**CR Construction Group Holdings Limited**
**華營建築集團控股有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1582)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

**HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2019**

The total revenue of the Group for the year ended 31 December 2019 increased to approximately HK$4,833.9 million as compared to that of approximately HK$4,813.9 million for the year ended 31 December 2018.

The total gross profit of the Group increased to approximately HK$212.0 million for the year ended 31 December 2019 as compared to that of approximately HK$185.5 million for the year ended 31 December 2018.

Profit attributable to the equity holders of the Company for the year ended 31 December 2019 amounted to approximately HK$58.5 million as compared to that of approximately HK$63.4 million for the year ended 31 December 2018.

The Directors propose to recommend, at the forthcoming annual general meeting of the Company, the payment of a final dividend of HK5 cents per share, amounting to approximately HK$25.0 million.

The board (the "**Board**") of directors (the "**Directors**") of CR Construction Group Holdings Limited (the "**Company**") hereby announces the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for 2018, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*Year ended 31 December 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **REVENUE** | 4 | **4,833,853** | 4,813,860 |
| Contract costs | | **(4,621,875)** | (4,628,400) |
| Gross profit | | **211,978** | 185,460 |
| Other income | 4 | **2,500** | 1,777 |
| Administrative expenses | | **(115,467)** | (101,448) |
| Other operating expenses, net | | **(3,449)** | (136) |
| Finance costs | 6 | **(12,295)** | (3,150) |
| Listing expenses | 5 | **(11,513)** | (5,457) |
| **PROFIT BEFORE TAX** | 5 | **71,754** | 77,046 |
| Income tax | 7 | **(13,236)** | (13,615) |
| **PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **58,518** | 63,431 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| Basic and diluted | 9 | **HK14.99 cents** | HK17.56 cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2019*

| | Notes | **2019** | 2018 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **21,423** | 20,056 |
| Right-of-use assets | | **3,751** | 18,976 |
| Prepayments and deposits | | **1,519** | 9,568 |
| Total non-current assets | | **26,693** | 48,600 |
| **CURRENT ASSETS** | | | |
| Contract assets | *10* | **1,569,973** | 1,138,675 |
| Trade receivables | *11* | **384,094** | 688,719 |
| Prepayments, deposits and other receivables | | **46,005** | 23,569 |
| Pledged deposits | | **26,338** | 25,961 |
| Cash and cash equivalents | | **150,798** | 103,091 |
| Total current assets | | **2,177,208** | 1,980,015 |
| **CURRENT LIABILITIES** | | | |
| Trade and retention payables | *12* | **1,123,797** | 984,869 |
| Other payables and accruals | | **533,821** | 552,115 |
| Interest-bearing bank borrowings | | **–** | 120,000 |
| Lease liabilities | | **2,202** | 14,549 |
| Tax payable | | **15,955** | 5,550 |
| Total current liabilities | | **1,675,775** | 1,677,083 |
| **NET CURRENT ASSETS** | | **501,433** | 302,932 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **528,126** | 351,532 |
| **NON-CURRENT LIABILITIES** | | | |
| Provision | | **–** | 4,000 |
| Lease liabilities | | **1,513** | 3,221 |
| Deferred tax liabilities | | **975** | 1,163 |
| Total non-current liabilities | | **2,488** | 8,384 |
| Net assets | | **525,638** | 343,148 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | *13* | **5,000** | 17 |
| Reserves | | **520,638** | 343,131 |
| Total equity | | **525,638** | 343,148 |

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

*31 December 2019*

## 1. CORPORATE AND GROUP INFORMATION

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

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

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

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

## 2.1 BASIS OF PRESENTATION

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

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

## 2.2 BASIS OF PREPARATION

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

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

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

**Basis of consolidation**

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

## 3. OPERATING SEGMENT INFORMATION

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

**Geographical information**

***(a) Revenue from external customers***

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

***(b) Non-current assets***

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

**Information about major customers**

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

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

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

## 4. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Revenue from contracts with customers* | | |
| Building construction | **4,486,447** | 4,667,860 |
| RMAA | **347,406** | 146,000 |
| | **4,833,853** | 4,813,860 |

**Revenue from contracts with customers**

***(a) Disaggregated revenue information***

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Timing of revenue recognition* | | |
| Services transferred over time | **4,833,853** | 4,813,860 |

### *(b) Performance obligations*

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

*Construction services and other RMAA services*

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

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

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

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

*RMAA services under term contracts*

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other income** | | |
| Interest income | **624** | 1,484 |
| Gross rental income | **900** | 203 |
| Others | **976** | 90 |
| | **2,500** | 1,777 |

## 5. PROFIT BEFORE TAX

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

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

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

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest on bank loans | **11,966** | 2,513 |
| Interest on lease liabilities | **329** | 637 |
| | **12,295** | 3,150 |

## 7. INCOME TAX

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

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

## 8. DIVIDEND

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

*Notes:*

(a) During the year ended 31 December 2018 and before Listing on the Stock Exchange, the Group declared interim dividends of HK$30,385,000 to the shareholder.

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

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

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

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2019 included 1,000 ordinary shares of the Company issued on the date of incorporation, 1,695,000 ordinary shares of the Company issued upon the completion of the Reorganisation (note 13(b)) and 359,454,000 ordinary shares issued pursuant to the capitalisation issue (note 13(d)), on the assumptions that all these shares had been in issue throughout the year ended 31 December 2019, and the weighted average number of 138,850,000 ordinary shares issued in connection with the listing of the ordinary shares of the Company on the Stock Exchange (note 13(e)).

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

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

## 10. CONTRACT ASSETS

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

*Notes:*

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

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

| | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|
| Within one year | **1,024,634** | 640,073 |

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

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Due within one year | **332,974** | 271,534 |
| Due after one year | **212,365** | 227,068 |
| | **545,339** | 498,602 |

During the year ended 31 December 2019, HK$515,000 (2018: Nil) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 11.

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **–** | – |
| Impairment losses *(note 5)* | **515** | – |
| At end of year | **515** | – |

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

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

| | **2019** | 2018 |
|---|---|---|
| Expected credit loss rate | **0.033%** | – |
| Gross carrying amount (HK$'000) | **1,570,488** | – |
| Expected credit losses (HK$'000) | **515** | – |

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

## 11. TRADE RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | **386,867** | 688,719 |
| Impairment *(note 5)* | **(2,773)** | – |
| | **384,094** | 688,719 |

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

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

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

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

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At beginning of year | **–** | – |
| Impairment losses *(note 5)* | **2,773** | – |
| At end of year | **2,773** | – |

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

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

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

**As at 31 December 2019**

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

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

## 12. TRADE AND RETENTION PAYABLES

| | *Notes* | **2019** ***HK$'000*** | 2018 *HK$'000* |
|---|---|---|---|
| Trade payables | *(a)* | **714,681** | 621,820 |
| Retention payables | *(b)* | **409,116** | 363,049 |
| | | **1,123,797** | 984,869 |

*Notes:*

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

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

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

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

## 13. SHARE CAPITAL

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 10,000,000,000 (2018: 38,000,000) ordinary shares of HK$0.01 each | **100,000** | 380 |
| Issued and fully paid: | | |
| 500,000,000 (2018: 1,696,000) ordinary shares of HK$0.01 each | **5,000** | 17 |

The movements in the Company's share capital during the period from 20 July 2017 (date of incorporation) to 31 December 2019 were as follows:

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

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

*Notes:*

(a) The Company was incorporated on 20 July 2017 with initial authorised share capital of HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each. On the date of incorporation, 1,000 ordinary shares of HK$0.01 each were allotted and issued by the Company.

(b) Pursuant to the Reorganisation, on 9 February 2018, 1,695,000 ordinary shares of HK$0.01 were further allotted and issued by the Company. An aggregate amount of HK$310,268,000 was debited to the share premium, being the difference between the par value of the shares issued and the deemed consideration for the Reorganisation.

(c) Pursuant to the authority given by the resolution of the sole shareholder of the Company on 17 September 2019, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares with par value of HK$0.01 each, to HK$100,000,000 divided into 10,000,000,000 shares with par value of HK$0.01 each, by the creation of an additional 9,962,000,000 shares.

(d) Pursuant to the authority given by the resolution of the sole shareholder of the Company on 17 September 2019, an aggregate amount of HK$3,595,000 standing to the credit of the share premium of the Company was approved to be capitalised and applied in paying in full at par of 359,454,000 ordinary shares of HK$0.01 each for allotment and issued on 16 October 2019.

(e) On 16 October 2019, 138,850,000 ordinary shares of HK$0.01 each were issued under the share offering in connection with the listing of the shares of the Company on the Stock Exchange at a subscription price of HK$1.00 per share. Among the proceeds from the issue of new shares, before issuance expenses of HK$14,878,000, amounting to HK$138,850,000, HK$1,388,000 and HK$137,462,000, were credited to issued share capital and share premium of the Company, respectively. Dealings on the Stock Exchange commenced on 16 October 2019.

## 14. EVENTS AFTER THE REPORTING PERIOD

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

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

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

During the Reporting Period, the Group had been awarded 9 new projects with an aggregate original contract sum of approximately HK$3.9 billion and had completed 10 projects with an aggregate original contract sum of approximately HK$3.5 billion.

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

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

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

## FINANCIAL REVIEW

### Revenue

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

*Building Construction Works*

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

*RMAA Works*

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

### Contract Costs

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

### Gross Profit and Gross Profit Margin

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

*Building Construction Works*

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

*RMAA Works*

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

**Other Income**

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

**Administrative Expenses**

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

**Other Operating Expenses, net**

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

### Finance Costs

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

### Income Tax Expenses

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

### Net Profit and Adjusted Net Profit

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

## EMPLOYEES AND REMUNERATION POLICIES

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

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

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

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2019, the Group did not have any significant investment held, any material acquisitions or disposals of subsidiaries or associated companies.

## CAPITAL EXPENDITURE

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

## CAPITAL COMMITMENTS

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

## CONTINGENT LIABILITIES

Save as disclosed below, the Group had no other contingent liabilities as at 31 December 2019:

(a) As at 31 December 2019, performance bonds of approximately HK$775,629,000 (31 December 2018: approximately HK$930,508,000) were given by banks in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contract work.

    At the end of the Reporting Period, the Directors do not consider it is probable that such claim will be made against the Group.

(b) In the ordinary course of the Group's construction business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or of the Group's subcontractors in accidents arising out of and in the course of their employment.

    At the end of the Reporting Period, the Directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

## FOREIGN EXCHANGE EXPOSURE

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

## GEARING RATIO

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

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

## DEBTS AND CHARGE ON ASSETS

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

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

## TREASURY POLICY

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

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

## USE OF PROCEEDS

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

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

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

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

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

## DIVIDEND

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

## CLOSURE OF THE REGISTER OF MEMBERS

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

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

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

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

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance since the Listing Date.

The Company has complied with all applicable code provisions of the CG Code during the Relevant Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

## AUDIT COMMITTEE

The Board has established the audit committee which is chaired by an independent non-executive Director, Mr. Li Ka Fai David, and consists of the other two independent non-executive Directors, The Honourable Tse Wai Chun Paul JP and Mr. Ho Man Yiu Ivan. The primary duties of the audit committee are to make recommendations to the Board on the appointment, reappointment and removal of the external auditor; approve the remuneration and terms of engagement of the external auditor; monitor integrity of the Group's financial statements, annual reports and accounts, half year reports; and review the Group's financial controls, risk management and internal control systems.

The audit committee of the Company had, together with the management and external auditor of the Company, reviewed the accounting principles and policies adopted by the Group, risk management and internal controls, financial reporting matters and annual results for the year ended 31 December 2019 of the Group.

## SUBSEQUENT EVENT

Save as disclosed above, as at date of this announcement, there is no significant event that requires additional disclosures or might affect the Group after the Reporting Period.

## 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 other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditor, to the amounts set out in the Group's 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.

## ANNUAL GENERAL MEETING

The forthcoming AGM of the Company will be held on Friday, 26 June 2020 and the notice of the AGM will be published and despatched to the Company's shareholders in the manner as required by the Listing Rules in due course.

## PUBLICATION OF THE ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.cr-construction.com.hk), and the annual report of the Group for the year ended 31 December 2019 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
**CR Construction Group Holdings Limited**
**Guan Manyu**
*Chairman*

Hong Kong, 27 March 2020

*As at the date of this announcement, the Company has five executive directors, namely Mr. Guan Manyu, Mr. Li Kar Yin, Ms. Chu Ping, Mr. Law Ming Kin, Mr. Chan Tak Yiu; one non-executive director, namely Mr. Yang Haojiang; and three independent non-executive directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Li Ka Fai David and Mr. Ho Man Yiu Ivan.*