建榮地基
KIN WING

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

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of Chinney Kin Wing Holdings Limited (the "Company") is pleased to announce the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 and the consolidated statement of financial position of the Group as at 31 December 2018 together with comparative figures in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4*	**1,242,956**	1,190,441
Cost of construction		**(989,526)**	(900,793)
Gross profit		**253,430**	289,648
Other income and gains	*4*	**2,565**	1,833
Administrative expenses		**(186,026)**	(194,253)
PROFIT BEFORE TAX	*5*	**69,969**	97,228
Income tax expense	*6*	**(12,333)**	(15,622)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**57,636**	81,606
Profit and total comprehensive income attributable to:			
Equity holders of the Company		**57,636**	81,606
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
Basic and diluted		**HK 3.84 cents**	HK 5.44 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**277,290**	320,777
CURRENT ASSETS			
Gross amount due from contract customers		**-**	58,157
Trade receivables	*9*	**157,730**	112,123
Contract assets		**270,895**	-
Retention monies receivable		**-**	168,686
Prepayments, deposits and other receivables		**18,772**	17,526
Due from a fellow subsidiary		**1,790**	1,790
Due from a related company	*10*	**10,500**	37,282
Tax recoverable		**11,274**	2,587
Pledged time deposits		**-**	3,598
Cash and cash equivalents		**193,661**	291,676
Total current assets		**664,622**	693,425
CURRENT LIABILITIES			
Gross amount due to contract customers		**-**	364,843
Trade and retention monies payables	*11*	**169,395**	97,328
Retention monies payable		**-**	22,661
Other payables and accruals		**297,906**	47,407
Tax payable		**4,381**	8,956
Total current liabilities		**471,682**	541,195
NET CURRENT ASSETS		**192,940**	152,230
TOTAL ASSETS LESS CURRENT LIABILITIES		**470,230**	473,007
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**45,140**	48,687
Net assets		**425,090**	424,320
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**150,000**	150,000
Reserves		**275,090**	274,320
Total equity		**425,090**	424,320

NOTES:

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Changes in accounting policies and disclosures

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities; impairment for financial assets; and general hedge accounting.

<u>Classification and measurement</u>
Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

From 1 January 2018, the Group classified its financial assets as debt instruments measured at amortised cost as they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, and deposits and other receivables.

There has been no impact on the Group’s accounting for financial liabilities as the new requirements under HKFRS 9 only affect the accounting for financial liabilities that are designated at FVTPL and the Group does not have such liabilities.

<u>Impairment of financial assets</u>
The adoption of HKFRS 9 has fundamentally changed the Group’s accounting for impairment losses for financial assets by replacing HKAS 39’s incurred loss calculations with HKFRS 9’s expected credit losses (“ECLs”). HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

Changes to the impairment model

(i) Trade receivables

The Group applied the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group of receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information. Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment to determine whether specific loss allowance provisions are required. The adoption of the simplified ECL approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

(ii) Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including pledged deposits and financial assets included in prepayments, deposits and other receivables, the ECL is based on the 12-month ECL. This represents the portion of lifetime ECL that results from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Management has closely monitored the credit qualities and the collectability of other financial assets at amortised cost and considers that the ECL is immaterial.

At 1 January 2018 and 31 December 2018, the directors reviewed and assessed the Group's financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact were considered insignificant to the Group.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contacts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Increase/(decrease) *HK$'000*
Assets	
Gross amount due from contract customers	(58,157)
Retention monies receivable	(168,686)
Contract assets	229,666
Total assets	2,823
Liabilities	
Other payables and accruals	381,877
Gross amount due to contract customers	(364,843)
Trade payables	(97,328)
Retention monies payable	(22,661)
Trade and retention monies payables	119,989
Tax payable	(2,345)
Total liabilities	14,689
Equity	
Retained profits	(11,866)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	HKFRS 15 *HK$'000*	Amounts prepared under previous HKFRS *HK$'000*	Increase/ (decrease) *HK$'000*
Revenue	1,242,956	1,189,167	53,789
Cost of construction	(989,526)	(941,037)	48,489
Gross profit	253,430	248,130	5,300
Profit before tax	69,969	64,669	5,300
Income tax expenses	(12,333)	(11,459)	874
Profit for the year	57,636	53,210	4,426

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Consolidated statement of financial position as at 31 December 2018:

	HKFRS15 *HK$'000*	Amounts prepared under previous HKFRS *HK$'000*	Increase/ (decrease) *HK$'000*
Contract assets	270,895	-	270,895
Retention monies receivable	-	178,740	(178,740)
Gross amount due from contract customers	-	90,455	(90,455)
Total assets	941,912	940,212	1,700
Gross amount due to contract customers	-	234,822	(234,822)
Other payables and accruals	297,906	52,474	245,432
Trade payables	-	139,960	(139,960)
Trade and retention monies payables	169,395	-	169,395
Retention monies payable	-	29,435	(29,435)
Tax payables	4,381	5,851	(1,470)
Total liabilities	516,822	507,682	9,140
Net assets	425,090	432,530	(7,440)
Retained profits	191,461	198,901	(7,440)
Total equity	425,090	432,530	(7,440)

3. OPERATING SEGMENT INFORMATION

The Group is organised into business units based on their services and has two reportable operating segments as follows:

- Foundation construction and ancillary services (the "Foundation Division"); and
- Drilling and site investigation (the "Drilling Division")

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

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

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

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

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

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	Foundation construction and ancillary services *HK$'000*	Drilling and site investigation *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	1,019,725	170,716	1,190,441
Intersegment sales	-	41,412	41,412
Other revenue			
- Rental income from leasing of machinery	636	-	636
- Others	1,045	-	1,045
	1,021,406	212,128	1,233,534
Reconciliation:			
Elimination of intersegment sales			(41,412)
Other revenue			(1,681)
Revenue			1,190,441
Segment results	77,762	23,695	101,457
Reconciliation:			
Corporate and other unallocated expenses			(5,141)
Interest income			912
Profit before tax			97,228
Segment assets	832,635	180,364	1,012,999
Reconciliation:			
Corporate and other unallocated assets			1,203
Total assets			1,014,202
Segment liabilities	446,612	139,053	585,665
Reconciliation:			
Corporate and other unallocated liabilities			4,217
Total liabilities			589,882
Other segment information:			
Depreciation	63,623	279	63,902
Capital expenditure*	57,009	7,644	64,653

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**1,233,471**	1,169,590
Elsewhere	**9,485**	20,851
	1,242,956	1,190,441

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

(b) Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**277,290**	320,777

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

Information about major customers

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

	2018	2017
	HK$'000	*HK$'000*
Customer A	**222,000**	*
Customer B	**146,191**	*

* Less than 10%

4. REVENUE, OTHER INCOME AND GAINS

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

	2018 *HK$'000*	2017 *HK$'000*
Revenue from contract with customers		
Construction services	**1,242,956**	1,190,441

Revenue from contracts with customers
Disaggregated revenue information

For the year ended 31 December 2018

Segments

	Foundation construction and ancillary services *HK$'000*	Drilling and site investigation *HK$'000*	Total *HK$'000*
Type of services			
Construction services	**1,073,054**	**169,902**	**1,242,956**
Geographical markets			
Hong Kong	**1,068,993**	**164,478**	**1,233,471**
Elsewhere	**4,061**	**5,424**	**9,485**
Total revenue from contracts with customers	**1,073,054**	**169,902**	**1,242,956**
Timing of revenue recognition			
Construction services	**1,073,054**	**169,902**	**1,242,956**
Revenue from contracts with customers			
External customers	**1,073,054**	**169,902**	**1,242,956**
Intersegment sales	**-**	**80,939**	**80,939**
	1,073,054	**250,841**	**1,323,895**
Elimination of intersegment sales	**-**	**(80,939)**	**(80,939)**
Total revenue from contracts with customers	**1,073,054**	**169,902**	**1,242,956**

Other income and gains

	2018 *HK$'000*	2017 *HK$'000*
Bank interest income	**1,141**	912
Rental income from leasing of machinery	**600**	636
Exchange gains, net	**111**	285
Others	**713**	-
	2,565	1,833

5. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of Construction	**989,526**	900,793
Depreciation	**62,948**	66,527
Less: Amount included in cost of construction	**(8,064)**	(2,625)
	54,884	63,902
Staff costs (including directors' remuneration)		
Salaries, wages and allowances	**261,498**	263,650
Pension scheme contributions	**11,035**	10,242
	272,533	273,892
Less: Amount included in cost of construction	**(197,299)**	(197,648)
	75,234	76,244
Auditor's remuneration	**1,427**	1,256
Minimum lease payments under operating leases	**9,790**	8,232
Loss on disposal of items of property, plant and equipment	**1,117**	764
Impairment of goodwill	**398**	-
Foreign exchange differences, net	**(111)**	(285)

6. INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**15,024**	18,322
Over provision in prior years	**(381)**	(100)
Current – Elsewhere		
Charge for the year	**1,237**	944
Deferred	**(3,547)**	(3,544)
Total tax charge for the year	**12,333**	15,622

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$57,636,000 (2017: HK$81,606,000) and the number of 1,500,000,000 ordinary shares in issue during both years.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

8. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Proposed final dividend of HK 2.0 cents (2017: HK 3.0 cents) per ordinary share	**30,000**	45,000

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

9. TRADE RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables	**157,730**	112,123

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing. At 31 December 2018, the Group has certain concentration risk that may arise from the exposure to the largest customer and five largest customers, which accounted for 23% and 71% (2017: 21% and 77%) of the Group's total receivables balance, respectively.

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

	2018 *HK$'000*	2017 *HK$'000*
Current to 30 days	**118,572**	81,489
31 to 60 days	**29,111**	13,640
61 to 90 days	**2,259**	3,232
Over 90 days	**7,788**	13,762
	157,730	112,123

10. DUE FROM A RELATED COMPANY

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

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

11. TRADE AND RETENTION MONIES PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**139,960**	97,328
Retention monies payable	**29,435**	-
	169,395	97,328

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

	2018	2017
	HK$'000	*HK$'000*
Trade payables		
Current to 30 days	**125,209**	89,790
31 to 60 days	**11,187**	4,920
61 to 90 days	**153**	253
Over 90 days	**3,411**	2,365
	139,960	97,328
Retention monies payable	**29,435**	-
	169,395	97,328

The trade and retention monies payables are non-interest-bearing. Trade payables are normally settled on 30-day terms. Retention monies payable had repayment terms ranging from one to two years. At 31 December 2017, retention monies payable included in "Retention monies payable" in the consolidated statement of financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

During the year under review, the Group had completed 12 and 24 projects with contract sum of approximately HK$690 million and HK$20 million in the foundation construction and ancillary services (the "Foundation Division") and drilling and site investigation (the "Drilling Division") respectively.

As at 31 December 2018, the Group had 7 and 28 projects in progress with contract sum of approximately HK$1,683 million and HK$229 million in the Foundation Division and Drilling Division respectively.

Revenue

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

	2018	2017
	HK$'000	*HK'000*
Foundation Division	**1,073,054**	1,019,725
Drilling Division	**169,902**	170,716
	1,242,956	1,190,441

The Group's revenue for the year under review was HK$1,242.96 million (2017: HK$1,190.44 million), representing a slight increase of 4.41% from the previous year. The increase of revenue in the reporting year was primarily due to the revenue contribution of certain sizable foundation contracts which we have been awarded at the end of 2017 and early 2018. The steady income stream from our Drilling Division further consolidate the level of our revenue in the current year.

Gross profit and gross profit margin

The Group's total gross profit was HK$253.43 million (2017: HK$289.65 million), representing a decrease of 12.50% from the previous year. The overall gross profit margin also decreased from the previous year of 24.33% to 20.39%. The decrease of both the gross profit and the gross profit margin was due to the persistent weak and competitive foundation market which lead to lower awarded contract prices. The continuing increase of direct material costs and labour wages further squeezed our gross profit.

Administrative expenses

To counter the adverse market conditions, the Group reduced administrative expenses from previous year of HK$194.25 million to HK$186.03 million in the reporting year, representing a decrease of 4.24%. The decrease of administrative expenses was mainly due to the decrease of depreciation charges to a comparable extent upon certain of our property, plant and equipment being fully depreciated over the current year under review.

Net profit

The Group's net profit for the year under review was HK$57.64 million (2017: HK$81.61 million), representing a decrease of 29.37% over the previous year. The decrease in net profit was directly due to the decrease of gross profit but the extent of the decrease was partly offset by decreases in administrative expenses.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2018, the Group had unpledged cash and bank balances of HK$193.66 million as compared with that of HK$291.68 million at 31 December 2017. The decrease was mainly due to the payment of 2017 final dividend of HK$45.00 million to our shareholders as well as a cash payment of HK$30.63 million for investments in our machinery fleets.

Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. To manage liquidity risk, the board of directors closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Pledge of assets

As at 31 December 2017, time deposits of HK$3.60 million were pledged to banks to secure the performance bonds issued in favour of the Group's clients on contracting works. All such deposits have been released as at 31 December 2018.

Contingent liabilities

As at 31 December 2018, the Group provided corporate guarantees and indemnities to certain banks and an insurance company for an aggregate amount of HK$167.45 million (2017: HK$261.70 million) for the issue of performance bonds in its ordinary course of business. As at 31 December 2017, certain of these performance bonds were also secured by time deposits amounting to HK$3.60 million.

Employees and remuneration policies

As at 31 December 2018, the Group employed 496 staff members in Hong Kong. We are proud of the professional foundation and drilling contracting team formed by these colleagues. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

OUTLOOK AND FUTURE PLANS

The environment of the foundation market in Hong Kong did not improve in 2018 and continued to be weak and highly competitive among the market players. Reduced number of foundation contracts from both the public and private sectors had forced the contractors to tender at an unreasonably low contract price for survival. Increased direct material costs, labour wages and operational costs had additional adverse impact to the business. Our Group, like other major market players in the foundation market, was caught in the middle of falling prices and rising costs. Nevertheless, with the support of our stakeholders, a healthy financial position, and the diligence of our professional management team, the Group is confident that we are overcoming the cyclical downturn and cautiously optimistic that a slight recovery of the foundation market will be observed in 2019 after the last 3 year down cycle.

To better compete against other market players, more resources were allocated to strengthen our Design and Build team. We believe that a flexible and capable foundation design that can fulfill the site environment and the client's requirements will always be a key factor to winning foundation contracts. In addition, the continuing adoption of the "3P Enhancement Program", namely Project management system, Production efficiency and Plant modernisation, together with our stringent cost control measures on project construction and administrative overhead, cushioned adverse impacts to the Group and maximised the returns to our shareholders.

OUTLOOK AND FUTURE PLANS *(continued)*

Our Drilling Division, DrilTech, with specialised technology in ground investigation, instrumentation and "Down-the-hole" jobs had continued to perform satisfactory over the reporting year. Our Group is pleased to announce that DrilTech has been admitted as Specialist Contractors of Group II under the Land Piling category covering the Rock-socketed Steel H-pile in Pre-bored Hole piling system under Works Branch in January 2019. DrilTech will continue to apply for inclusion into different categories therein so as to broaden the business opportunities to work for the public sector of the construction industry. In respect of the private sector, DrilTech acted as a main contractor for several leading Hong Kong property developer in the reporting year. Our Group expects that DrilTech can improve further by expanding our scope of services and in turn enhance the revenue and profit contributions to the Group in the coming years.

With the Group's long established reputation in the foundation industry, together with our competitive strength and talented staff led by a committed Execution Panel, we are confident that the Group's business and our client base will continue to expand even under the existing challenging environment. We are conservatively optimistic as to the long term demands in the construction industry especially in view of the housing supply target of 450,000 housing units in Hong Kong from both the public and private sectors in the next decade, as wells as the possibility of constructing 1,700 hectares of artificial islands in the long term strategy of the "Lautau Tomorrow Vision".

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2018 to the shareholders of the Company whose names appear on the Company's register of members on 14 June 2019. Subject to approval by the shareholders on the forthcoming annual general meeting, the dividend cheques are expected to be despatched to the shareholders on or before 2 July 2019.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on 4 June 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 30 May 2019 to 4 June 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 29 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR DIVIDEND

The proposed final dividend for the year ended 31 December 2018 is subject to the approval by the shareholders of the Company at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 12 June 2019 to 14 June 2019 (both days inclusive), during which period no share transfers will be registered. The last day for dealing in the Company's share cum entitlements to the proposed final dividend will be 6 June 2019. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 11 June 2019.

A NOTE OF THANKS & APPRECIATION

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

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

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

Thank You!

CORPORATE GOVERNANCE

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

Compliance with the Corporate Governance Code

In the opinion of the directors, the Company has complied with all relevant code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the year, except code provision A.1.1. Board meetings of the Company were held twice during the year on a regular basis, which deviated from code provision A.1.1 of the CG code which stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In view of the simplicity of the Group's businesses, regular board meetings have not been held quarterly during the year. The interim and annual results together with all corporate transactions happened during the year have been reviewed and discussed amongst the directors at the full board meetings held in the year.

Details of the Company's corporate governance policies and practices (including the above deviation from the code provisions) will be discussed in the Company's 2018 annual report.

Audit Committee

The Audit Committee comprises all the three independent non-executive directors namely Mr. Siu-Chee Kong (Chairman of the Audit Committee), Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management and the external auditor the financial reporting matters of the Group for the year ended 31 December 2018.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor 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 HKICPA and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

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

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

By Order of the Board
Yuen-Keung Chan
Chairman

Hong Kong, 27 March 2019

At the date of this announcement, the Board comprises of eight directors, of which five are executive directors, namely Mr. Yuen-Keung Chan, Mr. James Sing-Wai Wong, Mr. Wing-Sang Yu, Mr. Philip Bing-Lun Lam and Mr. Hin-Kwong So; and three are independent non-executive directors, namely Mr. Siu-Chee Kong, Mr. Ivan Ti-Fan Pong and Mr. Robert Che-Kwong Tsui.

** For identification purpose only*