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ANCHORSTONE

Anchorstone Holdings Limited

基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1592)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of Directors (the “**Directors**”) of Anchorstone Holdings Limited (the “**Company**”) would like to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers	3	91,942	170,348
Cost of sales	5	(80,776)	(151,252)
Gross profit		11,166	19,096
Other gains, net	4	6,525	2,015
Impairment losses on trade and retention receivables and contract assets, net	3, 10	(28,925)	(25,360)
Administrative expenses	5	(25,258)	(21,426)
Operating loss		(36,492)	(25,675)
Finance income		13	206
Finance costs		(10,270)	(8,630)
Finance costs, net	6	(10,257)	(8,424)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss before taxation		(46,749)	(34,099)
Income tax expense	7	<u>—</u>	<u>—</u>
Loss and total comprehensive expense for the year and attributable to the owners of the Company		<u>(46,749)</u>	<u>(34,099)</u>
		2021 <i>HK cents</i>	2020 <i>HK cents</i>
Basic loss per share	8	(3.76)	(2.82)
Diluted loss per share	8	<u>(3.76)</u>	<u>(2.82)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Assets			
Non-current assets			
Property and equipment		1,696	564
Right-of-use assets		2,031	2,305
		<hr/>	<hr/>
Total non-current assets		3,727	2,869
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current assets			
Inventories	<i>12</i>	72,364	89,922
Trade and retention receivables	<i>10</i>	24,881	15,465
Contract assets	<i>3</i>	169,489	188,004
Deposits, prepayments and other receivables	<i>11</i>	1,301	1,382
Tax recoverable		194	1,135
Pledged bank deposits	<i>13</i>	–	34,507
Bank balances and cash	<i>13</i>	2,680	218
		<hr/>	<hr/>
Total current assets		270,909	330,633
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total assets		274,636	333,502
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Equity			
Share capital	<i>16</i>	12,472	12,240
Accumulated losses		(46,827)	(78)
Reserves		117,377	111,831
		<hr/>	<hr/>
Total equity		83,022	123,993
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Liabilities			
Non-current liabilities			
Lease liabilities		1,075	–
Loans from directors		80,550	3,090
		<hr/>	<hr/>
Total non-current liabilities		81,625	3,090
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current liabilities			
Trade and retention payables	<i>14</i>	42,778	28,532
Accruals and other payables		17,511	10,767
Contract liabilities		5,500	4,532
Lease liabilities		605	2,275
Bank borrowings	<i>15</i>	42,877	158,819
Tax payables		718	1,494
		<hr/>	<hr/>
Total current liabilities		109,989	206,419
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total liabilities		191,614	209,509
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total equity and liabilities		274,636	333,502
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NOTES:

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 (“**HKICPA**”) and disclosure 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 consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(a) Going concern

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 2021, the Group reported a net loss attributable to the owners of the Company of approximately HK\$46,749,000 (2020: approximately HK\$34,099,000). As at 31 December 2021, the Group’s current bank borrowings was approximately HK\$42,877,000 (2020: approximately HK\$158,819,000), while its total bank balances and cash was approximately HK\$2,680,000 with no pledged bank deposit (2020: approximately HK\$34,725,000 which included pledged bank deposits of HK\$34,507,000).

As at 31 December 2021, bank borrowings with a total principal amount of approximately HK\$42,877,000 were overdue. Since 1 January 2022, the Group has repaid HK\$3,300,000 in relation to these overdue bank borrowings. In addition, default interests have been charged to the unsettled overdue borrowings by the respective banks. The Group is unable to draw down new borrowings from its bank facilities since 20 November 2020 and any further draw down would be subject to the approvals by the relevant banks. All bank borrowings would be immediately repayable if requested by the banks formally 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 in the consolidated statement of financial position as at 31 December 2021.

In accordance with the underlying bank facilities letters, performance bonds issued through a bank aforementioned of HK\$5,138,000 (2020: 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 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 followings:

- (i) Despite the main banks of the Group had yet 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 relevant banks will be reached in due course. Up to the date of this announcement, the Group has not received any formal demand letters from the relevant banks. Based on this, the management believes that these banks would not enforce their rights of requesting for immediate repayment of its outstanding bank borrowings nor cancelation of the performance bonds;
- (ii) The Group is closely monitoring the impact of COVID-19 outbreak 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;
- (iii) 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;
- (iv) During the current year, the Group obtained loans from Executive Directors amounted to approximately HK\$80,550,000, which are unsecured and repayable in two years from the date of draw down and interest bearing at 5% per annum; and
- (v) The Group is actively looking for other sources of financing including any possible form of 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 2021. 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 2021. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, uncertainties related to going concern exist as to whether the Group is able to achieve its plans and measures as described above.

2 APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, Interest Rate Benchmark Reform — Phase 2
HKFRS 7, HKFRS 4 and
HKFRS 16

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRS standards that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020 ²

- ¹ Effective for annual periods beginning on or after 1 April 2021
- ² Effective for annual periods beginning on or after 1 January 2022
- ³ Effective for annual periods beginning on or after 1 January 2023
- ⁴ Effective for annual periods beginning on or after a date to be determined

Except for the amendments to HKFRSs mentioned below, the Directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 “Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)”

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within twelve months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 “Financial Instruments: Presentation”.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 “Definition of Accounting Estimates”

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

(a) Revenue from contracts with customers

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Supply and installation service	67,985	148,903
Stone sales	23,957	21,445
	<u>91,942</u>	<u>170,348</u>
Timing of revenue recognition:		
Over time	67,985	148,903
At a point of time	23,957	21,445
	<u>91,942</u>	<u>170,348</u>

(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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	77,320	108,833
Macau	14,622	61,515
	<u>91,942</u>	<u>170,348</u>

(c) **Information about major customers**

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A (<i>Note i</i>)	16,711	18,601
Customer B (<i>Note ii</i>)	13,077	38,674
Customer C (<i>Note i</i>)	10,817	N/A
Customer D (<i>Note i</i>)	N/A	40,572
Customer E (<i>Note i</i>)	N/A	27,617
Customer F (<i>Note ii</i>)	N/A	22,842

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**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses	271,149	314,276
Less: progress billings	(59,422)	(106,580)
Less: loss allowance (<i>Note i</i>)	(47,738)	(19,692)
Balance at end of year	163,989	188,004
Analysed for reporting purposes as:		
Contract assets (<i>Note ii</i>)	217,227	207,696
Less: loss allowance (<i>Note i</i>)	(47,738)	(19,692)
Total contract assets	169,489	188,004
Contract liabilities (<i>Note iii</i>)	(5,500)	(4,532)
	163,989	183,472

Notes:

- (i) The Group 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 approximately HK\$28,046,000 was made as at 31 December 2021 (2020: approximately HK\$19,692,000).

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1st January	19,692	–
Loss allowance	28,046	19,692
At 31st December	47,738	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 2021, contract assets of approximately HK\$125,700,000 (2020: HK\$167,732,000) have been pledged to secure the bank facilities.

4 OTHER GAINS, NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Exchange gains, net	–	150
Government grants	–	1,691
COVID-19-related rent concessions	–	174
Gain on disposal of subsidiaries	6,430	–
Other	95	–
	6,525	2,015

5 EXPENSES BY NATURE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories	20,966	18,338
Construction cost recognised in cost of sales	59,810	132,914
Auditor's remuneration		
— Audit services	1,080	1,550
Depreciation — property and equipment	521	409
Depreciation — right-of-use assets	4,912	2,306
Overseas travelling expenses	42	83
Employee benefit expenses (including directors' emoluments)	12,201	9,738
Motor vehicle expenses	390	590
Legal and professional fees	3,151	4,496
Gain on disposal of property and equipment	—	(70)
Consultancy expenses — fee	483	369
Others	2,478	1,955
	<u>106,034</u>	<u>172,678</u>
Total cost of sales and administrative expenses	<u>106,034</u>	<u>172,678</u>

6 FINANCE INCOME AND COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance income		
Interests from:		
— Bank deposits	13	206
	<u>13</u>	<u>206</u>
Finance costs		
Interests on:		
— Bank overdrafts	(559)	(556)
— Trust receipt loans interest	(4,904)	(7,084)
— Bank loans	(453)	(198)
— Bonds issued	—	(160)
— Interest expense on lease liabilities	(419)	(228)
— Loans from directors	(3,935)	(4)
Bonds issuing cost	—	(400)
	<u>(10,270)</u>	<u>(8,630)</u>
Finance costs, net	<u>(10,257)</u>	<u>(8,424)</u>

7 INCOME TAX EXPENSE

The statutory tax rate for the subsidiaries in Hong Kong is 16.5%. No Hong Kong Profits Tax on the Group's subsidiary has been provided as there were no assessable profits arising in Hong Kong during both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

8 LOSS PER SHARE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss attributable to the owners of the Company, used in calculating basic and diluted loss per share	<u>(46,749)</u>	<u>(34,099)</u>

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company, by the weighted average number of ordinary shares outstanding during the financial year.

	2021 <i>HK cents</i>	2020 <i>HK cents</i>
Total basic loss per share attributable to the owners of the Company	<u>(3.76)</u>	<u>(2.82)</u>

(b) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss 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.

	2021 <i>HK cents</i>	2020 <i>HK cents</i>
Total diluted loss per share attributable to the owners of the Company	<u>(3.76)</u>	<u>(2.82)</u>

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

	2021 <i>(In thousand)</i>	2020 <i>(In thousand)</i>
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	<u>1,243,768</u>	<u>1,209,666</u>

Share options granted under the Company's share option scheme (“**Share Option Scheme**”) are considered to be potential ordinary shares. They have been included in the determination of diluted loss per share if the required total return to shareholders return hurdles would have been met based on the Company'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 loss per share.

The computation of diluted loss per share does not assume the exercise of the Company's share options as the exercise would result in a decrease in a loss per share.

9 DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

10 TRADE AND RETENTION RECEIVABLES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — third parties	11,849	1,102
Retention receivables — third parties	20,259	20,711
	<u>32,108</u>	21,813
Less: loss allowance	(7,227)	(6,348)
	<u>24,881</u>	<u>15,465</u>

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 30 days	6,048	800
31–60 days	452	–
61–90 days	1,872	15
Over 90 days	3,477	287
	<u>11,849</u>	<u>1,102</u>

11 DEPOSIT, PREPAYMENTS AND OTHER RECEIVABLES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	417	–
Insurance compensation receivables	617	489
Refundable deposits for potential acquisition of subsidiaries	–	100
Other receivables	267	793
	<u>1,301</u>	<u>1,382</u>

12 INVENTORIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finished goods — marble and granite	<u>72,364</u>	<u>89,922</u>

13 PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Pledged bank deposits	<u>–</u>	<u>34,507</u>
Cash in bank	2,615	213
Cash on hand	<u>65</u>	<u>5</u>
Bank balances and cash	<u>2,680</u>	<u>218</u>

14 TRADE AND RETENTION PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	27,430	13,731
Retention payables	<u>15,348</u>	<u>14,801</u>
	<u>42,778</u>	<u>28,532</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
1–30 days	7,407	11,562
31–60 days	429	–
61–90 days	503	–
Over 90 days	<u>19,091</u>	<u>2,169</u>
	<u>27,430</u>	<u>13,731</u>

15 BANK BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank overdrafts	10,242	12,243
Term loans — secured	3,800	36,600
Trust receipt loans — secured	24,835	105,976
Revolving loans — secured	4,000	4,000
	<u>42,877</u>	<u>158,819</u>

16 SHARE CAPITAL

	Issued and fully paid	
	Number of shares	Amount <i>HK\$'000</i>
Ordinary share of HK\$0.01 each:		
Authorised:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>3,000,000,000</u>	<u>30,000</u>
Issued and fully paid:		
At 1 January 2020	1,200,000,000	12,000
Shares issued under share option scheme	<u>24,000,000</u>	<u>240</u>
At 31 December 2020	1,224,000,000	12,240
Shares issued under share option scheme	<u>23,200,000</u>	<u>232</u>
At 31 December 2021	<u>1,247,200,000</u>	<u>12,472</u>

17 SHARE-BASED PAYMENT

The establishment of the Company's Share Option Scheme was approved by the Board of Directors (including all the Independent Non-Executive Directors). The Share Option Scheme is designed to provide long-term incentives for grantees to deliver long-term shareholder returns. Except for the share options granted to the Directors, the share options granted 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.

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 is based on the closing price of the Company's shares traded on the Hong Kong Stock Exchange on the date of grant.

	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
Exercised during the year	0.249	(23,200,000)
As at 31 December 2021	0.249	–
Vested and exercisable at 31 December 2021	0.249	–
Vested and exercisable at 31 December 2020	0.249	23,200,000

No options expired during the periods covered by the above tables.

18 CONTINGENCIES

Performance bonds

As at 31 December 2021, the Group had issued performance bonds in respect of construction contracts through the bank amounted to HK\$5,138,000 (2020: HK\$5,138,000).

Legal cases

During the year ended 31 December 2021, the legal cases of the Group was as follows:

- (i) There were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of this announcement, two cases had developed to legal proceedings while the other two cases were still at their initial stage. The amount being claim for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained 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 announcement, 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.

RESULT

Since the National People's Congress passed of the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (commonly known as the "Hong Kong National Security Law") in year 2020 and the Decision on Improving the Electoral System of the Hong Kong Special Administrative Region in year 2021, the political environment in Hong Kong has become stable again for business. However, the increasing geopolitical risk and the COVID-19 pandemic continued to affect the local economy. The economic situation in Hong Kong is not optimistic currently.

Although the sustainability of the Group's was not significantly affected by the COVID-19 pandemic, its supply chain has been affected due to the various quarantine policies imposed by the government of various countries and/or places. Such policies frequently affected the materials supply. In addition, the pandemic also caused the problem of labour shortage in the Hong Kong construction section. These two reasons caused the overall delay on the Group's existing construction projects.

In addition, the industry competition remains very keen. The Group's tender success rate was declined in 2021. As a result, the Group's revenue from stone supply and installation services with customers decreased compared with last year.

For the year ended 31 December 2021, the Group recorded a revenue of approximately HK\$91.9 million (2020: HK\$170.3 million), representing a decrease of 46.0% compared with that in the year ended 31 December 2020. The Group also recorded a decrease of gross profit for the year ended 31 December 2021 (2021: HK\$11.2 million; 2020: HK\$19.1 million), representing a decrease of 41.4%.

Whilst the Group's revenue decreased compared with last year, its operating cost increased in 2021. The key elements were the provision for loss allowance and the administrative expenses.

In the view of the downturn in the local economy and certain other factors, the management had made the provision for loss allowance of the contract assets and trade and retention receivable of approximately HK\$28.9 million (2020: HK\$25.4 million) for certain projects based on the impairment assessment.

In the current financial year, the Group's administrative expenses was approximately HK\$25.3 million (2020: HK\$21.4 million), representing an increase of approximately HK\$3.9 million or 18.2%. This was mainly due to the increase in staff cost, as there was a one-off salary reduction in year 2020.

Due to the combination factors above, the Group recorded a loss before taxation of approximately HK\$46.7 million (2020: HK\$34.1 million) for the year ended 31 December 2021. The loss and total comprehensive expense of the year were approximately HK\$46.7 million (2020: HK\$34.1 million), representing an increase in loss of approximately HK\$12.6 million or 37.0%.

FINANCIAL POSITION

The Group's net asset was approximately HK\$83.0 million (2020: HK\$124.0 million). The key assets as at 31 December 2021 were contract assets, inventories, trade and retention receivables and bank balances and cash.

Contract assets represented the Group's construction work in progress as at the reporting date. As at 31 December 2021, the outstanding contract assets on hand was approximately HK\$169.5 million, representing an edged down of 9.8% over the same period in 2020. This was mainly due to the previous slowdown in the overall construction industry in Hong Kong.

Trade and retention receivables represented the Group's receivables from its construction projects. As at 31 December 2021, the trade and retention receivables was approximately HK\$24.9 million, representing an increase of 60.6% compared the last year. This was due to the increase in confirmation or certification of work in progress.

Inventories were final products for the Group's stone sales project. The decrease was due to the utilisation for sales during the year.

The key liabilities of the Group as at 31 December 2021 were the trade payables, bank borrowings and loans from Directors of the Company.

Trade payables represents the amounts due to subcontractors and suppliers of the Group. The increase was due to the longer credit period provided by certain subcontractors and suppliers as most of the construction projects were delaying in the year 2021.

The Group's bank borrowings were mainly used for its operation purpose. As at 31 December 2021, certain bank borrowings (mainly trust receipt loans) with a total principal amount of approximately HK\$42.9 million (2020: HK\$30.1 million) were overdue. The total bank borrowings were reduced from approximately HK\$158.8 million in 2020 to approximately HK\$42.9 million in 2021. The Group had made effort to repay the bank borrowings, in particular the overdue portion to reduce the liquidity risk of the Group. The Group also maintained communications with the relevant banks and there were no formal demand letters issued for immediate repayment of all outstanding bank borrowings.

The loans from Directors of the Company were provided to support the Group's operating and financing activities. Most of the loans from Directors were utilised to settle the overdue bank borrowings brought forward from year 2020.

INDUSTRY REVIEW

The persistence of the pandemic has posted adverse impact to the general operation environment on the industry, in particular the shipping supply of marble and granites from oversea countries to the PRC and Hong Kong. The work schedule of the Group's subcontractors and suppliers were affected as a result.

The pandemic also shocked the Hong Kong economy. The performance of the local property market has shown uncertainty recently, which may affect the future tendering activities of our industry.

Besides, the competition of the supply and installation of marble and granite market remains very keen. The increasing cost of building materials and construction labour costs posted negative impact on the performance of the construction sector in Hong Kong, resulting in the thinner profit margin for the Group.

COVID-19 pandemic would remain a significant risk to the Group and its operations, and is likely to remain so well into 2022, in particular due to the recent outbreak of the "fifth wave" in Hong Kong.

In this competitive industry, reputations are hard-won and determinedly maintained. For further growth and development in the industry, the Group also needs stronger financial resource to support its construction projects, and maintains good relationship with its consumers, subcontractors, suppliers and other stakeholders.

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 especially in the "post-COVID-19" period.

GROUP PERFORMANCE

During the year, COVID-19 continued to cause steep declines in the Group's performance due to various anti-pandemic measures and cross-boundary limitation had significantly affected the Group's material supplies and work progress at the construction site. For the year ended 31 December 2021, the Group recorded a loss for the year of approximately HK\$46.7 million (2020: HK\$34.1 million).

The unsatisfactory result was mainly due to the delaying in the work progress of most of the stone supply and installation services projects undertaken by the Group. The delaying work progress, in return, increased the turnover period the Group's contract assets and accounts receivable. As a result, there were certain overdue payments to the banks, which deteriorated the situation as the Group has allocated additional resources to handle such overdue situation.

Hong Kong is the place that the Group rooted in. In the past two years, it was full of uncertainty and challenge due to the COVID-19 pandemic. In considering the weak economic environment in Hong Kong and other relevant factors which may affect adversely on the business cycles of the Group, the provision for loss allowance of the contract assets and trade and retention receivable of approximately HK\$28.9 million (2020: HK\$25.4 million) was made.

Besides, the increasing cost of sales and other operation costs due to the keen competition and general inflation also affected the Group's performance.

Revenue

The Group generated revenue from the foundation projects we undertook. The Group recorded a revenue of approximately HK\$91.9 million for the year ended 31 December 2021 (2020: HK\$170.3 million), representing a significant decrease of 46.0% compared with that in the year ended 31 December 2020. The decrease was mainly due to certain construction projects undertaken by the Group were delayed, and the decline in the new tender activities during the year.

Hong Kong

Revenue generated from the Hong Kong construction project decreased by approximately HK\$31.5 million or 29.0% in 2021, due to the overall weakened economic environment in Hong Kong, the delaying of construction projects under the COVID-19 pandemic and the decrease in new tender success rate of the Group.

Macau

Revenue in Macau had decreased by approximately HK\$46.9 million or 76.3% in 2021. Although Macau was less impacted by the COVID-19 pandemic last year, the cross-boundary limitation between Hong Kong and Macau under the epidemic prevention measures caused the Group to invest extra time and resources for communication with the project status in Macau.

Gross profit and margin

The Group's gross profit decreased from approximately HK\$19.1 million to approximately HK\$11.2 million, representing approximately HK\$7.9 million or 41.4% decrease as compared with the gross profit for the corresponding period in 2020. There was a slight increase in gross profit margin from approximately 11.2% in 2020 to 12.1% in 2021.

Administrative expenses

The administrative expenses of the Group in 2021 was approximately HK\$25.3 million, representing an increase of approximately HK\$3.9 million or 18.2% as compared to approximately HK\$21.4 million in 2020. The increase was mainly due to the increase in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK\$2.5 million mainly due to the increase in overall headcount and salary.

Loss attributable to owners of the Company

Based on the above, loss attributable to equity holders of the Company was approximately HK\$46.7 million for the year ended 31 December 2021 (2020: HK\$34.1 million).

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2021 (2020: same).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded the liquidity and capital requirements primarily through its retained profits, loans, borrowings and cash inflows from operating activities. As at 31 December 2021, the capital structure of the Group consisted of equity of approximately HK\$83.0 million (31 December 2020: HK\$124.0 million) and debt of approximately HK\$123.4 million (31 December 2020: HK\$161.9 million). For details, please refer to the paragraph headed “Bank borrowings” below.

Due to the difficult operation environment in years 2020 and 2021, most of the construction projects of the Group were delayed and thus the receivables collection cycle had unexpectedly procrastinated. As a result, the Group failed to repay certain trust receipt loans to the banks by the due date during the years ended 31 December 2020 and 2021. Such trust receipt loans were secured by the assets of the Group, including the trade and retention receivables, pledged bank deposits and contract assets, and were cross guaranteed by the Group’s subsidiaries to the relevant banks.

As at the years ended 31 December 2020 and 2021 and up to the report date, the Group has not received any formal demand letters from the banks for immediate repayment. 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\$115.9 million during the year ended 31 December 2021 and actively discussed and agreed the repayment plans with the relevant banks to extend the principal subsequent to the due date. As at the report date, the Group's bank borrowings significantly reduced to approximately HK\$39.6 million.

The Group expected that the remaining overdue payments would be settled during the interim result report of year 2022.

Based on the cash flow projections cover a period of not less than twelve months from 31 December 2021 and the measurements mentioned in Note 1(a), 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 2021. 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 2021, the current ratio of the Group was approximately 2.5 times (31 December 2020: 1.6 times). It was calculated as the current assets divided by the current liabilities as at the end of the respective years.

As at 31 December 2021, the Group's gearing ratio was 145% (31 December 2020: 50%). It was calculated as the net debts (loans from directors, 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 2021, the Group's bank and cash balance were approximately HK\$2.7 million (31 December 2020: HK\$0.2 million) and there was no pledged bank deposits (31 December 2020: the Group has pledged bank deposits of approximately HK\$34.5 million as security for the Group's banking facilities). The decrease in cash and cash equivalents was mainly due to repayment of bank borrowings.

Bank borrowings

As at 31 December 2021, the Group had total bank borrowings of approximately HK\$42.9 million (31 December 2020: HK\$158.8 million). The Group has not renewed its banking facilities since the last report date in 2021 (2020: aggregate banking facilities of approximately HK\$174.9 million).

FOREIGN EXCHANGE RISK

The Group mainly operates in Hong Kong and Macau. The Group's 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 2021, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK\$5,138,000 (2020: HK\$5,138,000). Among these performance bonds, approximately HK\$0.4 million were related to the construction contracts that completed or substantially completed during the year ended 31 December 2021.

HUMAN RESOURCES

As at 31 December 2021, the Group had 30 full-time employees who were directly employed by the Group. Total staff costs including Directors' emoluments for the year ended 31 December 2021, amounted to approximately HK\$12.2 million (2020: approximately HK\$9.7 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 2021, 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.

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

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed its own shares through the Stock Exchange or otherwise.

CHANGE OF AUDITORS

On 24 January 2022, PricewaterhouseCoopers resigned as the auditors of the Company after taking into consideration factors including the professional risks associated with the audit, their available internal resources and the level of audit fees.

With the recommendation from the Audit Committee of the Company, the Board has resolved to appoint CL Partners CPA Limited ("**CL Partners**") as the new auditors of the Company with effect from 24 January 2022 to fill the casual vacancy following the resignation of PricewaterhouseCoopers and to hold office until the conclusion of the next annual general meeting of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control and to enhance the transparency and accountability of the Board to all Shareholders. Except for the disclosure below, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Chairman and Chief Executive Officer

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 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**"). Therefore, it has a strong independent element in its composition.

Full details on the Company's corporate governance practices will be set out in the Company's 2021 Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions by Directors. The Company has made specific enquiries and all the Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2021.

AUDIT COMMITTEE

The Audit Committee, with its terms of reference established in compliance with the Listing Rules, is composed of three Independent Non-Executive Directors (Mr. Ko Tsz Kin, Mr. Ng Yau Wah Daniel and Mr. Zou Haiyan). The Audit Committee has reviewed the management and accounting policies adopted by the Group and discussed auditing issues, risk management and internal control system, and financial reporting matters. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2021. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, CL Partners, Certified Public Accountants, Hong Kong.

REMUNERATION COMMITTEE

The Remuneration Committee, with its terms of reference established in compliance with the Listing Rules, 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 Yue Yun Gary) and two Independent Non-Executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin).

NOMINATION COMMITTEE

The Nomination Committee, with its terms of reference established in compliance with the Listing Rules, is composed of the Chairman of the Board (Mr. Lui Yue Yun Gary) 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.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, CL Partners, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by CL Partners in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CL Partners on the preliminary announcement. The Audit Committee has reviewed the annual results for the year ended 31 December 2021.

ANNUAL REPORT

The 2021 Annual Report will be despatched to Shareholders and will be published on the websites of the Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.anchorstone.com.hk) in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 28 June 2022. Notice of Annual General Meeting will be published on the websites of the Stock Exchange and the Company, and despatched to Shareholders in due course.

Shareholders whose names appear on the register of members of the Company on 28 June 2022 are entitled to attend and vote at the AGM. The register of members of the Company will be closed from Thursday, 23 June 2022 to Tuesday, 28 June 2022, both days inclusive. In order to qualify for attending and voting at the AGM, shareholders should ensure that all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong, no later than 4:30 p.m. on Wednesday, 22 June 2022.

By Order of the Board
Anchorstone Holdings Limited
Lui Yue Yun Gary
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the Executive Directors are Mr. Lui Yue Yun Gary, Mr. Lui Edwin Wing Yiu, Mr. Fung Wai Hang, Ms. Qiao Xiaowei and Ms. Zhang Li, and the Independent Non-Executive Directors are Mr. Ko Tsz Kin, Mr. Ng Yau Wah Daniel, Mr. Lee Chun Wai and Mr. Zou Haiyan.