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate, as well as considering short-term and long-term financing in its capital structuring. The Group aims to maintain flexibility in funding by committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balance within 12 months equal their carrying balances as impact from discounting is not significant.

As described in Note 2.1(a), certain bank borrowings would be immediately repayable if requested by the lenders under the bank facilities letters, the total amount is classified as "on demand".

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Total HK$'000
As at 31 December 2020				
Trade and retention payables	**–**	**28,532**	**–**	**28,532**
Accruals and other payables	**–**	**8,446**	**–**	**8,446**
Bank borrowings	**165,977**	**–**	**–**	**165,977**
Loan from a director	**–**	**–**	**3,183**	**3,183**
Lease liabilities	**–**	**2,387**	**–**	**2,387**
	165,977	**39,365**	**3,183**	**208,525**

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Total HK$'000
As at 31 December 2019				
Trade and retention payables	–	20,586	–	20,586
Accruals and other payables	–	4,670	–	4,670
Bank borrowings	153,445	–	–	153,445
Lease liabilities	–	2,604	2,387	4,991
	153,445	27,860	2,387	183,692

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

The table below analyses the bank borrowings of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Total HK$'000
As at 31 December 2020	**161,867**	**104**	**4,066**	**166,037**
As at 31 December 2019	153,445	–	–	153,445

Note: For the year ended 31 December 2020, included in banks borrowings is trust receipt loans, term loans, revolving loans and bank overdraft amounted to HK$166,037,000 (2019: HK$153,445,000). The facility agreement contains a repayment on-demand clause, giving the lenders the unconditional right to call in the loan at any time and, therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less bank and cash balances and pledged bank deposits. Total capital is calculated as "Total equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratio was computed as follows:

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Bank borrowings (Note 22)	**158,819**	146,405
Less: bank and cash balances (Note 19)	**(218)**	(2,922)
Less: pledged bank deposits (Note 19)	**(34,507)**	(37,385)
Net debt	**124,094**	106,098
Total equity	**123,993**	152,116
Total capital	**248,087**	258,214
Gearing ratio	**50%**	41%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The carrying values of the Group's financial assets, including trade and retention receivables, deposits and other receivables, pledged bank deposits, cash and cash equivalents and financial liabilities, including trade and retention payables, other payables, loan from a director and bank borrowings, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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

(a) Revenue recognition for construction contract

The Group reviews and revises the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period. The Group recognises its supply and installation service based on the inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the supply and installation service.

(b) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(c) Income tax

The Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Contingent liabilities

The Group, in the ordinary course of its business, is involved in various claims, lawsuits, investigations and legal proceedings that arise from time to time. Contingent liabilities arising from these legal proceedings have been assessed by management with legal advice.

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

(a) Revenue from contracts with customers

Revenue from contracts with customers represents the total value of contract works completed and the stone sales during the year as follows:

	2020 HK$'000	2019 HK$'000
Supply and installation service	**148,903**	308,834
Stone sales	**21,445**	15,422
	170,348	324,256
Timing of revenue recognition:		
Over time	**148,903**	308,834
At a point of time	**21,445**	15,422
	170,348	324,256

(b) Segment information

The executive directors are the Group's chief operating decision-makers. The executive directors consider the segment from a business perspective and the only component in internal reporting to the executive directors is the Group's stone sales and supply and installation of marble products. Hence, management considers there to be only one operating segment under the requirements of HKFRS 8 *Operating Segment*. The executive directors assess the performance of the operating segment based on revenue generated. The Group does not report a measure of profit or total assets for the operating segment as the executive directors do not use this information to allocate resources to or evaluate the performance of the operating segment.

The Group's revenue from external customers attributed to the geographical areas based on the location of customers is presented as follows:

	2020 HK$'000	2019 HK$'000
Hong Kong	**108,833**	257,523
Macau	**61,515**	66,733
	170,348	324,256

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION *(Continued)*

(c) Information about major customers

Revenue attributed from customers that accounted 10% or more of the Group's total revenue is presented as follows:

	2020 HK$'000	2019 HK$'000
Customer A (Note i)	**40,572**	N/A
Customer B (Note ii)	**38,674**	N/A
Customer C (Note i)	**27,617**	81,516
Customer D (Note ii)	**22,842**	66,733
Customer E (Note i)	**18,601**	N/A
Customer F (Note i)	**N/A**	36,986
Customer G (Note i)	**N/A**	61,607

Notes:

(i) The revenue was generated from the supply and installation of marble product contract in Hong Kong.

(ii) The revenue was generated from the supply and installation of marble product contract in Macau.

N/A: The revenue of the particular customer for the particular year was less than 10% of the Group's revenue for the particular year.

(d) Assets and liabilities related to contracts with customers

	2020 HK$'000	2019 HK$'000
Contract costs incurred plus recognised profits less recognised losses	**314,276**	506,421
Less: progress billings	**(106,580)**	(345,580)
Less: loss allowance (Note i)	**(19,692)**	–
Balance at end of year	**188,004**	160,841
Analysed for reporting purposes as:		
Contract assets (Note ii)	**207,696**	161,329
Less: loss allowance	**(19,692)**	–
Total contract assets	**188,004**	161,329
Contract liabilities (Note iii)	**(4,532)**	(488)
	183,472	160,841

5 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION *(Continued)*

(d) Assets and liabilities related to contracts with customers *(Continued)*

Notes:

(i) The Group also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. Loss allowance of HK$19,692,000 was made as at 31 December 2020 (2019: Nil).

Movements in the loss allowance for contract assets are as follows:

	2020 HK$'000	2019 HK$'000
At 1st January	**–**	–
Loss allowance	**19,692**	–
At 31st December	**19,692**	–

(ii) The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

(iii) The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the supply and installation services.

As at 31 December 2020, contract assets of HK$167,732,000 (2019: HK$59,609,000) have been pledged to secure the bank facilities as set out in Note 22.

6 OTHER GAINS, NET

	2020 HK$'000	2019 HK$'000
Exchange gains, net	**150**	150
Government grants (Note)	**1,691**	–
COVID-19-related rent concessions	**174**	–
	2,015	150

Note:

Wage subsidies of HK$1,591,000 were granted from the Hong Kong SAR Government's Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from June to November 2020.

Remaining subsidies of HK$100,000 were granted from the one-off Construction Sector Subsidy Scheme under Anti-Epidemic Fund launched by the Hong Kong SAR Government.

7 EXPENSES BY NATURE

	2020 HK$'000	2019 HK$'000
Cost of inventories	**18,338**	11,594
Construction cost recognised in cost of sales	**132,914**	269,350
Auditor's remuneration		
— Audit services	**1,550**	1,550
— Non-audit services	**–**	700
Depreciation — property and equipment (Note 13(a))	**409**	464
Depreciation — right-of-use assets (Note 13(b))	**2,306**	2,306
Oversea travelling expenses	**83**	381
Employee benefit expenses (including directors' emoluments) (Note 8)	**9,738**	14,398
Motor vehicle expenses	**590**	567
Legal and professional fees	**4,496**	6,224
(Gain)/loss on disposal of property and equipment (Note 28(b))	**(70)**	126
Consultancy expenses		
— Fee	**369**	420
— Share option granted to a consultant	**–**	606
Others	**1,955**	3,556
Total cost of sales and administrative expenses	**172,678**	312,242

8 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses

	2020 HK$'000	2019 HK$'000
Wages, salaries and bonuses	13,341	17,418
Retirement benefit costs — defined contribution plans	354	447
Share option granted to directors	–	2,225
Less: amount included in construction contracts	(3,957)	(5,692)
	9,738	14,398

(b) Five highest paid individuals

For the year ended 31 December 2020, the five individuals whose emoluments were the highest in the Group include four (2019: four) directors whose emolument is reflected in the analysis in Note 9. During the years ended 31 December 2020 and 2019, the emolument paid/payable to the remaining one individual (2019: one individual) is as follows:

	2020 HK$'000	2019 HK$'000
Wages, salaries and benefits in kind	815	864
Bonuses	–	80
Retirement benefit costs — defined contribution plans	18	18
	833	962

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2020	2019
Emolument band		
Nil to HK$500,000	–	–
HK$500,001 to HK1,000,000	1	1

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2020:

	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Mr. Lui Yue Yun, Gary	120	3,480	–	–	11	3,611
Ms. Lui Po Kwan, Joyce	120	495	–	–	18	633
Mr. Fung Wai Hang	80	801	–	–	18	899
Mr. Lui Edwin Wing Yiu	79	682	–	–	18	779
	399	5,458	–	–	65	5,922
Independent Non-executive Directors						
Mr. Ko Tsz Kin	240	–	–	–	–	240
Mr. Choi Hok Ya	240	–	–	–	–	240
Mr. Ng Yau Wah Daniel	240	–	–	–	–	240
	720	–	–	–	–	720
Total	1,119	5,458	–	–	65	6,642

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2019:

	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
Mr. Lui Yue Yun, Gary	120	3,280	300	71	18	3,789
Ms. Lui Po Kwan, Joyce	120	600	–	718	18	1,456
Mr. Fung Wai Hang	55	840	76	718	18	1,707
Mr. Lui Edwin Wing Yiu	55	720	100	718	18	1,611
	350	5,440	476	2,225	72	8,563
Independent Non-executive Directors						
Mr. Ko Tsz Kin	240	–	–	–	–	240
Mr. Choi Hok Ya	240	–	–	–	–	240
Mr. Ng Yau Wah Daniel	240	–	–	–	–	240
	720	–	–	–	–	720
Total	1,070	5,440	476	2,225	72	9,283

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year ended 31 December 2020 (2019: The retirement benefits paid to Mr. Siu Chi Fung, Stephen during the year ended 31 December 2019 in respect of Mr. Siu Chi Fung, Stephen's services as a director of the Company and its subsidiaries was HK$500,000).

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year ended 31 December 2020 (2019: Nil).

(d) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year ended 31 December 2020 (2019: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

There are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors during the year ended 31 December 2020 (2019: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2020 (2019: Nil).

10 FINANCE INCOME AND COSTS

	2020 HK$'000	2019 HK$'000
Finance income		
Interests from:		
— Bank deposits	**206**	189
	206	189
Finance costs		
Interests on:		
— Bank overdrafts	**(556)**	(471)
— Trust receipt loans interest	**(7,084)**	(6,520)
— Bank loans	**(198)**	(332)
— Bonds issued (Note 23)	**(160)**	–
— Interest expense on lease liabilities (Note 13(b))	**(228)**	(339)
— Loan from a director	**(4)**	–
Bonds issuing cost (Note 23)	**(400)**	–
	(8,630)	(7,662)
Finance costs, net	**(8,424)**	(7,473)

11 INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax for the year ended 31 December 2020 is made for the Company and other Hong Kong subsidiaries as the Company and other Hong Kong subsidiaries had no estimated assessable profit for the year (2019: Under the two-tiered profits tax rate regime, the first HK$2,000,000 of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%).

	2020 HK$'000	2019 HK$'000
Hong Kong profits tax		
— Current tax for the year	**–**	2,446
— Adjustments for current tax of prior periods	**–**	155
Income tax expense	**–**	2,601

11 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group's subsidiaries as follows:

	2020 **HK$'000**	2019 HK$'000
(Loss)/profit before income tax	**(34,099)**	4,691
Tax calculated at a tax rate of 16.5%	**(5,626)**	774
Income not subject to tax	**(721)**	(1)
Expenses not deductible for tax purposes	**1,340**	1,791
Temporary differences not recognised	**4,184**	–
Adjustments for current tax of prior periods	**–**	155
Tax concession	**–**	(165)
Tax losses not recognised	**842**	47
Utilisation of tax losses previously not recognised	**(19)**	–
	–	2,601

For the year ended 31 December 2020, the Group has unrecognised tax losses of HK$6,319,000 (2019: HK$1,330,000) available for offset against future profit. No deferred tax asset has been recognised in respect of these tax losses in the financial statements as it is uncertain whether future taxable profit will be available for utilising the tax losses. All unutilised tax losses can be carried forward indefinitely under the current tax legislation.

12 (LOSSES)/EARNINGS PER SHARE

	2020 **HK$'000**	2019 HK$'000
(Losses)/earnings		
(Loss)/profit attributable to equity holders of the Company, used in calculating basic and diluted earnings per share:	**(34,099)**	2,090

12 (LOSSES)/EARNINGS PER SHARE *(Continued)*

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2020 **HK Cents**	2019 HK Cents
Total basic (losses)/earnings per share attributable to equity holders of the Company	**(2.82)**	0.17

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2020 **HK Cents**	2019 HK Cents
Total diluted (losses)/earnings per share attributable to equity holders of the Company	**(2.82)**	0.17

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2020, the Company has not considered the effect of the share options given that the effect is anti-dilutive.

(c) Weighted average number of shares used as the denominator

	2020 **(In thousand)**	2019 (In thousand)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,209,666**	1,200,000
Adjustments for calculation of diluted earnings per share:		
— Share options	**–**	1,881
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,209,666**	1,201,881

Share options granted under the Anchorstone Holdings Limited's Share Option Scheme are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required total return to shareholders return hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 29.

13(a) PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019					
Cost	571	31	352	2,666	3,620
Accumulated depreciation	(571)	(29)	(154)	(1,367)	(2,121)
Net book amount	–	2	198	1,299	1,499
Year ended 31 December 2019					
Opening net book amount	–	2	198	1,299	1,499
Additions	–	–	16	–	16
Disposal	–	–	–	(126)	(126)
Depreciation	–	(2)	(71)	(391)	(464)
Closing net book amount	–	–	143	782	925
At 31 December 2019					
Cost	571	31	368	2,352	3,322
Accumulated depreciation	(571)	(31)	(225)	(1,570)	(2,397)
Net book amount	–	–	143	782	925
Year ended 31 December 2020					
Opening net book amount	**–**	**–**	**143**	**782**	**925**
Additions	**–**	**–**	**48**	**–**	**48**
Disposal (Note i)	**–**	**–**	**–**	**–**	**–**
Depreciation	**–**	**–**	**(81)**	**(328)**	**(409)**
Closing net book amount	**–**	**–**	**110**	**454**	**564**
At 31 December 2020					
Cost	**571**	**31**	**416**	**2,085**	**3,103**
Accumulated depreciation	**(571)**	**(31)**	**(306)**	**(1,631)**	**(2,539)**
Net book amount	**–**	**–**	**110**	**454**	**564**

13(a) PROPERTY AND EQUIPMENT *(Continued)*

Note:

(i) As at 31 December 2020, the motor vehicle with cost of HK$267,000 was fully depreciated and disposed.

(ii) For the year ended 31 December 2020, depreciation of the Group's property and equipment of HK$409,000 (2019: HK$464,000) has been charged to "administrative expenses" in consolidated statement of comprehensive income.

13(b) LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	2020 HK$'000	2019 HK$'000
Right-of-use assets		
Properties	2,305	4,611
Lease liabilities		
Current lease liabilities	2,275	2,376
Non-current lease liabilities	–	2,275
	2,275	4,651

There are no additions to the right-of-use assets during the year ended 31 December 2020.

(ii) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2020 HK$'000	2019 HK$'000
Depreciation charge of right-of-use assets		
Properties	2,306	2,306
Interest expense (included in finance cost)	228	339

13(b) LEASES *(Continued)*

(iii) Amounts recognised in the consolidated statement of cash flows

The total cash outflows for leases were analysed as below:

	2020 HK$'000	2019 HK$'000
Cash flows from financing activities		
Payment of principal element of lease liabilities	**2,202**	2,266
Payment of interest element of lease liabilities	**228**	339

(iv) The Group's leasing activities and how these are accounted for

The Group leased for the office premise under rental contract for a fixed period of 3 years.

The lease agreement does not impose any covenants and are not used as security for borrowing purposes.

14 SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2020 are as follows:

Name of entities	Place and date of incorporation	Principal activities and place of operation	Particulars of issued share capital	Equity interest held by the Group
Directly held by the company				
Pegasus Stone Limited	BVI, 15 December 2015	Investment holding in Hong Kong	1 ordinary share of USD 1 each	100%
Indirectly held by the company				
Pacific Marble & Granite (HK) Limited	Hong Kong, 19 December 1991	Supply and installation of marble and granite for construction projects in Hong Kong	14,000,000 ordinary shares of HK$ 1 each	100%
Pacific Marble & Granite Limited	Hong Kong, 30 June 2011	Trading of marble and granite and supply and installation of marble and granite for construction projects in Hong Kong	100 ordinary shares of HK$ 1 each	100%
PMG Engineering Limited	Hong Kong, 3 August 2018	Supply and installation of marble and granite for construction projects in Hong Kong	100 ordinary shares of HK$ 1 each	100%
Stable Wealthy Holdings Limited	BVI, 14 August 2019	Inactive	50,000 ordinary shares of USD 1 each	100%
PMG Building Supply Limited	Hong Kong, 3 August 2018	Inactive	100 ordinary shares of HK$ 1 each	100%
PMG Construction Materials (Macau) Limited	Macau, 17 December 2018	Inactive	1,000,000 ordinary shares of MOP 1 each	100%

15 FINANCIAL INSTRUMENTS BY CATEGORY

	2020 HK$'000	2019 HK$'000
Financial assets at amortised cost		
Trade and retention receivables	15,465	58,776
Deposits and other receivables	1,382	3,792
Pledged bank deposits	34,507	37,385
Cash and cash equivalents	218	2,922
	51,572	102,875
Financial liabilities at amortised cost:		
Trade and retention payables	28,532	20,586
Other payables	10,767	4,670
Bank borrowings	158,819	146,405
Loan from a director	3,090	–
Lease liabilities	2,275	4,651
	203,483	176,312

16 TRADE AND RETENTION RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables — third parties	1,102	34,487
Retention receivables — third parties	20,711	24,969
	21,813	59,456
Less: loss allowance	(6,348)	(680)
	15,465	58,776

The Group's credit terms granted to third-party trade customers other than retention receivables generally ranged from 30 to 90 days. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion or the expiry of the defect liability period ranging from 12 to 24 months.

As at 31 December 2020, trade and retention receivables of HK$6,739,000 (2019: HK$13,368,000) have been pledged to secure the bank facilities as set out in Note 22 and are classified as current assets.

16 TRADE AND RETENTION RECEIVABLES *(Continued)*

The ageing analysis of the third-party trade receivables, based on invoice date:

	2020 HK$'000	2019 HK$'000
Up to 30 days	**800**	123
31–60 days	**–**	33,456
61–90 days	**15**	–
Over 90 days	**287**	908
	1,102	34,487

As at 31 December 2020, trade and retention receivables of HK$6,348,000 (2019: HK$680,000) were impaired and fully provided. The individually impaired trade and retention receivables mainly relate to customers that were in default or delinquency in payments, in which the directors are of the opinion that whole outstanding amount are expected not to be recovered

As at 31 December 2020 and 2019, the carrying amounts of trade and retention receivables are denominated in following currencies and approximate their fair values.

	2020 HK$'000	2019 HK$'000
HK$	**15,465**	58,776

Retention receivables in respect of the supply and installation business are settled in accordance with the terms of the respective contracts. In the consolidated balance sheet, retention receivables were classified as current assets based on operating cycle. The ageing analysis of the retention receivables based on terms of contracts is as follows:

	2020 HK$'000	2019 HK$'000
Within 1 year	**14,740**	6,891
Between 1 to 2 years	**5,971**	18,078
	20,711	24,969

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments	–	13
Insurance compensation receivables	489	969
Refundable deposits for potential acquisition of subsidiaries (Note)	100	2,000
Other receivables	793	823
	1,382	3,805

Note:

On 21 November 2019, the Stable Wealthy Holdings Limited ("**Stable Wealthy**"), a wholly-owned subsidiary of the Company, signed a sales and purchase agreement (the "**SPA**") to acquire a private company (the "**Target Company**") engaging in supply and installation of kitchenware and furniture in Hong Kong for a consideration of HK$120,000,000. During the year ended 31 December 2020, the potential acquisition was terminated and the refundable deposit of HK$100,000 as at 31 December 2020 was fully refunded subsequent to the balance sheet date.

18 INVENTORIES

	2020 HK$'000	2019 HK$'000
Finished goods — marble and granite	89,922	62,661

For the year ended 31 December 2020, the cost of inventories recognised as expense and included in "cost of sales" of HK$18,338,000 (2019: HK$11,594,000) (Note 7).

19 PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

	2020 HK$'000	2019 HK$'000
Pledged bank deposits	**34,507**	37,385
Cash in bank	**213**	2,917
Cash on hand	**5**	5
Bank and cash balances	**218**	2,922

The carrying amounts of pledged bank deposits and bank and cash balances are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
HK$	**34,718**	40,300
Renminbi ("**RMB**")	**7**	7
	34,725	40,307

Bank and cash balances and bank overdrafts in the consolidated statement of cash flows:

	2020 HK$'000	2019 HK$'000
Bank and cash balances in the consolidated balance sheet	**218**	2,922
Less: bank overdrafts (Note 22)	**(12,243)**	(2,188)
Cash and cash equivalents in the consolidated statement of cash flows	**(12,025)**	734

For the year ended 31 December 2020, the pledged bank deposits and bank balances generate interest at prevailing market interest rates ranged from 0.01% to 0.4% per annum (2019: ranged from 0.01% to 0.4% per annum).

The pledged bank deposits are held in designated bank accounts for the Group's banking facilities (Note 22).

Pledged bank deposits represent deposits that will mature within 12 months and are therefore classified as current assets.

20 TRADE AND RETENTION PAYABLES

Trade and retention payables at the end of the reporting period comprise amounts outstanding for trade purposes. The average credit period taken for trade purchase is 30 to 90 days.

	2020 HK$'000	2019 HK$'000
Trade payables	13,731	7,047
Retention payables	14,801	13,539
	28,532	20,586

The ageing analysis of the trade payables, based on invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
1–30 days	11,562	4,965
31–60 days	–	–
61–90 days	–	–
Over 90 days	2,169	2,082
	13,731	7,047

As at 31 December 2020 and 2019, the carrying amounts of trade and retention payables are denominated in HK$ and approximate their fair values.

21 ACCRUALS AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Accruals for employee benefit expenses	1,849	2,462
Accruals for long service payment	472	564
Other accruals and other payables	8,446	4,670
	10,767	7,696

As at 31 December 2020 and 2019, the carrying amounts of accruals and other payables are denominated in HK$ and approximate their fair values.

22 BANK BORROWINGS

	2020 HK$'000	2019 HK$'000
Bank overdrafts (Note 19)	**12,243**	2,188
Term loans — secured	**36,600**	661
Trust receipt loans — secured	**105,976**	139,556
Revolving loans — secured	**4,000**	4,000
Total borrowings	**158,819**	146,405

Bank overdrafts are repayable within the next 12 months as at 31 December 2020. Bank borrowings due for repayment, based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand are as follows:

	2020 HK$'000	2019 HK$'000
Bank borrowings:		
Within 1 year	**154,819**	146,405
Between 1 and 2 years	**4,000**	–
	158,819	146,405

As at 31 December 2020, bank facilities granted to the Group are secured by the following:

(a) Trade and retention receivables of HK$6,739,000 (2019:HK$13,368,000) (Note 16);

(b) Pledged deposits of HK$34,507,000 (2019:HK$37,385,000) as at 31 December 2020 (Note 19);

(c) Contract assets of HK$167,732 ,000 (2019:HK$59,609,000) as at 31 December 2020 (Note 5); and

(d) Cross guarantees by the Group's subsidiaries (2019: same).

As at 31 December 2020 and 2019, the carrying amounts of bank borrowings are denominated in HK$ and approximate their fair values.

The effective interest rates of bank borrowings as at 31 December 2020 are ranged from 2.75% to 5.15% per annum (2019: from 4.23% to 5.44% per annum).

23 BONDS ISSUED

During the year ended 31 December 2020, the Group has issued the bonds under placing agreement dated 27 March 2020 for bonds issuing with aggregate principal amount of HK$16,000,000.

Under placing agreement, the Bond bears fixed annual interest on its principal amount at the rate of 12% per annum with a maturity period of 18 months from the issue date.

During the year, the Group exercise of its early redemption option of the bonds issued under the placing agreement dated 27 March 2020. An aggregate principal amount of HK$16,000,000 was redeemed by the Group in April 2020. The interest accrued thereon up to the date of redemption of HK$160,000 and bonds issuing cost of HK$400,000 were fully settled.

24 SHARE CAPITAL

	Issued and fully paid	
	Number of shares	**Amount**
		HK$'000
Ordinary share of HK$0.01 each:		
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**3,000,000,000**	**30,000**
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 1 January 2020	1,200,000,000	12,000
Shares issued under share option scheme (Note 29)	24,000,000	240
At 31 December 2020	**1,224,000,000**	**12,240**

25 RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Total HK$'000
Balance at 1 January 2019	89,264	14,000	–	103,264
Transaction with equity holders in their capacity as equity holders:				
Recognition of share option expenses	–	–	2,831	2,831
Balance at 31 December 2019 and 1 January 2020	**89,264**	**14,000**	**2,831**	**106,095**
Transaction with equity holders in their capacity as equity holders:				
Shares issued under share option (Note 29)	**7,171**	**–**	**(1,435)**	**5,736**
Balance at 31 December 2020	**96,435**	**14,000**	**1,396**	**111,831**

26 DIVIDENDS

The board resolved not to propose final dividend for the year ended 31 December 2020 at the forthcoming annual general meeting (2019: same).

27 RELATED PARTIES' BALANCES AND TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operational decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individual was related party that had transactions or balances with the Group during the year ended 31 December 2020 and 2019:

Name of the related party	Relationship with the Group
Mr. Lui Yue Yun Gary	The Controlling shareholder of the Group

27 RELATED PARTIES' BALANCES AND TRANSACTIONS *(Continued)*

(a) The Group had the following loan from a related party during the year ended 31 December 2020 and 2019:

	2020 HK$'000	2019 HK$'000
Mr. Lui Yue Yun Gary	3,090	–

During the year ended 31 December 2020, the Group entered into a director loan agreement with a director of the Company for an unsecured and bears interest at 2% per annum. As at 5 December 2020, HK$3,090,000 had been drawn down by the Company (the "**Loan from a director**") and will mature and become repayable on 30 June 2022.

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the year ended 31 December 2020 and 2019:

	2020 HK$'000	2019 HK$'000
Interest expense to Mr. Lui Yue Yun Gary	4	–

(c) Key management compensation

Key management includes executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	6,672	9,435
Retirement benefits	–	500
Pension costs	83	90
	6,755	10,025

Detailed remuneration disclosures are provided in the remuneration report in Note 9.

28 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of (loss)/profit before income tax to cash used in operations

	2020 HK$'000	2019 HK$'000
Cash flows from operating activities		
(Loss)/profit before income tax	(34,099)	4,691
Adjustments for:		
Finance income	(206)	(189)
Finance costs	8,630	7,662
COVID-19-related rent concessions	(174)	–
Credit loss allowance of trade and retention receivables	(5,668)	–
Credit loss allowance of contract assets	(19,692)	–
(Gain)/loss on disposal of property and equipment	(70)	126
Depreciation of property and equipment	409	464
Depreciation of right-of-use assets	2,306	2,306
Recognition of share option expenses	–	2,831
	(48,564)	17,891
Changes in working capital:		
Inventories	(27,261)	(61,677)
Trade and retention receivables	48,979	(3,961)
Deposits, prepayments and other receivables	523	(322)
Contract assets	(6,983)	40,796
Contract liabilities	4,044	(4,310)
Trade and retention payables	7,946	4,356
Accruals and other payables	2,913	2,725
Net cash used in operations	(18,403)	(4,502)

(b) In the consolidated statement of cash flows, proceeds from disposal of property and equipment comprise:

	2020 HK$'000	2019 HK$'000
Net book amount	–	126
Gain/(loss) on disposal of property and equipment (Note 6)	70	(126)
Proceed from disposal of property and equipment	70	–

28 NOTES TO THE STATEMENT OF CASH FLOWS *(Continued)*

(c) Cash flow information — Financing activities

This section sets out the movement of liabilities from financing activities for each of the year ended 31 December 2019 and 2020.

	Lease liabilities HK$'000	Bank borrowings (excludes bank overdraft) HK$'000	Loan from a director HK$'000	Bonds issued HK$'000	Total HK$'000
At 1 January 2019	–	124,136	–	–	124,136
Recognition on adoption of HKFRS 16	6,917	–	–	–	6,917
	6,917	124,136	–	–	131,053
Cash inflow	–	276,466	–	–	276,466
Cash outflow	(2,605)	(263,708)	–	–	(266,313)
Non-cash movement:					
Accrued interest expenses	339	7,323	–	–	7,662
At 31 December 2019	4,651	144,217	–	–	148,868
At 1 January 2020	**4,651**	**144,217**	**–**	**–**	**148,868**
Cash inflow	**–**	**194,813**	**3,090**	**16,000**	**213,903**
Cash outflow	**(2,604)**	**(200,138)**	**–**	**(16,560)**	**(219,302)**
Non-cash movement:					
Accrued interest expenses	**228**	**7,684**	**–**	**560**	**8,472**
At 31 December 2020	**2,275**	**146,576**	**3,090**	**–**	**151,941**

29 SHARE-BASED PAYMENTS

(a) Share option scheme

The establishment of the Anchorstone Holdings Limited's Share Option Scheme (the "**Share Option Scheme**") was approved by the board of directors (including all the Independent Non-executive Directors) ("**Board**"). The Share Option Scheme is designed to provide long-term incentives for grantees to deliver long-term shareholder returns.

Under the scheme, share options granted to the Directors are vested immediately upon grant while the share options granted to a consultant are conditional upon achievement of certain performance target. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options granted to the consultant vested upon the completion of its service to the Group on 7 September 2019. The options are exercisable from 8 September 2019 to 7 July 2021.

Options are granted under the Share Option Scheme at the consideration of HK$1 per grant and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within fourteen days after receiving a written notice from the grantees exercising the share options and a payment in full of the subscription price.

The exercise price of options represented the highest of (i) the closing price of HK$0.249 of the Company's shares traded on the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of HK$0.244 per Company's share for five business days immediately preceding the date of grant; and (iii) the nominal value of HK$0.01 per Company's share.

	Exercise price per share option	Number of options
As at 1 January 2019	–	–
Granted on 8 July 2019	0.249	47,200,000
As at 31 December 2019	0.249	47,200,000
Exercised during the year	0.249	(24,000,000)
As at 31 December 2020	0.249	23,200,000
Vested and exercisable at 31 December 2020	0.249	23,200,000
Vested and exercisable at 31 December 2019	0.249	47,200,000

No options expired during the periods covered by the above tables.

29 SHARE-BASED PAYMENTS *(Continued)*

(a) Share option scheme *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Share options as at 31 December 2020	2019
8 July 2019	7 July 2021	HK$0.249	**23,200,000**	47,200,000
Weighted average remaining contractual life of options outstanding at end of period			**0.52 year**	1.52 years

Fair value of options granted

The Group had not granted share options during the year ended 31 December 2020 (2019: The assessed fair value at grant date of options granted was HK$0.06 per option). The fair value at grant date is independently determined using Binomial Option Price Model which includes a binomial lattice model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The model inputs for options granted included:

(a) Options are granted under the Share Option Scheme at the consideration of HK$1 per grant

(b) exercise price: HK$0.249

(c) grant date: 8 July 2019

(d) expiry date: 7 July 2021

(e) share price at grant date: HK$0.249

(f) expected price volatility of the Company's shares: 51.18%

(g) expected dividend yield: 0%

(h) risk-free interest rate: 1.67%

The expected price volatility is based on annualised historical daily volatility of peer group companies' share price.

29 SHARE-BASED PAYMENTS *(Continued)*

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of consultancy expenses and employee benefit expense were as follows:

	2020 HK$'000	2019 HK$'000
Share options issued as part of:		
— consultancy expenses	–	606
— employee benefit expense	–	2,225
	–	2,831

30 CONTINGENCIES

Performance bonds

As at 31 December 2020, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$5,138,000 (2019: HK$1,466,000).

Legal cases

During the year ended 31 December 2020, the legal cases of the Group was as follows:

(i) The workers of the Group's subcontractors initiated claims for personal injuries against certain subsidiaries of the Group. The amount being claimed for all these cases was HK$878,000. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claims through mediation and the amount of the possible obligation cannot be measured with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment of service rendered of HK$8,763,000. As at the date of this report, the Group took legal actions to defend against the claim and the likelihood of the plaintiff succeed in the whole of its claim is remote.

31 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Details of events occurring after the reporting period are listed as follows:

On 24 February 2021, the Company allotted 23,200,000 shares at HK$0.249 each upon i) two Directors exercised their share options of 12,000,000 and 1,200,000 shares respectively; and ii) an consultant of the Group exercised his share options of 10,000,000 shares.

On 30 March 2021, PMG Investments Limited, the substantial shareholder of the Company, sold 10,000,000 shares by a stockbroker at HK$1.2 per share under a financing arrangement. The shares being sold represented 0.8% of the total issued share capital of the Company as at 30 March 2021.

32 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

	Note	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current asset			
Investment in a subsidiary		–	–
Total non-current asset		–	–
Current assets			
Amounts due from subsidiaries		87,625	83,678
Cash and bank balances		17	170
Total current assets		87,642	83,848
Total assets		87,642	83,848
EQUITY			
Share capital		12,240	12,000
Reserves	(a)	70,331	69,013
Total equity		82,571	81,013
LIABILITIES			
Current liabilities			
Accruals and other payables		4,041	2,835
Amount due to a subsidiary		1,030	–
Total current liabilities		5,071	2,835
Total liabilities		5,071	2,835
Total equity and liabilities		87,642	83,848

The balance sheet of the Company was approved by the Board of Directors on 31 March 2021 and was signed on its behalf:

Mr. Lui Yue Yun Gary
Director

Mr. Fung Wai Hang
Director

32 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2019	89,264	–	(821)	88,443
Loss and total comprehensive loss for the year	–	–	(10,261)	(10,261)
Transactions with equity holders in their capacity as equity holders:				
Recognition of share option expenses	–	2,831	–	2,831
Dividend paid relating to the year ended 31 December 2018 (Note 26)	–	–	(12,000)	(12,000)
At 31 December 2019 and 1 January 2020	89,264	2,831	(23,082)	69,013
Loss and total comprehensive loss for the year	–	–	(4,418)	(4,418)
Transactions with equity holders in their capacity as equity holders:				
Shares issued under share option scheme (Note 29)	7,171	(1,435)	–	5,736
At 31 December 2020	96,435	1,396	(27,500)	70,331

FIVE YEAR FINANCIAL SUMMARY

For the year	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	**170,348**	324,256	299,045	224,793	222,141
Gross profit	**19,096**	43,312	69,765	62,967	63,898
Operating (loss)/profit	**(25,675)**	12,164	31,524	37,224	39,592
(Loss)/profit before income tax	**(34,099)**	4,691	27,217	32,703	35,501
(Loss)/profit attributable to equity holders of the Company	**(34,099)**	2,090	20,540	25,274	27,371

For the year	2020 HK cents	2019 HK cents	2018 HK cents	2017 HK cents	2016 HK cents
Basic and diluted (losses)/earnings per share (Note)	**(2.82)**	0.17	1.96	2.81	N/A

At year end	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Pledged bank deposits	**34,507**	37,385	34,196	19,080	11,028
Cash and cash equivalents	**218**	2,922	9,778	503	350
Total assets	**333,502**	333,436	309,330	186,399	232,877
Bank borrowings	**158,819**	146,405	124,136	102,886	112,203
Total liabilities	**209,509**	181,320	150,135	149,008	177,760
Total equity	**123,993**	152,116	159,195	37,391	55,117

Key financial ratios	2020	2019	2018	2017	2016
Gross profit margin (%)	**11.2**	13.4	23.3	28.0	28.8
Net profit margin (%)	**N/A**	0.6	6.9	11.2	12.3
(Loss)/return on equity (%)	**(27.5)**	1.3	20.9	54.6	95.8
(Loss)/return on total assets (%)	**(10.2)**	0.7	8.3	12.1	13.4
Interest coverage (time)	**N/A**	1.6	6.5	7.9	9.2
Current ratio	**1.6**	1.8	2.1	1.3	1.3
Quick ratio	**1.2**	1.5	2.0	1.3	1.3

Note: No basic and diluted earnings per share information is presented for the financial year ended 31 December 2016 as the Company was not listed before 4 July 2018. The Group's Reorganisation, as stated in the Prospectus, was not completed until June 2018. Therefore, it is not considered meaningful to present the earnings per share for the comparison purpose.

For the financial years ended 31 December 2018 and 2017, basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation and the capitalisation of shares.

For the financial years ended 31 December 2020 and 2019, basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the financial year. Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.