# AB BUILDERS GROUP LIMITED
# 奧邦建築集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01615)**

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

The board of directors (the "**Board**") of AB Builders Group Limited (the "**Company**") hereby announces the audited annual results of the Company and its subsidiaries for the year ended 31 December 2019. This announcement complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is available on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.abbuildersgroup.com).

The Company's 2019 annual report will be despatched to shareholders and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
**Lao Chio Seng**
*Chairman and Executive Director*

Macau, 27 March 2020

*As at the date of this announcement, the Board comprises five executive directors, namely Mr. Lao Chio Seng, Ms. Lao Chao U, Ms. Lao Ka U, Mr. Cheang Iek Wai and Mr. Ip Kin Wa; and three independent non-executive directors, namely Mr. Chu Yat Pang Terry, Mr. Choy Wai Shek, Raymond, MH, JP and Mr. O'Yang Wiley.*

## ANNUAL RESULTS

The board of directors (the "**Board**") of AB Builders Group Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | *NOTES* | **2019**<br>***MOP'000*** | 2018<br>*MOP'000* |
|---|---|---|---|
| Revenue | *4* | **351,542** | 262,597 |
| Cost of sales | | **(303,980)** | (199,525) |
| Gross profit | | **47,562** | 63,072 |
| Other income | *6* | **4,092** | 3,231 |
| Other losses | | **(48)** | (113) |
| Impairment losses under expected credit loss model, net of reversal | | **(701)** | (3,003) |
| Administrative expenses | | **(26,663)** | (20,563) |
| Listing expenses | | **—** | (12,408) |
| Profit before taxation | | **24,242** | 30,216 |
| Income tax expense | *7* | **(3,900)** | (5,522) |
| Profit and total comprehensive income for the year | *8* | **20,342** | 24,694 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **20,229** | 24,694 |
| Non-controlling interests | | **113** | — |
| | | **20,342** | 24,694 |
| Earnings per share | | | |
| — Basic (MOP cents) | *10* | **3.37** | 4.97 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2019*

| | *NOTES* | **2019** **MOP'000** | 2018 *MOP'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **45,621** | 44,110 |
| Deposit for acquisition of property, plant and equipment | | **761** | 1,416 |
| Intangible assets | *11* | **1,810** | — |
| Goodwill | *12* | **1,510** | — |
| Financial asset at fair value through profit or loss | *13* | **2,564** | — |
| | | **52,266** | 45,526 |
| Current assets | | | |
| Trade and other receivables | *14* | **94,812** | 95,789 |
| Contract assets | | **60,532** | 29,000 |
| Pledged bank deposits | | **63,518** | 50,279 |
| Bank balances and cash | | **122,290** | 155,229 |
| | | **341,152** | 330,297 |
| Current liabilities | | | |
| Trade and other payables | *15* | **129,339** | 116,083 |
| Contract liabilities | | **206** | 4,566 |
| Amount due to a non-controlling interest | | **2,472** | — |
| Tax payable | | **4,833** | 13,937 |
| | | **136,850** | 134,586 |
| Net current assets | | **204,302** | 195,711 |
| Total assets less current liabilities | | **256,568** | 241,237 |
| Non-current liability | | | |
| Deferred tax liabilities | | **383** | — |
| | | **383** | — |
| Net assets | | **256,185** | 241,237 |
| Capital and reserves | | | |
| Share capital | | **6,189** | 6,189 |
| Reserves | | **249,088** | 235,048 |
| Equity attributable to owners of the Company | | **255,277** | 241,237 |
| Non-controlling interests | | **908** | — |
| Total equity | | **256,185** | 241,237 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

## 1. GENERAL INFORMATION

AB Builders Group Limited (the "**Company**") was incorporated in the Cayman Islands with limited liability on 23 February 2017 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 10 September 2018. In the opinion of the directors, the ultimate controlling shareholders of the Company are Mr. Lao Chio Seng ("**Mr. Lao**") and Ms. Wong Hio Mei ("**Mrs Lao**"), spouse of Mr. Lao, through Laos International Holdings Limited, a company incorporated in the British Virgin Islands (the "**BVI**") with limited liability, and WHM Holdings Limited, a company incorporated in BVI with limited liability, respectively. Mr. Lao and Mrs. Lao are hereinafter collectively referred to as the "**Controlling Shareholders**".

The Company acts as investment holding company and its subsidiaries are principally engaged in provision of construction services including structural works and fitting-out works. The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**".

The presentation and functional currency of the Company is Macau Pataca ("**MOP**").

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARD ("IFRSs")

***New and Amendments to IFRSs that are mandatorily effective for the current year***

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time in the current year:

| | |
|---|---|
| IFRS 16 | Leases |
| IFRIC-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle |

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***IFRS 16 "Leases"***

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases", and the related interpretations.

*Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

*As a lessee*

Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to leases of an office, a warehouse and staff quarters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low value assets.

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

*As a lessor*

There is no impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these consolidated financial statements for the Group acting as lessor.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## 4. REVENUE

Revenue represents the amounts received and receivable for construction of fitting-out works and structural works rendered by the Group to customers.

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

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Recognised over time | | |
| Contract revenue from provision of fitting-out works | **275,869** | 219,013 |
| Contract revenue from provision of structural works | **75,673** | 43,584 |
| | **351,542** | 262,597 |

## 5. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "**CODM**"), being the Chief Executive Officer of the Group, in order for CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 "Operating Segments" are as follows:

(a) Fitting-out works; and

(b) Structural works.

The CODM makes decisions according to the operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

*Segment revenue and profit*

The following is an analysis of the Group's revenue and results by operating segments:

**For the year ended 31 December 2019**

| | **Fitting-out works** *MOP'000* | **Structural works** *MOP'000* | **Total** *MOP'000* |
|---|---|---|---|
| Segment revenue — external | **275,869** | **75,673** | **351,542** |
| Segment results | **36,715** | **10,847** | **47,562** |
| Administrative expenses | | | **(26,663)** |
| Other income and other losses | | | **3,343** |
| Profit before taxation | | | **24,242** |

**For the year ended 31 December 2018**

| | Fitting-out works *MOP'000* | Structural works *MOP'000* | Total *MOP'000* |
|---|---|---|---|
| Segment revenue — external | 219,013 | 43,584 | 262,597 |
| Segment results | 45,668 | 17,404 | 63,072 |
| Administrative expenses | | | (20,563) |
| Listing expenses | | | (12,408) |
| Other income and other losses | | | 115 |
| Profit before taxation | | | 30,216 |

## 6. OTHER INCOME

| | **2019** *MOP'000* | 2018 *MOP'000* |
|---|---|---|
| Bank interest income | **3,843** | 2,333 |
| Others | **249** | 898 |
| | **4,092** | 3,231 |

## 7. INCOME TAX EXPENSE

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Current tax: | | |
| Macau Complementary Tax | **4,348** | 5,522 |
| Hong Kong Profits Tax | **61** | — |
| | **4,409** | 5,522 |
| Overprovision in prior years | | |
| Macau Complementary Tax | **(522)** | — |
| | **3,887** | 5,522 |
| Deferred tax | **13** | — |
| | **3,900** | 5,522 |

Macau Complementary Tax is calculated at 12% of the estimated assessable profits exceeding MOP600,000 for both years.

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 rates 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 Hong Kong dollars ("**HK$**") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

The income tax expense for the year can be reconciled to the profit before taxation in the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Profit before taxation | **24,242** | 30,216 |
| Tax at applicable statutory tax rate of 12% (2018: 12%) | **2,909** | 3,626 |
| Tax effect of expenses not deductible for tax purpose | **1,636** | 2,204 |
| Tax effect of income not taxable for tax purpose | **(4)** | (236) |
| Tax effect of tax exemption under Macau Complimentary Tax | **(72)** | (72) |
| Overprovision in respect of prior years | **(522)** | — |
| Effect of different tax rate of a subsidiary operating in other jurisdiction | **(47)** | — |
| Income tax expense for the year | **3,900** | 5,522 |

## 8. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

| | 2019 | 2018 |
|---|---|---|
| | *MOP'000* | *MOP'000* |
| Profit and total comprehensive income for the year has been arrived at after charging (crediting): | | |
| Contract costs recognised as expense | | |
| Fitting-out works | **239,154** | 173,345 |
| Structural works | **64,826** | 26,180 |
| | **303,980** | 199,525 |
| Staff costs | | |
| Gross staff costs (including Directors' emoluments below) | **38,714** | 36,561 |
| Less: Staff costs capitalised to contract costs incurred | **(24,405)** | (25,091) |
| | **14,309** | 11,470 |
| Directors' emoluments | **4,459** | 4,132 |
| Auditor's remuneration | **1,114** | 1,032 |
| Depreciation of property, plant and equipment | **2,706** | 1,617 |
| Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 and acquisition date of Equally Tycoon Limited *(Note)* | **711** | — |
| Operating lease rentals in respect of an office unit and a warehouse | **—** | 395 |
| Amortisation of intangible assets | **433** | — |

*Note:* The Group entered into short-term leases for an office, a warehouse and staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above. The total cash outflow for leases was MOP711,000 for the year ended 31 December 2019.

## 9. DIVIDENDS

| | 2019 | 2018 |
|---|---|---|
| | *MOP'000* | *MOP'000* |
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2018 final dividend — HK$0.01 (2018: 2017 final dividend — nil) per share | **6,189** | — |

The Board did not declare any final dividend for the year ended 31 December 2019. In 2018, final dividend in respect of the year ended 31 December 2018 of HK0.01 per ordinary share, in an aggregate amount of HK$6,000,000 has been proposed by the directors of the Company.

## 10. EARNINGS PER SHARE

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

| | **2019** | 2018 |
|---|---|---|
| | ***MOP’000*** | *MOP’000* |
| Profit and total comprehensive income for the year attributable to owners of the Company | **20,229** | 24,694 |

| | **2019** | 2018 |
|---|---|---|
| | ***’000*** | *’000* |
| Weighted average number of ordinary shares for the purpose of basic earnings for share | **600,000** | 496,438 |

Diluted earnings per share are not presented as there were no potential ordinary shares in issue during both years.

## 11. INTANGIBLE ASSETS

| | **Secured customer contracts** |
|---|---|
| | *MOP’000* |
| **COST** | |
| At 1 January 2018 and 31 December 2018 | — |
| Arising from acquisition of subsidiaries | 2,243 |
| At 31 December 2019 | 2,243 |
| **AMORTISATION** | |
| At 1 January 2018 and 31 December 2018 | — |
| Provided for the year | 433 |
| At 31 December 2019 | 433 |
| **CARRYING VALUE** | |
| At 31 December 2019 | 1,810 |
| At 31 December 2018 | — |

Secured customer contracts acquired in the business combination are identified and recognised as intangible assets. The aggregate amount of secured customer contracts is amortised using the straight-line method over their estimated useful life of 1 year. The intangible assets arising from the secured customer contracts as of 31 December 2019 will be fully amortised during the year ending 31 December 2020.

## 12. GOODWILL

| | MOP'000 |
|---|---|
| **COST** | |
| At 1 January 2018 and 31 December 2018 | — |
| Arising from acquisition of subsidiaries | 1,510 |
| At 31 December 2019 | 1,510 |
| **IMPAIRMENT** | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | — |
| **CARRYING VALUE** | |
| At 31 December 2019 | 1,510 |
| At 31 December 2018 | — |

For the purposes of impairment testing, goodwill has been allocated to a cash generating unit ("**CGU**") in provision of construction services in Hong Kong.

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a four-year period, and pre-tax discount rate of 14.4%. The cash flows beyond the four-year period are extrapolated using a steady 3% growth rate. The key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development including the fluctuation in the current economic environment.

No impairment loss on goodwill was recognised in profit or loss during the year ended 31 December 2019 (2018: nil).

## 13. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

On 10 September 2019, the Group entered into a sale and purchase agreement (the "**Agreement**") with the vendors (the "**Vendors**") for acquisition (the "**Acquisition**") of 100% equity interest in Equally Tycoon Limited ("**Equally**"). Pursuant to the Agreement, the Vendors, irrevocably warrants and guarantees to the Group that net profit of Lap Polly Engineering Company Limited ("**Lap Polly**"), a subsidiary of Equally, for the years ending 31 December 2020 and 31 December 2021 (the "**Relevant Periods**") which will not be less than the following amounts (the "**Profit Guarantee**"). In the event that Lap Polly cannot meet the Profit Guarantee, the consideration of the Acquisition will be adjusted for 60% (i.e. shareholding in Lap Polly) of the aggregate sum of the shortfall between the actual profit/loss for the year and the Profit Guarantee during the Relevant Periods (the "**Contingent Consideration Adjustment**").

| | **Profit Guarantee**<br>*MOP'000* |
|---|---|
| For the year ending | |
| 31 December 2020 | 4,384 |
| 31 December 2021 | 4,384 |

At the date of the Acquisition, the directors of the Company estimate the fair value of the Contingent Consideration Adjustment payable by the Vendors to the Group to be approximately HK$2,486,000 (equivalent to approximately MOP2,564,000) by reference to the estimated profit forecast of Lap Polly during the Relevant Periods:

| | *MOP'000* |
|---|---|
| At 1 January 2018 and 31 December 2018 | — |
| Arising from acquisition of subsidiaries | 2,564 |
| As at 31 December 2019 | 2,564 |

The Contingent Consideration Adjustment of HK$2,486,000 (equivalent to approximately MOP2,564,000) expected to be settled more than twelve months from the reporting period is included in "financial asset at fair value through profit or loss" under the non-current assets.

## 14. TRADE AND OTHER RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Trade receivables, net of loss allowance | **74,929** | 73,560 |
| Advances paid to subcontractors and suppliers | **13,715** | 16,933 |
| Other receivables, prepayment and deposits | **6,168** | 5,296 |
| Total trade and other receivables | **94,812** | 95,789 |

***Trade receivables***

Trade receivables represent amounts receivable for work certified in relation to provision of fitting-out works and structural works after deduction of retention money.

As at 1 January 2018, trade receivables, net of loss allowance from contracts with customers amounted to MOP18,470,000.

The Group allows generally a credit period ranging from 7 to 60 days to its customers. The following is an aged analysis of trade receivables presented based on dates of work certified at the end of the reporting period, net of loss allowance.

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| 1–30 days | **54,612** | 27,409 |
| 31–60 days | **7,023** | 30,250 |
| 61–90 days | **2,431** | 15,901 |
| Over 90 days | **10,863** | — |
| | **74,929** | 73,560 |

## 15. TRADE AND OTHER PAYABLES

Trade and other payables at the end of the reporting period comprise amounts outstanding for trade purposes and daily operating costs. The credit period on trade purchase is generally from 7 to 60 days.

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Trade payables | **34,521** | 40,234 |
| Retention payables | **36,738** | 22,953 |
| Accrued contract costs | **49,120** | 43,340 |
| Accruals and other payables | **8,960** | 9,556 |
| Total trade and other payables | **129,339** | 116,083 |

The following is an aged analysis of trade payables presented based on the dates of work certified at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| 1–30 days | **33,206** | 40,132 |
| 31–60 days | **602** | 35 |
| Over 60 days | **713** | 67 |
| | **34,521** | 40,234 |

## MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

## BUSINESS REVIEW

During the year ended 31 December 2019, the Group recorded a revenue of approximately MOP351.5 million, representing an increase of approximately MOP88.9 million or approximately 33.9% over the corresponding period of the last year. The increase in revenue is mainly contributed from projects with lower margin as a result of the adoption of the competitive tender approach in respond to the economic slowdown of the Macau economy. As a result, the Group's gross profit decreased to approximately MOP47.6 million for the year ended 31 December 2019 from approximately MOP63.1 million in 2018.

For the year ended 31 December 2019, the Group has completed 5 fitting-out works projects and 2 structural works projects, and was awarded with 2 structural works project and 11 fitting-out works projects with an aggregate contract sum of approximately MOP268.4 million.

As at 31 December 2019, the Group had 28 on-going projects (either in progress or yet to commence), including 6 structural works projects and 22 fitting-out works projects.

### Outlook and prospects

Looking ahead, the slack in Macau and Hong Kong's economy, which are affected by the slowdown of global economic growth, the on-going China-US trade tension and the outbreak of Novel Coronavirus ("**COVID-19**"), is expected to bring much more challenges to the regions' construction industry in 2020. Under the conservative investment environment and the COVID-19 outbreak continues, the number of projects available in the market is forecasted to be reduced or postponed considerably, which will intensify the competition of the construction industry and adversely affect the profitability of the projects. The progress of certain projects was also delayed which definitely deferred the recognition of revenue in the coming months. As a result, it may have a material unfavourable impact on the Group's business performance, especially for the first half of 2020 and the outlook for 2020 remains very challenging.

Under the challenging macroeconomic environment, the Group will continue to embrace a tighten cost control measure and maintain a sustainable and healthy financial position for the Group. It will also continue to solidify its competitiveness in the construction market in Macau, by implementing its tender strategies prudently and flexibly. Furthermore, for the Group's long-term development and sustainable growth, it is striving to catch opportunities arising from Guangdong-Hong Kong-Macau Greater Bay Area through mergers and acquisition, partnership with reputable enterprises. The acquisition of Lap Polly Engineering Company Limited ("**Lap Polly**") enables the Group to tap into the construction market in Hong Kong with immediate effect. Lap Polly is continuing to tender different scale fitting-out works and structural works projects so as to broaden its customer base. With its proven track record in the construction industry and strategic business arrangement, the Group strongly believes that it will be well-positioned to grab the opportunities when the market recover.

## FINANCIAL REVIEW

### Revenue

The table below sets forth a breakdown of the Group's revenue by types of construction works for the year ended 31 December 2019 and 2018:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | ***MOP'000*** | ***%*** | *MOP'000* | *%* |
| Types of construction works | | | | |
| Fitting-out works | **275,869** | **78.5** | 219,013 | 83.4 |
| Structural works | **75,673** | **21.5** | 43,584 | 16.6 |
| Total | **351,542** | **100.0** | 262,597 | 100.0 |

For the year ended 31 December 2019, the Group's revenue increased by approximately MOP88.9 million or 33.9% as compared with the last year. Such increase was mainly attributable to (i) the increase in revenue generated from fitting-out works projects of approximately MOP56.9 million or 26.0%, mainly due to the expansion of Hong Kong market and several projects awarded and undertaken in 2019, recognised significant revenue in 2019; (ii) the increase in revenue generated from structural works projects of approximately MOP32.1 million or 73.6% due to a number of projects awarded and undertaken during the second half of 2019, generated a revenue of MOP30.0 million.

### Gross profit and gross profit margin

The following table sets forth a breakdown of the Group's gross profit and gross profit margin by types of construction works for the year ended 31 December 2019 and 2018:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Gross profit** ***MOP'000*** | **Gross profit margin** ***%*** | Gross profit *MOP'000* | Gross profit margin *%* |
| Types of construction works | | | | |
| Fitting-out works | **36,715** | **13.3** | 45,668 | 20.9 |
| Structural works | **10,847** | **14.3** | 17,404 | 39.9 |
| Total | **47,562** | **13.5** | 63,072 | 24.0 |

For the year ended 31 December 2019, The Group's gross profit decreased by approximately MOP15.5 million, or 24.6% to approximately MOP47.6 million when compared with last year.

The gross profit margin of fitting-out works projects decreased by 7.6 percentage points from approximately 20.9% for the year of 2018 to 13.3% for the year of 2019. The decrease was mainly due to: (i) the recognition of loss arising from loss-making contracts which amounted to approximately MOP3.0 million; (ii) the increase in the revenue generated from projects with lower margin.

The gross profit margin of structural works projects decreased by 25.6 percentage points from approximately 39.9% for the year of 2018 to 14.3% for the year of 2019. The reduction was mainly attributable to the increase in the revenue generated from projects with lower margin.

**Other income**

The Group's other income increased by approximately MOP0.9 million or 26.6% from approximately MOP3.2 million for the year ended 31 December 2018 to MOP4.1 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in bank interest income.

**Other losses**

The other losses mainly consisted of the net exchange loss of approximately MOP40,000 and MOP113,000 respectively for the year ended 31 December 2019 and 2018.

**Impairment losses under expected credit loss model, net of reversal**

The impairment losses mainly consisted of impairment losses on trade receivables, other receivables and contract assets. It decreased by MOP2.3 million or 76.7% as the Group continued to strictly uphold its credit risks control.

**Administrative expenses**

Administrative expenses increased by approximately MOP6.1 million from approximately MOP20.6 million for the year ended 31 December 2018 to approximately MOP26.7 million for the year ended 31 December 2019. Administrative expenses consisted primarily of staff costs and Directors' emoluments, depreciation and other administrative expenses. The increase was mainly attributable to (i) increase in professional and compliance cost of approximately MOP3.0 million since listing; (ii) expansion in Hong Kong market.

**Listing expenses**

No listing expenses was incurred for the year ended 31 December 2019 since it was non-recurring in nature while the Group incurred listing expenses of approximately MOP12.4 million for the year ended 31 December 2018.

**Income tax expenses**

The Group's income tax expenses decreased by approximately MOP1.6 million from approximately MOP5.5 million for the year ended 31 December 2018 to MOP3.9 million for the year ended 31 December 2019 which was in line with the decrease in the profit before tax of approximately MOP6.0 million. This also accounted for the decrease in the effective tax rates from 18.3% for the year ended 31 December 2018 to 16.1% for the year ended 31 December 2019.

**Profit and total comprehensive income for the year**

The Group's profit and total comprehensive income for the year decreased by approximately MOP4.4 million when compared with the last year, mainly due to the combined effect of the aforementioned items.

**Final dividend**

The Board does not recommend any payment of a final dividend for the year ended 31 December 2019 (2018: HKD0.01 per share).

## CORPORATE FINANCE AND RISK MANAGEMENT

**Liquidity and financial resources**

On 10 September 2018, the Company has raised a gross proceed of approximately HKD100.5 million. Details of the use of proceeds are set out on page 20 of this result announcement.

The Group's capital expenditure and daily operations during the year ended 31 December 2019 were mainly funded by cash generated from its operations.

The total cash and bank balances together with the pledged bank deposits as at 31 December 2019 was approximately MOP185.8 million, compared to approximately MOP205.5 million as at 31 December 2018.

The decrease of approximately MOP19.7 million was mainly related to 2018 final dividend payment of MOP6.2 million and the payment of the purchase consideration of approximately MOP5.3 million in relation to the acquisition of 60% equity interest in Lap Polly.

As at 31 December 2019, the Group had no outstanding borrowings and had unutilised banking facilities of approximately MOP191.1 million (31 December 2018: MOP118.9 million).

The current ratio of our Group as at 31 December 2019 was 2.5 times same as that as at 31 December 2018.

**Capital Structure**

The capital structure of the Group consists of equity attributable to the owners of the Company comprising issued share capital, share premium, legal reserve, other reserve and retained earnings. During the year ended 31 December 2019, there has been no change in capital structure of the Company.

**Future plans for material investments and capital assets**

Save as disclosed in the prospectus of the Company dated 27 August 2018 (the "**Prospectus**") and in this result announcement, the Group did not have other plans for material investments or capital assets.

**Pledge of assets**

The following assets of the Group were pledged to secure the credit facilities granted to the Group during the year:

| | **2019** | 2018 |
|---|---|---|
| | ***MOP'000*** | *MOP'000* |
| Owned properties included in property, plant and equipment | **42,152** | 43,557 |
| Pledged bank deposits | **63,518** | 50,279 |
| | **105,670** | 93,836 |

**Capital commitment**

As at 31 December 2019, the Group's total commitment for capital expenditures was MOP1.1 million (2018: MOP 1.8million). These mainly comprised committments for the acquisition of property, plant and equipment.

**Significant investments, acquisition and disposals**

On 10 September 2019, the Company completed an indirect acquisition of 60% equity interest of Lap Polly and it has become a subsidiary of the Group. Lap Polly is principally engaged as a sub-contractor in building construction and engineering services. It is a registered general building contractor and a registered minor works contractor with the Building Authority in Hong Kong. Lap Polly generated a profit since the acquisition up to 31 December 2019.

Save as the above, during the year ended 31 December 2019, the Group did not have any significant investment, acquisition and disposal.

**Exposure to exchange rate fluctuation**

The Group entities collect most of its revenue and incur most of its expenditures in their respective functional currencies. The Group is exposed to currency risks primarily through purchase of raw materials and sale proceeds received from its customers that are denominated in a currency other than the Group's functional currency. The currencies giving rise to this risk are primarily Hong Kong dollars and Renminbi. The management of the Group considers that the exposure to foreign currency exchange risk is insignificant as the majority of its transactions are denominated in the functional currency of each of the Group entity.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group continues to monitor its foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

**Employee and renumeration policies**

As at 31 December 2019, the Group had 115 (31 December 2018: 94) full time employees. The increase in the number of employees was mainly due to the acquisition of Lap Polly. The Group has implemented a tight cost control and adjust the number of direct labour based on the progress and expected workload of our construction works and the expected completion dates of work projects.

The renumeration package offered to employees includes salary and other employee benefits such as bonus. In general, the Group determines the salaries of its employees based on their individual performance qualifications, position and seniority. The Group conducts annual salary and promotion review in order to attract and retain employees. In addition, the Group provides various types of training to its employees to promote overall efficiency, employee loyalty and retention. Total staff costs for the year ended 31 December 2019 were approximately MOP38.7 million (31 December 2018: MOP36.6 million).

**Share option scheme**

The Group had adopted a share option scheme for the purpose of providing incentives and rewards to participants for the contribution of the Group. Up to 31 December 2019, no share option had been granted.

**Compliance with laws and regulations**

The Group mainly carries out its business in Macau and Hong Kong. To the best of the Directors' knowledge, the Group has complied with all relevant laws and regulations in Macau and Hong Kong during the year.

### Principal risk and uncertainties

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in our operations and financial position as efficiently and effectively as possible.

— Material changes in the cost of construction materials and labour costs may result in cost overrun, which could materially affect our results of operation and financial performance;

— Mismanagement or delay of our projects will materially affect our reputation and also our financial performance as penalties and/or additional costs may be incurred;

— Cash flow of our projects may fluctuate;

— We rely on subcontractors to help complete our projects. Underperformance by our subcontractors or unavailability of subcontractors may adversely affect our operations, profitability and reputation;

— Our success significantly depends on the key management and our ability to attract and retain technical and management staff;

— The slowdown of global economic growth and the on-going China-US trade tension; and

— The uncertainties on the worldwide economy due to the rapid and wide-spread of COVID-19.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

## USE OF PROCEED

The Company has raised gross proceeds of approximately HK$100.5 million through the Global Offering upon the Listing on 10 September 2018. After deducting the listing expenses, the net proceeds were approximately HK$61.2 million. Such net proceed are intended to be applied in the same manner and the same proportion as disclosed in the Prospectus, the below table sets out the proposed application and the status of utilisation.

As of 31 December 2019, the net proceeds from the Global Offering had been applied as follows:

| | Net Proceeds (HK$' million) | | |
|---|---|---|---|
| | **Intended Use** | **Utilised** | **Unutilised** |
| — Financing the Group's construction projects and strengthening the financial position (43%) | 26.4 | 26.4 | — |
| — Purchasing suitable new machinery for forthcoming construction works (27%) | 16.5 | 0.7 | 15.8 |
| — Potential merger and acquisition (10%) | 6.1 | — | 6.1 |
| — Hire additional staff for the Group's business operation (10%) | 6.1 | 2.5 | 3.6 |
| — General working capital (10%) | 6.1 | 4.3 | 1.8 |
| | 61.2 | 33.9 | 27.3 |

*Note:*

1. As at 31 December 2019, the unutilised net proceeds from Global Offering were deposited in the times deposit account of the bank of the Group.

**Corporate governance**

For the year ended 31 December 2019 and up to the date of this announcement, the Company has applied the principles and code provisions in 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**"). During the year ended 31 December 2019, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the CG Code.

**Directors' interests in competing interests**

For the year ended 31 December 2019, the Directors were not aware of any business or interest of each of the Directors, or the controlling shareholders of the Company and their respective close associates (as defined under the Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have within the Group.

**Purchase, sale or redemption of listed securities**

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

**Events after the reporting period**

The global outbreak of COVID-19 may have negative impact on the operations of the Group.

As the situation remains fluid as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of the factors mentioned before on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to have an unfavourable impact on the consolidated results of the Group for the first half and full year of 2020.

**Securities transactions by directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as its own code of conduct for securities transactions by Directors. Specific enquiry was made with all Directors of the Company and it was established that they had all complied with the required standard of the Model Code during the year ended 31 December 2019.

**Audit committee**

The Company established an audit committee of the Company (the "**Audit Committee**") pursuant to a resolution of the Directors passed on 17 August 2018 with written terms of reference in compliance with Rules 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors: Mr. Chu Yat Pang Terry, Mr. Choy Wai Shek, Raymond, *MH, JP* and Mr. O'Yang Wiley. Mr. O'Yang Wiley was appointed to serve as the chairman of the Audit Committee. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and dismissal of external auditor, review the financial statements and the information and provide advice in respect of financial reporting and oversee the internal control procedures of the Company.

The Company's consolidated financial statements for the year ended 31 December 2019 have been reviewed by the Audit Committee on 27 March 2020. The Audit Committee is of the opinion that the consolidated financial statements of the Company for the year ended 31 December 2019 comply with applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

**Scope of work of Messrs. Deloitte Touche Tohmatsu**

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 Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

**Final dividend**

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: HK$0.01 per share).

**Annual general meeting**

The forthcoming Annual General Meeting (the "**AGM**") of the Company will be held on Friday, 5 June 2020 at 3:00 p.m.. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

**For attending and voting at the AGM**

The register of members of the Company will be closed from Tuesday, 2 June 2020 to Friday, 5 June 2020 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 1 June 2020.