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Geotech Holdings Ltd.

致浩達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1707)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2018 amounted to approximately HK\$257.4 million (2017: approximately HK\$275.8 million).
- Profit attributable to the equity holders of the Company for the year ended 31 December 2018 amounted to approximately HK\$5.3 million (2017: approximately HK\$9.5 million).
- Basic and diluted earnings per share for the year ended 31 December 2018 amounted to approximately HK cents 0.38 (2017: approximately HK cents 0.79).
- The Board did not recommend the declaration of a final dividend for the year ended 31 December 2018.

The board (the “**Board**”) of directors (the “**Directors**”) of Geotech Holdings Ltd. (the “**Company**”) is pleased to present the audited consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (note (i))
Revenue	4	257,413	275,813
Direct costs		<u>(233,062)</u>	<u>(232,668)</u>
Gross profit		24,351	43,145
Other income	5	4,238	2,138
Administrative expenses		(22,567)	(30,592)
Finance costs	6	<u>(252)</u>	<u>(354)</u>
Profit before income tax	7	5,770	14,337
Income tax expense	8	<u>(433)</u>	<u>(4,820)</u>
Profit for the year		<u>5,337</u>	<u>9,517</u>
Other comprehensive (expense)/income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Fair value loss on financial assets at fair value through other comprehensive income (note (ii))		(130)	—
Items that may be classified subsequently to profit or loss			
Fair value gain on available-for-sale financial assets		<u>—</u>	<u>151</u>
Total comprehensive income for the year		<u>5,207</u>	<u>9,668</u>
		HK cents	HK cents
Earnings per share for profit attributable to equity holders of the Company			
Basic and diluted	10	<u>0.38</u>	<u>0.79</u>

Notes:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).
- (ii) This amount is recognised under the accounting policies prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018, the balance of this reserve has been reclassified to financial assets fair value reserve and will not be reclassified to profit or loss in any future periods.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (note (i))
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		6,976	8,605
Financial assets at fair value through other comprehensive income ("FVOCI")		1,151	—
Available-for-sales financial assets		—	1,281
Deferred tax assets		560	—
		8,687	9,886
Current assets			
Trade and other receivables	11	97,700	57,837
Amounts due from customers on construction contracts	12	—	49,945
Contract assets	13	56,008	—
Tax recoverable		2,143	2,931
Cash and bank balances		82,347	109,386
		238,198	220,099
Current liabilities			
Trade and other payables	14	50,159	30,288
Borrowings, secured		—	10,000
Obligation under finance leases		1,474	490
Amounts due to customers on construction contracts	12	—	1,250
Contract liabilities	13	1,670	—
		53,303	42,028
Net current assets		184,895	178,071
Total assets less current liabilities		193,582	187,957
Non-current liabilities			
Obligation under finance leases		942	433
Deferred tax liabilities		948	1,039
		1,890	1,472
Net assets		191,692	186,485
CAPITAL AND RESERVES			
Share capital	15	14,000	14,000
Reserves		177,692	172,485
Total equity		191,692	186,485

Note:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (refer to note 3 for details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Geotech Holdings Ltd. (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 6 June 2016. The addresses of the registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and its principal place of business is Units 05-08, 11/F, Delta House, 3 On Yiu Street, Shek Mun, New Territories, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in provision of construction and engineering services.

As at 31 December 2017, the Company’s immediate and ultimate holding company was Flourish Team Limited (“**Flourish Team**”), a company incorporated in the British Virgin Islands (the “**BVI**”) and owned as to 49% by Mr. Yau Kin Wing Sino (“**Mr. Yau**”), 49% by the late Mr. Cheung Ting Kam (“**Mr. Cheung**”) and 2% by Mr. Kung Ho Man (“**Mr. Kung**”). Double Wink Limited (“**Double Wink**”), a company incorporated in the BVI, held 2% interest in the Company and Double Wink is wholly owned by Ms. Tang Ka Wa Danise (“**Ms. Tang**”). As a result, the controlling shareholders of the Company as at 31 December 2017 included Flourish Team, Double Wink, Mr. Yau, the late Mr. Cheung, Mr. Kung and Ms. Tang. On 22 November 2018, Flourish Team, Double Wink and Mr. Yau entered into a sale and purchase agreement and whereby Flourish Team and Double Wink have agreed to sell 737,000,000 shares of the Company, representing approximately 52.64% of the issued share capital of the Company, to Star Merit Global Limited (“**Star Merit**”), a company incorporated in the BVI and wholly owned by Mr. Chen Zhi (“**Mr. Chen**”). The transaction was completed on 4 December 2018. Since 4 December 2018 (including as at 31 December 2018), the Company’s immediate and ultimate holding company is Star Merit, the Company’s ultimate controlling shareholder of the Company is Mr. Chen.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 October 2017 (the “**Listing Date**”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”).

The consolidated financial statements have been prepared on the historical cost basis except for financial assets at FVOCI (2017: available-for-sale financial assets) which are stated at fair value. The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands (“**HK\$’000**”), except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates.

3. ADOPTION OF NEW AND AMENDED HKFRSs

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and consolidated financial statements and effective for the annual period beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 1	As part of Annual Improvements to HKFRSs 2014-2016 Cycle
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented:

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as "**HKFRS 15**") presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, HKFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

There was no material impact of transition to HKFRS 15 on retained earnings at 1 January 2018. In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount on 31 December 2017 under HKAS 18 and HKAS 11 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Carrying amount on 1 January 2018 under HKFRS 15 <i>HK\$'000</i>
Current assets			
Amounts due from customers on construction contracts	49,945	(49,945)	–
Contract assets	–	49,945	49,945
Current liabilities			
Amounts due to customers on construction contracts	1,250	(1,250)	–
Contract liabilities	–	1,250	1,250

The adoption of HKFRS 15 has no material impact on the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

HKFRS 9 Financial instruments

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an expected credit losses ("ECL") model for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of HKFRS 9 has impacted the following areas:

(a) Classification and measurement

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. The Group elected to irrevocably designate these investments as financial assets at FVOCI. As a result, available-for-sale financial assets under HKAS 39 has been reclassified as financial assets at FVOCI under HKFRS 9. Fair value changes previously accounted for in available-for-sale financial asset revaluation reserve has transferred to the opening balance of financial assets fair value reserve as at 1 January 2018.

In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount on 31 December 2017 under HKAS 39 HK\$'000	Reclassification HK\$'000	Carrying amount on 1 January 2018 under HKFRS 9 HK\$'000
Non-current assets			
Available-for-sales financial assets	1,281	(1,281)	–
Financial assets at FVOCI	–	1,281	1,281

The impact of these changes on the Group's equity is as follows:

	Available-for- sale financial assets revaluation reserve HK\$'000	Financial assets fair value reserve HK\$'000
Balance at 31 December 2017 under HKAS 39	160	–
Reclassification from available-for-sale financial assets to financial assets at FVOCI	(160)	160
Balance at 1 January 2018 under HKFRS 9	–	160

(b) Impairment

Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month ECL or a lifetime ECL, depending on the asset and the facts and circumstances.

For trade receivables, retention receivables and contract assets, the Group applies a simplified approach of recognising lifetime ECL as these items do not have a significant financing component. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

For all other financial assets at amortised cost, the Group adopted a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised below:

- The receivables with low credit risk on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk since initial recognition is identified, the receivables is moved to “Stage 2” but is not yet deemed to be credit impaired;
- If the receivables is credit-impaired, the financial instrument is then moved to “Stage 3”.

Receivables in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on ECL on a lifetime basis.

Measurement of ECLs

When estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings.

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Repayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKAS 1 and HKAS 8	Definition of Materials ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective date to be determined.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a "lease liability" and corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition consolidated in the statement of profit or loss and other comprehensive income over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to approximately HK\$3,228,000 for premises, approximately HK\$2,426,000 is payable within one year.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

4. REVENUE AND SEGMENT INFORMATION

Revenue recognised for the years ended 31 December 2018 and 2017 are as follows:

	2018 HK\$'000	2017 HK\$'000
Contracting revenue	<u>257,413</u>	<u>275,813</u>

The Group's operating activities are attributable to a single operating segment focusing on construction and engineering services. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that is regularly reviewed by the executive Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance. The CODM monitors the revenue from the engagement in construction and engineering services with no discrete information available to the CODM. The CODM reviews the profit for the period of the Group as a whole for performance assessment.

All performance obligations of revenue from contracts with customers of the Group are satisfied over time.

Geographical information

The Group's revenue from external customers based on the location of the operation is derived solely in Hong Kong (place of domicile). Non-current assets of the Group based on the location of assets are all located in Hong Kong. Accordingly, no segment analysis by geographical information is presented.

Information about major customers

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

	2018 HK\$'000	2017 HK\$'000
Customer A	148,043	119,571
Customer B	<u>32,013</u>	<u>N/A*</u>

* The corresponding revenue does not contribute over 10% of total revenue of the Group.

5. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Consultancy fee income	290	300
Rental income from lease of machinery	1,127	261
Government grants (<i>note</i>)	–	71
Labour charges income	–	82
Safety consultancy income	485	623
Interest income	510	22
Gain on disposal of property, plant and equipment	190	118
Exchange gain	315	55
Other	1,321	606
	<u>4,238</u>	<u>2,138</u>

Note:

Government grants of HK\$71,000 was granted during the year ended 31 December 2017 to subsidy the retirement of Pre-Euro IV Diesel Commercial Vehicles of the Group. There were no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grant in the future.

6. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Bank loan and overdrafts interest	211	342
Finance charge on obligation under finance lease	41	12
	<u>252</u>	<u>354</u>

7. PROFIT BEFORE INCOME TAX

	2018 HK\$'000	2017 HK\$'000
Profit before tax is stated after charging/(crediting):		
Staff costs (including directors' remuneration)	30,616	40,589
Depreciation	3,095	2,904
Operating lease charges in respect of premises	1,764	1,990
Subcontracting charges (included in direct costs)	195,667	174,438
Listing expenses	–	10,705
Gain on disposal of property, plant and equipment	(190)	(118)
Auditors' remuneration	1,366	1,206
	<u>1,366</u>	<u>1,206</u>

8. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Provision for Hong Kong profits tax		
Current tax	1,441	4,050
(Over)/Under provision in respect of prior years	(357)	250
	<u>1,084</u>	<u>4,300</u>
Deferred tax	(651)	520
	<u>433</u>	<u>4,820</u>
Total income tax expense	<u>433</u>	<u>4,820</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of Geotech Engineering Limited (“**Geotech Engineering**”), a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime.

For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the year.

9. DIVIDENDS

	2018 HK\$'000	2017 HK\$'000
Interim dividends	<u>—</u>	<u>30,000</u>

Prior to the Group’s reorganisation of the Company in connection with the listing of its shares on the Stock Exchange (the “**Reorganisation**”), Praise Marble Limited (“**Praise Marble**”) had declared dividend to its then equity owner of HK\$30,000,000 for the year ended 31 December 2017.

The rates for dividends and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this announcement.

No dividend was paid or proposed during 2018, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to equity holders of the Company	<u>5,337</u>	<u>9,517</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares	<u>1,400,000</u>	<u>1,205,479</u>

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 includes (i) 100 ordinary shares in issue at beginning of the year; (ii) 1,149,999,900 new ordinary shares issued pursuant to the Capitalisation Issue (note 15(iii)), as if all these shares had been in issue throughout the year ended 31 December 2017, and (iii) 55,479,000 shares, representing the weighted average of 250,000,000 new ordinary shares issued pursuant to the Initial Public Offering and Share Placing (the “**Share Offer**”) (note 15(iv)).

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017 and therefore, diluted earnings per share equals to basic earnings per share.

11. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	29,458	13,928
Retention receivables	18,876	16,663
Other receivables and prepayment	47,541	18,853
Prepayment for property, plant and equipment	–	6,797
Utility and other deposits	<u>1,825</u>	<u>1,596</u>
	<u>97,700</u>	<u>57,837</u>

Based on the invoice dates, the ageing analysis of the trade receivables, net of ECL allowance (2017: provision for impairment), was as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0-30 days	26,854	8,756
31-60 days	1,959	3,184
61-90 days	16	1,137
Over 90 days	<u>629</u>	<u>851</u>
	<u>29,458</u>	<u>13,928</u>

As at 31 December 2018, based on the judgement of the management of the Group, the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix is negligible.

As at 31 December 2017, trade receivables which were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Retention receivables are interest-free and repayable approximately one year after the expiry of the maintenance period of construction projects.

At the end of the reporting date, the Group reviewed trade receivables, retention receivables and other receivables for evidence of impairment on both an individual and collective basis. Based on this assessment, no ECL allowance (2017: provision for impairment) has been recognised at 31 December 2018 (2017: Nil).

12. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONSTRUCTION CONTRACTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses	–	902,328
Less: progress billings	–	(853,633)
	<u>–</u>	<u>(853,633)</u>
Contract work-in-progress	–	48,695
	<u>–</u>	<u>48,695</u>
Analysed for reporting purposes as:		
Amounts due from customers on construction contracts	–	49,945
Amounts due to customers on construction contracts	–	(1,250)
	<u>–</u>	<u>(1,250)</u>
	<u>–</u>	<u>48,695</u>

The gross amounts due from/(to) customers on construction contracts are expected to be recovered/settled within one year.

13. CONTRACT ASSETS AND CONTRACT LIABILITIES

13.1 Contract assets

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Contract assets arising from construction contracts	<u>56,008</u>	<u>–</u>

Notes:

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included as “Amounts due from customers on construction contracts” were reclassified to contract assets.

The amount of contract assets is expected to be recovered/settled within one year.

13.2 Contract liabilities

	2018 HK\$'000	2017 HK\$'000
Contract liabilities arising from construction contracts from billings in advance of performance	<u>1,670</u>	<u>—</u>

Notes:

The Group has initially applied HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included as “Amounts due to customers on construction contracts” were reclassified to contract liabilities.

All of the contract liabilities is expected to be recovered/settled within one year.

Movements in contract liabilities

	2018 HK\$'000
Balance at 1 January	1,250
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,171)
Increase in contract liabilities as a result of billing in advance of construction activities	<u>1,591</u>
Balance at 31 December	<u>1,670</u>

Unsatisfied long-term construction contracts

The transaction price allocated to the remaining unsatisfied or partially satisfied performance obligations as at 31 December are as follows:

	2018 HK\$'000
Within one year	75,062
More than one year	204,239
	279,301

These amounts disclosed above do not include transaction price allocated to performance obligations which have been satisfied but not yet recognised due to variable consideration constraint.

14. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables (<i>note (i)</i>)	27,353	11,536
Retention payables (<i>note (ii)</i>)	12,922	10,143
Accruals and other payables	9,884	8,609
	50,159	30,288

Ageing analysis of payables based on the invoices date is as follows:

	2018 HK\$'000	2017 HK\$'000
0-30 days	24,213	7,267
31-60 days	1,650	2,643
61-90 days	569	545
Over 90 days	921	1,081
	27,353	11,536

Notes:

- (i) Payment terms granted by suppliers are 30 to 60 days from the invoice date of the relevant purchases.
- (ii) Retention payables are interest-free and settled in accordance with the terms of the respective contracts.
- (iii) All trade and other payables are denominated in HK\$.
- (iv) All amounts are short-term and hence, the carrying values of the Group's trade payables, retention payables and accruals and other payables are considered to be a reasonable approximation of fair value.

15. SHARE CAPITAL

	2018		2017	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
As at 1 January	4,000,000,000	40,000	10,000,000	100
Increase in authorised share capital (<i>note ii</i>)	—	—	3,990,000,000	39,900
As at 31 December	4,000,000,000	40,000	4,000,000,000	40,000
Issued and fully paid:				
As at 1 January (<i>note i</i>)	1,400,000,000	14,000	100	—
Issuance of ordinary shares pursuant to the Capitalisation Issue (<i>note iii</i>)	—	—	1,149,999,900	11,500
Issuance of ordinary shares pursuant to the share offer (<i>note iv</i>)	—	—	250,000,000	2,500
As at 31 December	1,400,000,000	14,000	1,400,000,000	14,000

Notes:

- (i) Pursuant to the Reorganisation, the Company credited the 100 nil-paid shares as fully paid at par as the consideration for acquisition of Praise Marble on 15 September 2017.
- (ii) Pursuant to the written resolution of all shareholder passed on 21 September 2017, the authorised share capital of the Company was increased from HK\$100,000 to HK\$40,000,000 divided into 4,000,000,000 shares of HK\$0.01 each.
- (iii) Pursuant to the written resolutions of the shareholder passed on 21 September 2017, 1,149,999,900 ordinary shares of HK\$0.01 each were allotted and issued at par by way of capitalisation of the sum of HK\$11,499,999 from the share premium account of the Company (the “**Capitalisation Issue**”).
- (iv) On 12 October 2017, upon listing on the Stock Exchange, 250,000,000 new shares with par value of HK\$0.01 each of the Company were allotted and issued at a price of HK\$0.42 per share by way of Share Offer. The proceeds of HK\$2,500,000 representing the par value of these ordinary shares, were credited to the Company’s share capital. The remaining proceeds less the listing costs directly attributable to the issue of shares amounted to HK\$92,862,000, were credited to the Company’s share premium account. The shares capital of the Company was then increased to HK\$14,000,000 divided into 1,400,000,000 shares of HK\$0.01 each.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group principally engaged in provision of construction and engineering services. With over 20 years of experience in the civil engineering industry, the Group is a leading slope works contractor in Hong Kong.

Geotech Engineering, our principal operating subsidiary, is an approved specialist contractor included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the categories of “Landslip preventive/remedial works to slopes/retaining walls” (confirmed status) and “Ground investigation field work” (Group I status). It is also an approved contractor included in the List of Approved Contractors for Public Works under the category of “Site formation” (Group B probationary status). Geotech Engineering is also registered as a specialist contractor in the categories of site formation works and ground investigation field works with the Building Authority.

The majority of our revenue for the year ended 31 December 2018 was derived from undertaking slope works commissioned by Civil Engineering and Development Department of the Government (“CEDD”). According to the Government’s statement upon the launch of the Landslip Prevention and Mitigation Programme in 2010, the Government estimated that the annual expenditure on the Landslip Prevention and Mitigation Programme would be at least HK\$600 million, and the Landslip Prevention and Mitigation Programme would be implemented on a rolling basis annually to upgrade 150 Government man-made slopes, to conduct safety-screening studies on 100 private man-made slopes, and to implement studies and necessary risk mitigation works for 30 natural hillside catchments per year. According to the 2017 Annual Report on Government Slope Safety Works published by the Geotechnical Engineering Office of CEDD, there are currently about 60,000 sizable man-made slopes in Hong Kong and about two-thirds of these man-made slopes are government slopes. Also, according to the government budget for the year ending 31 March 2020 published on 27 February 2019, the estimated capital works reserve fund for landslip prevention and mitigation for 2020 is approximately HK\$1,013.5 million which is similar to 2019. As a result, our slope work business also benefited from the overall positive atmosphere in the industry.

Our Directors believe the Group will be able to capture the expected market opportunities as mentioned above due to our market leading position. Our Group is expected to remain competitive in the market as it has continuously been rated positively by the customers in the public sector since we have achieved the maximum rating under the category of “Landslip preventive/remedial works to slopes/retaining walls” as appraised by the Development Bureau among all contractors being rated consecutively from the third quarter of 2015 to the second quarter of 2018. To recognise our performance in LPM (Landslip Prevention and Mitigation) works, Geotech Engineering was awarded “Winner of the Best LPM Contractor Competition” in 2015, 2016 and 2017 by CEDD’s Geotechnical Engineering Office on 22 February 2016, 20 February 2017 and 22 February 2018 respectively, and we were also awarded “First Runner-up of the Best LPM Contractor Competition” in 2018 on 18 February 2019.

The Directors are aware that the keen industry competition and increase in overall construction cost may continually affect the Group's gross profit and profit margin. In order to maintain our market share in the slope works sector, the Group has applied a more proactive pricing strategy during the year ended 31 December 2018. The Group will closely monitor the market and respond to changes in market conditions. The Directors are confident that with the Group's reputation in the slope works sector and our experienced management team, the Group is in a good position to compete with its competitors. The Group will continue to improve our competitiveness in the market by continuing to provide quality works to our customers. As the Directors expected the business environment to remain challenging due to the keen competition in the slope works sector, the Group has been seeking suitable development opportunities for diversification of business.

During the year and subsequent to the year ended 31 December 2018, the Group has tried to diversify to various civil engineering works by tendering projects jointly with other joint venture partners for contracts which involve various works category (including roads and drainage). In February 2019, the Group formed an unincorporated joint venture with an independent third party, for the purpose of executing a public works contract for roads and drainage category. The Directors consider that the successful tendering and executing this contract are significant to the Group's development in construction and engineering services in Hong Kong.

As at 31 December 2018, we had 22 slope works and ground investigation field works contracts on hand (including contracts in progress and contracts which are yet to commence) with a total outstanding contract sum of approximately HK\$711.7 million. Subsequent to the year ended 31 December 2018 and up to the date of this announcement, our Group has secured certain slope works and ground investigation field works contracts with an aggregate total contract sum of approximately HK\$262.9 million and those projects are expected to be completed during or before 2022. As at 31 December 2017, we had 43 slope works and ground investigation field works contracts on hand with a total outstanding contract sum of approximately HK\$492.5 million. Significant increase in the value of contracts on hand was mainly due to increase in works contracts awarded close to the end of 2018. However, as mentioned above, the keen industry competition and increase in overall construction cost may continually affect the Group's gross profit and profit margin in 2019.

OUTLOOK

Following the close of mandatory unconditional cash offer in early January 2019, the Board has reviewed the operation and business activities of the Group. The Group considers to explore other business and/or to seek to expand the geographical coverage of the principal business of the Group in addition to the market of Hong Kong for enhancing the future development and strengthening the revenue bases of the Group. The Directors believe that diversification of business could provide a better return to the shareholders of the Company.

The Directors are aware that the property industry in Cambodia has been growing substantially in the recent years. It provides business opportunities for site formation, construction and decoration projects in Cambodia. To leverage the Group's experience in Hong Kong and in order to seize these opportunities, the Group may further expand its business in the provision of construction and decoration engineering services in Cambodia. In addition, in view of the increasing residential and commercial housing supply in Hong Kong, the Group currently anticipates to expand its business in the property management business.

Revenue

The Group's overall revenue decreased by approximately HK\$18.4 million or approximately 6.7% from approximately HK\$275.8 million for the year ended 31 December 2017 to approximately HK\$257.4 million for the year ended 31 December 2018. The decrease in revenue was mainly due to (i) when compared to the year ended 31 December 2017, more works contracts in the year ended 31 December 2018 were awarded and commenced during the second half of the year leading to the overall works done slightly decreased throughout the year; and (ii) the Group has applied a more proactive pricing strategy in order to maintain competitiveness under the keen competition in the market.

Gross Profit and Gross Profit Margin

The Group's gross profit margin for the year ended 31 December 2018 was approximately 9.5%, as compared with approximately 15.6% for the year ended 31 December 2017. The decrease in the gross profit margin for the year ended 31 December 2018 was mainly due to the increase in overall construction costs and the keen competition in the market for new projects. In order to maintain competitiveness in the slope works sector in Hong Kong, the Group has applied a more proactive pricing strategy, which in turn affects the gross profit margin in the year ended 31 December 2018. The gross profit of the Group for the year ended 31 December 2018 amounted to approximately HK\$24.4 million, representing a decrease of approximately 43.6% as compared with approximately HK\$43.1 million for the year ended 31 December 2017, which was driven by a decrease in revenue and a decrease in gross profit margin for the year ended 31 December 2018.

Other Income

Other income mainly included rental income from leasing of machinery, bank interest income and safety consultancy income. For the year ended 31 December 2018, other income amounted to approximately HK\$4.2 million (2017: approximately HK\$2.1 million). The increase in other income was mainly due to the increase in rental income from leasing of machinery and bank interest income during 2018.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2018 amounted to approximately HK\$22.6 million, representing a decrease of approximately 26.2% compared with approximately HK\$30.6 million for the year ended 31 December 2017. The decrease was mainly attributable to approximately HK\$10.7 million of listing expenses incurred for the year ended 31 December 2017, while no such expenses were incurred for the year ended 31 December 2018. Such decrease was offset partially by the occurrence of post-listing compliance costs since the listing of the ordinary shares of the Company in October 2017.

Finance Costs

Finance costs for the year ended 31 December 2018 was approximately HK\$252,000, representing a decrease of approximately 28.8% compared with approximately HK\$354,000 in the year ended 31 December 2017. The decrease was mainly attributable to the decrease in interest charges on bank borrowings as a result of repayment of bank borrowings.

Income Tax Expense

Income tax expense decreased by approximately 91.0% from approximately HK\$4.8 million for the year ended 31 December 2017 to approximately HK\$0.4 million for the year ended 31 December 2018. Such decrease was mainly driven by the decrease in gross profit, absence of non deductible listing expenses and recognition of tax losses for the year ended 31 December 2018.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2018 decreased by approximately HK\$4.2 million or approximately 43.9% from approximately HK\$9.5 million for the year ended 31 December 2017 to approximately HK\$5.3 million for the year ended 31 December 2018. The decrease in the Group's net profit for the year ended 31 December 2018 was mainly due to (i) the decrease in gross profit and (ii) net off with the decreases in administrative expenses and income tax expense as discussed above. The Group's net profit margin for the year ended 31 December 2018 was approximately 2.1%, as compared with approximately 3.5% for the year ended 31 December 2017. The decrease in the net profit margin for the year ended 31 December 2018 was mainly due to the decrease in gross profit margin as discussed above.

Final Dividend

The Board did not recommend a payment of a final dividend for the year ended 31 December 2018 (2017: nil).

Liquidity, Financial Resources and Capital Structure

During the year ended 31 December 2018, there has been no change in capital structure of the Group.

As at 31 December 2018, the Company's issued capital was HK\$14 million and the number of its issued ordinary shares was 1,400 million with par value of HK\$0.01 each.

As at 31 December 2018, the Group had total cash and bank balances of approximately HK\$82.3 million (31 December 2017: approximately HK\$109.4 million). The total borrowings of the Group, as at 31 December 2018 was approximately HK\$2.4 million (31 December 2017: approximately HK\$10.9 million). All borrowings were denominated in Hong Kong dollars. Interests are charged at fixed rates. The Group did not carry out any interest rate hedging policy.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

Gearing ratio

Gearing ratio is calculated by dividing all debts by total equity at the period-end date and expressed as a percentage. Debts are defined to include payables incurred not in the ordinary course of business. The gearing ratio of the Group as at 31 December 2018 was approximately 1.3% (31 December 2017: approximately 5.9%). As a result of repayment of bank borrowings during the year ended 31 December 2018, the Group's gearing ratio decreased.

Pledge of Assets

As at 31 December 2018, the Group had approximately HK\$1.1 million of net book value of plant, machinery and equipment pledged under finance leases (31 December 2017: approximately HK\$1.1 million).

Foreign Exchange Risk

The Group mainly operates in Hong Kong. Most of the operating transactions and revenue were settled in Hong Kong dollars and the Group's assets and liabilities are primarily denominated in Hong Kong dollars. With the insignificant portion of monetary transactions and assets denominated in foreign currencies, the Group did not engage in any derivatives agreement and did not commit to any financial instrument to hedge its foreign exchange exposure during the year ended 31 December 2018 (2017: nil).

Significant investment, Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the year ended 31 December 2018, the Group did not hold any significant investments nor have any material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the prospectus of the Company dated 28 September 2017 (the “**Prospectus**”), the Group did not have other future plans for material investments or capital assets as at 31 December 2018.

Employees and Remuneration Policy

As at 31 December 2018, 145 staff was on the Group’s payroll (31 December 2017: 114 staff). Total staff costs included directors’ emoluments, salaries, wages and other staff benefits, contributions and retirement schemes, provisions for staff long service payment and untaken paid leave. Total staff costs for the year ended 31 December 2018 amounted to approximately HK\$30.6 million (2017: approximately HK\$40.6 million). In order to attract and retain high quality staff and to enable smooth operation within the Group, the remuneration policy and package of the Group’s employees are periodically reviewed. The salary and benefit levels of employees of the Group are competitive (with reference to market conditions and individual qualifications and experience). The Group provides adequate job training to the employees to equip them with practical knowledge and skills. Apart from mandatory provident fund and job training programs, salaries increment and discretionary bonuses may be awarded to employees according to the assessment of individual performance and market situation. The emoluments of the Directors have been reviewed by the remuneration committee of the Company, having regard to the Company’s operating results, market competitiveness, individual performance and achievement, and approved by the Board.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, the Group had no material capital commitments or contingent liabilities (31 December 2017: HK\$ nil).

Use of Net Proceeds from the Listing

The receipts of the proceeds, net of listing expenses (including underwriting fee), including both recognised in the consolidated statement of profit or loss and other comprehensive income and deducted from the share premium (“**Net Proceeds**”) from the Listing were approximately HK\$72.8 million. The Group intends to apply the Net Proceeds in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” to the Prospectus. As stated in the Prospectus, our Company intends to apply the Net Proceeds to (i) satisfy the minimum level of working capital requirement for tendering government contracts as main contractor, as required by the Development Bureau of the Government in relation to our retention on the List of Approved Specialist Contractors for Public Works in the category of Landslip preventive/remedial works to slopes/retaining walls(the “**Specific Working Capital Requirement**”), (ii) finance site facilities and equipment and (iii) expand

our workforce. The use of proceeds has been consistent with the disclosure in the Prospectus. The total net proceeds received were applied by the Group during the period from the Listing Date up to 31 December 2018 are as follows:

	Planned use of proceeds HK\$'000	Actual use of proceeds from the Listing Date to 31 December 2018 HK\$'000	Unused amount as at 31 December 2018 HK\$'000
Use of Net Proceeds:			
Satisfaction of Specific Working Capital Requirement	44,144	44,144	–
Acquisition of the site facilities and equipment	14,351	4,004	10,347
Expansion of our workforce both at office level and site level	14,350	4,564	9,786
Total	<u>72,845</u>	<u>52,712</u>	<u>20,133</u>

As at 31 December 2018 and the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong.

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

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries during the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE/OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted and complied with applicable code provisions (the “**Code Provisions**”) in the corporate governance code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules during the year ended 31 December 2018 and up to the date of this announcement. The Directors will periodically review on the Company's corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the Code Provisions from time to time.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiries of the Directors, all of the Directors have confirmed that they have complied with the requirements of the Model Code during the year ended 31 December 2018 and up to the date of this announcement.

Competing Interests

The Directors confirm that none of the Directors, the controlling shareholders of the Company nor their respective close associates is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2018, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules during the year ended 31 December 2018 and up to the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee (the “**Audit Committee**”) on 21 September 2017 in accordance with Rule 3.21 of the Listing Rules with terms of reference aligned with the provision of the CG Code as set out in Appendix 14 to the Listing Rules. As at the date of this announcement, the Audit Committee consists of four members, namely Mr. Chan Tsang Mo, Mr. Fung Chi Kin, Mr. Shen Zejing and Mr. So Wai Man. Mr. Chan Tsang Mo is the chairman of the Audit Committee.

REVIEW OF ANNUAL RESULTS

The Group's consolidated annual financial statements for the year ended 31 December 2018 have been reviewed and approved by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made. The figures in respect of the announcement of the Group's results for the year ended 31 December 2018 have been agreed with the Company's auditors, Grant Thornton Hong Kong Limited (“**Grant Thornton**”), to the amounts set out in the Group's draft audited consolidated financial statements for the year. The work performed by Grant Thornton 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 Grant Thornton on this announcement.

By Order of the Board
Geotech Holdings Ltd.
Chen Zhi
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Mr. Chen Zhi (Chairman), Mr. Qiu Dong and Mr. Yau Kin Wing Sino, and the independent non-executive Directors are Mr. Chan Tsang Mo, Mr. Fung Chi Kin, Mr. Shen Zejing and Mr. So Wai Man.