

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

ANCHORSTONE

ANCHORSTONE HOLDINGS LIMITED

基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1592)

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

The board (the “**Board**”) of Directors (the “**Directors**”) of Anchorstone Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019 together with the comparative figures for the previous year as follows:

ANCHORSTONE HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue from contracts with customers	3	324,256	299,045
Cost of sales	5	(280,944)	(229,280)
Gross profit		43,312	69,765
Other gains, net	4	150	35
Administrative expenses	5	(31,298)	(38,276)
Operating profit		12,164	31,524
Finance income		189	521
Finance costs		(7,662)	(4,828)
Finance costs, net	6	(7,473)	(4,307)
Profit before income tax		4,691	27,217
Income tax expense	7	(2,601)	(6,677)
Profit and total comprehensive income for the year		2,090	20,540
Profit and total comprehensive income attributable to equity holders of the Company		2,090	20,540
		2019 <i>HK cents</i>	2018 <i>HK cents</i>
Basic earnings per share	8	0.17	1.96
Diluted earnings per share	8	0.17	1.96

ANCHORSTONE HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Assets			
Non-current assets			
Property and equipment		925	1,499
Right-of-use assets		4,611	–
Total non-current assets		<u>5,536</u>	<u>1,499</u>
Current assets			
Trade and retention receivables	<i>10</i>	58,776	54,815
Deposits, prepayments and other receivables	<i>11</i>	3,805	1,483
Inventories	<i>12</i>	62,661	984
Contract assets	<i>3</i>	161,329	202,125
Income tax recoverable		1,022	4,450
Pledged bank deposits	<i>13</i>	37,385	34,196
Cash and cash equivalents	<i>13</i>	2,922	9,778
Total current assets		<u>327,900</u>	<u>307,831</u>
Total assets		<u>333,436</u>	<u>309,330</u>
Equity			
Share capital	<i>16</i>	12,000	12,000
Reserves		140,116	147,195
Total equity		<u>152,116</u>	<u>159,195</u>
Liabilities			
Non-current liability			
Lease liabilities		2,275	–
Total non-current liability		<u>2,275</u>	<u>–</u>
Current liabilities			
Trade and retention payables	<i>14</i>	20,586	16,230
Accruals and other payables		7,696	4,971
Contract liabilities	<i>3</i>	488	4,798
Lease liabilities		2,376	–
Bank borrowings	<i>15</i>	146,405	124,136
Income tax payables		1,494	–
Total current liabilities		<u>179,045</u>	<u>150,135</u>
Total liabilities		<u>181,320</u>	<u>150,135</u>
Total equity and liabilities		<u>333,436</u>	<u>309,330</u>

NOTES:

1 BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and requirements of the Hong Kong Companies Ordinance (Cap 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(a) *Going concern basis*

The Group had a net cash used in operation of HK\$4,502,000 for the year ended 31 December 2019. As at 31 December 2019, the Group’s bank borrowings amounted to HK\$146,405,000 while its cash and bank balance was HK\$2,922,000.

The recent outbreak of Coronavirus Disease in early 2020 (“**the COVID-19 outbreak**”) may potentially cause slow down of property development and construction industries in Hong Kong. It may therefore adversely affect the progress of ongoing project orders as well as future customers’ demand of the Group’s products and services and thereby affecting the Group’s ability to generate adequate cash from its operation to meet its bank borrowings repayment obligations.

In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity requirements and operating performance of the group and its available sources of financing to assess whether the Group will have sufficient financial resources to fulfill its financial obligations to continue as a going concern. The Group has taken the following measures to improve the Group’s financial position and alleviate its liquidity pressure, which include, but not limited to, the following:

- (i) The Group has issued a bond with a principal amount of HK\$16,000,000 to independent third parties investors on 30 March 2020. The bond bears interest at 12% per annum and it matures on 29 September 2021. The Group may, at any point in time before 29 September 2021 redeem the bond in whole or in part, together with the payment of interests accrued up to the date of such redemption by serving written notice to the holders of the bond;
- (ii) The directors are closely monitoring the impact of COVID-19 outbreak on the business of its customers. Based on the latest communication with the Group’s customers, the directors are not aware of any significant delay in the progress of ongoing projects and are confident that outstanding receivables will be collected according to the agreed terms in the expected timeframe; and
- (iii) The Group had available bank facilities of HK\$174,860,000 as at 31 December 2019 and the directors of the Company believe that the bank borrowings will be repaid in accordance with the scheduled dates as set out in the relevant facilities agreements. Given the good track records and relationships the Group has with the banks and based on its latest communication with the banks, the directors are of the opinion that the Group will be able to renew the banking facilities with the banks upon its expiry in its annual review.

Notwithstanding the above, whether management is able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions, and consequently be able to generate adequate financing and operating cash flows to continue as a going concern would depend upon, among other things, the successful collection of trade receivables and completion of ongoing projects to generate operating cash inflow and the continuous availability of the Group's banking facilities. The directors of the Company have reviewed the Group's cash flow projections which cover a period of not less than twelve months from 31 December 2019 and have considered the possible downward changes in its operating performance. They are of the opinion that the Group will have sufficient financial resources to satisfy its future working capital requirements and to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2019. Accordingly, the directors of the Company consider that it is appropriate to prepare the Group's consolidated financial statement on a going concern basis.

(b) New and amended standards adopted by the Group

The following new and amended standards and interpretations to standards are mandatory for the Group's financial year beginning on 1 January 2019 and have been adopted by the Group:

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

The Group had to change its accounting policies as the result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) New and amended standards and interpretations not yet adopted

The following new and amended standards and interpretations to standards have been issued but are not effective for the financial year beginning on or after 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
Conceptual Framework For Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture	To be determined

None of these HKFRSs is expected to have a significant effect on the consolidated financial statements of the Group.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s consolidated financial statements.

As indicated in Note 2.1(b) above, the Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.9%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)–Int 4 “Determining whether an Arrangement contains a Lease”.

(ii) Measurement of lease liabilities

	2019 HK\$’000
Operating lease commitments disclosed as at 31 December 2018	7,595
Discounted using the lessee’s incremental borrowing rate at the date of initial application	(678)
	<hr/>
Lease liability recognised as at 1 January 2019	6,917
Of which are:	
Current lease liabilities	2,265
Non-current lease liabilities	4,652
	<hr/>
	6,917
	<hr/> <hr/>

(iii) *Measurement of right-of-use assets*

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018.

(iv) *Impact on the consolidated financial statements*

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

	31 December 2018 As originally presented <i>HK\$'000</i>	HKFRS 16 <i>HK\$'000</i>	1 January 2019 Restated <i>HK\$'000</i>
Non-current assets			
Right-of-use assets	–	6,917	6,917
Non-current liabilities			
Lease liabilities	–	4,652	4,652
Current liabilities			
Lease liabilities	–	2,265	2,265

3 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Supply and installation service	308,834	265,791
Stone sales	15,422	33,254
	<u>324,256</u>	<u>299,045</u>
Timing of revenue recognition:		
Over time	308,834	265,791
At a point of time	15,422	33,254
	<u>324,256</u>	<u>299,045</u>

The Executive Directors are the Group's chief operating decision-makers. The Executive Directors consider the segment from a business perspective and the only component in internal reporting to the Executive Directors is the Group's stone sales and supply and installation of marble products. Hence, management considers there to be only one operating segment under the requirements of HKFRS 8 *Operating Segment*. The Executive Directors assess the performance of the operating segment based on revenue generated. The Group does not report a measure of profit or total assets for the operating segment as the Executive directors do not use this information to allocate resources to or evaluate the performance of the operating segment.

The Group's revenue from external customers attributed to the geographical areas based on the location of customers is presented as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong	257,523	196,078
Macau	66,733	74,413
The USA	–	28,554
	324,256	299,045

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A (<i>Note i</i>)	81,516	99,993
Customer B (<i>Note ii</i>)	66,733	74,413
Customer C (<i>Note i</i>)	61,607	N/A
Customer D (<i>Note i</i>)	N/A	43,632
Customer E (<i>Note i</i>)	36,986	N/A

Notes:

- (i) The revenue was generated from the supply and installation of marble product contract in Hong Kong.
- (ii) The revenue was generated from the supply and installation of marble product contract in Macau.

N/A: The revenue of the particular customer for the particular year was less than 10% of the Group's revenue for the particular year.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses	506,421	320,017
Less: progress billings	(345,580)	(122,690)
Balance at end of year	160,841	197,327
Analysed for reporting purposes as:		
Contract assets (<i>Note i</i>)	161,329	202,125
Contract liabilities (<i>Note ii</i>)	(488)	(4,798)
	160,841	197,327

Notes:

- (i) The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.
- (ii) The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the supply and installation services.

As at 31 December 2019, contract assets amounted to HK\$59,609,000 (2018: HK\$27,812,000) have been pledged to secure the bank facilities.

4 OTHER GAINS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Exchange gains, net	<u>150</u>	<u>35</u>

5 EXPENSES BY NATURE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost of inventories	11,594	22,189
Construction cost recognised in cost of sales	269,350	207,091
Auditor's remuneration		
— Audit services	1,550	1,500
— Non-audit services	700	—
Depreciation — property and equipment	464	368
Depreciation — right-of-use assets	2,306	—
Operating lease payments	—	2,863
Oversea travelling expenses	381	463
Employee benefit expenses (including Directors' emoluments)	14,398	14,417
Motor vehicle expenses	567	723
Listing related expenses	—	13,545
Legal and professional fees	6,224	555
Loss on disposal of property and equipment	126	3
Consultancy expenses		
— fee	420	2,000
— share options	606	—
Others	<u>3,556</u>	<u>1,839</u>
Total cost of sales and administrative expenses	<u>312,242</u>	<u>267,556</u>

6 FINANCE INCOME AND COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Finance income		
Interests from:		
— Bank deposits	<u>189</u>	<u>521</u>
	----- 189	----- 521
Finance costs		
Interests from:		
— Bank overdrafts	(471)	(503)
— Trust receipt loans interest	(6,520)	(3,671)
— Bank loans	(332)	(628)
— Finance lease interest	—	(26)
— Interest expense on lease liabilities	<u>(339)</u>	<u>—</u>
	----- (7,662)	----- (4,828)
Finance costs, net	<u>(7,473)</u>	<u>(4,307)</u>

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year ended 31 December 2019.

The amount of income tax expense charged to the consolidated statement of comprehensive income represents:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax:		
Hong Kong profits tax	<u>2,601</u>	<u>6,677</u>
Income tax expense	<u><u>2,601</u></u>	<u><u>6,677</u></u>

8 EARNINGS PER SHARE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Earnings		
Profit attributable to equity holders of the Company, used in calculating basic and diluted earnings per share	<u><u>2,090</u></u>	<u><u>20,540</u></u>

(a) Basic earnings per share

For the year ended 31 December 2019, basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

For the year ended 31 December 2018, since the Company's shares were listed during the year on 4 July 2018, the calculation of the basic and diluted earnings per share attributable to the equity holders of the Company was based on the assumption that the additional 899,999,997 shares issued pursuant to the reorganisation and capitalisation during the year ended 31 December 2018, and in respect of the listing of the shares of the Company were treated as if they had been in issue since 1 January 2018.

	2019	2018
Weighted average number of ordinary shares used in the basic earnings per share calculation (in thousands)	<u>1,200,000</u>	<u>1,048,767</u>
Basic earnings per share (HK cents)	<u><u>0.17</u></u>	<u><u>1.96</u></u>

(b) Diluted earnings per share

The share options granted by the Company have potential dilutive effect on the earnings per share. Diluted earning per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options by the Company (collectively forming the denominator for computing the diluted earnings per share).

	2019	2018
Adjusted weighted average number of ordinary shares (including the share option granted on 8 July 2019) used in the diluted earnings per share calculation (in thousands)	<u>1,201,881</u>	<u>1,048,767</u>
Diluted earnings per share (HK cents)	<u><u>0.17</u></u>	<u><u>1.96</u></u>

9 DIVIDEND

The Board resolved not to propose final dividend for the year ended 31 December 2019 at the forthcoming annual general meeting.

10 TRADE AND RETENTION RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables — third parties	34,487	26,456
Retention receivables — third parties	24,969	29,039
	<u>59,456</u>	<u>55,495</u>
Less: provision for impairment	(680)	(680)
	<u><u>58,776</u></u>	<u><u>54,815</u></u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	123	1,425
31–60 days	33,456	–
61–90 days	–	45
Over 90 days	908	24,986
	<u><u>34,487</u></u>	<u><u>26,456</u></u>

11 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Refundable deposits for potential acquisition of subsidiaries (<i>Note</i>)	2,000	–
Prepayments	13	232
Insurance compensation receivables	969	481
Other receivables	823	770
	<u><u>3,805</u></u>	<u><u>1,483</u></u>

Note: On 21 November 2019, the Stable Wealthy Holdings Limited (“**Stable Wealthy**”), a wholly owned subsidiary of the Company, signed a sales and purchase agreement (the “**SPA**”) to acquire a private company (the “**Target Company**”) engaging in supply and installation of Kitchenware and furniture in Hong Kong for a consideration of HK\$120 million. A refundable deposits of HK\$2,000,000 was paid to the vendor during the year ended 31 December 2019. Pursuant to the subsequent event as disclosed in Note 19, the potential acquisition was terminated and the deposit is thus expected to be refunded to the Group in due course.

12 INVENTORIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Marble and granite	<u>62,661</u>	<u>984</u>

13 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Pledged bank deposits	<u>37,385</u>	<u>34,196</u>
Cash in bank	2,917	9,773
Cash on hand	<u>5</u>	<u>5</u>
Cash and cash equivalents	<u>2,922</u>	<u>9,778</u>

14 TRADE AND RETENTION PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	7,047	5,889
Retention payables	<u>13,539</u>	<u>10,341</u>
	<u>20,586</u>	<u>16,230</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	4,965	603
31–60 days	–	1,051
61–90 days	–	119
Over 90 days	<u>2,082</u>	<u>4,116</u>
	<u>7,047</u>	<u>5,889</u>

15 BANK BORROWINGS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Bank overdrafts	2,188	–
Term loans — secured	661	–
Trust receipt loans — secured	139,556	121,036
Revolving loans — secured	4,000	3,100
	<u>146,405</u>	<u>124,136</u>

16 SHARE CAPITAL

	Issued and fully paid	
	Number of shares	Amount <i>HK\$'000</i>
Ordinary share of HK\$0.01 each:		
Authorised:		
At 1 January 2018	38,000,000	380
Increase on 14 June 2018	<u>2,962,000,000</u>	<u>29,620</u>
At 31 December 2018, 1 January 2019 and 31 December 2019	<u><u>3,000,000,000</u></u>	<u><u>30,000</u></u>
Issued and fully paid:		
At 1 January 2018	1	–
Shares issued pursuant to the reorganisation	2	–
Shares issued pursuant to the capitalisation	899,999,997	9,000
Shares issued pursuant to the listing	<u>300,000,000</u>	<u>3,000</u>
At 31 December 2018, 1 January 2019 and 31 December 2019	<u><u>1,200,000,000</u></u>	<u><u>12,000</u></u>

17 SHARE-BASED PAYMENT

The establishment of the Anchorstone Holdings Limited's Share Option Scheme (the "Share Option Scheme") was approved by the Board of Directors (including all the Independent Non-executive Directors). The Share Option Scheme is designed to provide long-term incentives for grantees to deliver long-term shareholder returns. Under the scheme, share options granted to the Directors are vested immediately while the share options granted to a consultant are conditional upon the completion of its service to the Group. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options granted to the consultant vested upon the completion of its service to the Group on 7 September 2019. The options are exercisable from 8 September 2019 to 7 July 2021.

Options are granted under the Share Option Scheme at the consideration of HK\$1 per grant and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within fourteen days after receiving a written notice from the grantees exercising the share options and a payment in full of the subscription price.

The exercise price of options represented the highest of (i) the closing price of HK\$0.249 of the Company's shares traded on the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of HK\$0.244 per Company's share for five business days immediately preceding the date of grant; and (iii) the nominal value of HK\$0.01 per Company's share.

	Exercise price per share option	Number of options
As at 1 January 2018, 31 December 2018 and 1 January 2019	–	–
Granted on 8 July 2019	0.249	<u>47,200,000</u>
As at 31 December 2019	0.249	<u><u>47,200,000</u></u>
Vested and exercisable at 31 December 2019	0.249	<u><u>47,200,000</u></u>

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

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Share options as at	
			31 December 2019	2018
8 July 2019	7 July 2021	HK\$0.249	<u>47,200,000</u>	<u>–</u>
Weighted average remaining contractual life of options outstanding at end of period			<u>1.52 years</u>	<u>–</u>

Total expenses arising from share-based payment transactions recognised during the period as part of consultancy expenses and employee benefit expense were as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Share options issued as part of:		
— consultancy expenses	606	—
— employee benefit expense	2,225	—
	<u>2,831</u>	<u>—</u>

18 CONTINGENCIES

Performance bonds

As at 31 December 2019, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK\$1,466,000 (2018: HK\$2,980,000).

As at 31 December 2019, the performance bonds were secured by certain bank facilities (2018: same).

Legal cases

During the year ended 31 December 2019, the legal cases of the Group were as follows:

- (i) The workers of the Group's subcontractors initiated claims for personal injuries against certain subsidiaries of the Group. The amount being claimed under these cases came to HK\$784,000. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claims through mediation and the amount of the possible obligation cannot be ascertained with reliability.
- (ii) A previous subcontractor of the Group initiated a claim for payment for services rendered in the sum of HK\$6,470,000. The litigation is still ongoing. The Group actively defended the case and the directors consider the likelihood of the plaintiff succeeding in the whole of its claim is remote.

19 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Details of events occurring after the reporting period are listed as follows:

- (i) After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of COVID-19 outbreak and evaluate its impact it may have on the financial position and operating results of the Group.
- (ii) On 26 March 2020, Stable Wealthy has signed a deed of termination (“**DoT**”) with New Chain Limited, the Vendor of Target Company, whereby the parties had mutually agreed to terminate the SPA (as amended and supplemented by the Supplemental Agreement) signed between Stable Wealthy Holdings Limited and New Chain Limited on 21 November 2019. The potential acquisition was terminated effective from 26 March 2020 and the deposit is refundable to the Group within 6 months from date of the DoT, unless another date agreed by both parties but within 12 months from the date of the DoT.
- (iii) On 27 March 2020, the Company entered into a placing agreement to place for a 18-month bonds in the principal amount of up to HK\$16,000,000, at a 12% coupon interest rate per annum on the outstanding principal amount. On 30 March 2020, all conditions as set out in the placing agreement have been fulfilled and the 18-month bonds with principal amount of HK\$16,000,000 were issued to an individual on the same day. The maturity date of the 18-month bonds is 29 September 2021.

RESULT

The Group recorded a revenue of approximately HK\$324.3 million (2018: HK\$299.1 million) for the year ended 31 December 2019, representing an increase of 8.4% compared with that for the year ended 31 December 2018. However, the Group's overall gross profit margin has declined from around 23.3% in 2018 to around 13.4% in 2019, mainly due to the Group taking up a significant supply and installation project during the year with a relatively low profit margin, and the emergence of a significant number of variation orders which arose from certain stone supply and installation services projects.

The Group recorded a decrease of gross profit for the year ended 31 December 2019 by approximately HK\$26.5 million or 37.9% from approximately HK\$69.8 million in 2018 to approximately HK\$43.3 million in 2019. At the same time, the Group recorded a decrease of profit and total comprehensive income for the year ended 31 December 2019 by approximately HK\$18.4 million or 89.8% from approximately HK\$20.5 million to approximately HK\$2.1 million.

INDUSTRY AND BUSINESS REVIEW

In 2019, the Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. The Group also developed its business in stone sales projects.

The Group's profit attributable to equity holders for the first six months ended 30 June 2019 was approximately HK\$10.3 million. However, the Group recorded a loss attributable to equity holders for the second half of the year. As a result, the profit and total comprehensive income for the year ended 31 December 2019 decreased significantly when compared with last year.

The overall performance of the industry in the second half of the year was not satisfactory. It was mainly due to the increasing political risk in Hong Kong, the weaker local economy, the uncertainty of the local property market and the risk of economic downturn globally which posted negative impact on the construction industry, resulting in a delay of the progress of different construction projects in Hong Kong. For the Group, besides the decrease of gross profit margin and the delay of construction projects as mentioned above, two significant stone sales projects which commenced in the last quarter of 2019 could not have completed the quality inspection exercise by the end of the year, resulting in their revenue of approximately HK\$74.4 million could not be recognised in 2019. In addition, the increasing cost of building materials and construction labour costs posted negative impact on the gross profit margin for the Group for the year. Further, the trade conflicts between China and the USA has also affected our stone sales business to the USA and our development plan of other overseas markets.

Together with other reasons mentioned in the paragraph headed "Group performance" below, the Group's profit attributable to the equity holders for the year ended 31 December 2019 declined by approximately HK\$18.4 million or 89.8% when compared with last year.

In 2020, a significant number of our subcontractors suspended their operations after the Chinese New Year (February 2020) due to the control policy to stop the spread of the novel coronavirus. Although most of them have resumed work since early March 2020, this has still affected the settlement of receivables in 2019 due to delay in the overall work status of the Group's projects.

Although the Group's performance in 2019 did not demonstrate a sanguine outlook, the trend in building grand and luxurious housing estates and hotels in Hong Kong has a growing demand for high quality marble and other building materials. Also, in considering the continuous demand in the housing supply in Hong Kong, the Group is actively developing its business in stone sales and enlarging its project scope to include other building materials. As one of the leading marble subcontractors in Hong Kong, the Group has the ability to grasp the future development opportunities, and the Board is confident in the future prospects of the Group.

GROUP PERFORMANCE

The Group is a leading and well-established subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects. Having accumulated over 24 years of experience in the industry, the Group has undertaken various sizeable stone supply projects and stone supply and installation projects in Hong Kong and Macau.

The Group's overall performance in 2019 did not show an upbeat outlook. Both its gross profit and net profit for the year had declined when compared with last year. The decline in overall performance was mainly due to: (i) the decrease in gross profit margin caused by the Group taking up a new significant supply and installation project during the year with a relatively low profit margin compared with the existing projects, and the emergence of a significant number of variation orders in some of the stone supply and installation services projects; (ii) the quality inspection exercise for two stone sales projects not being able to be completed within 2019 and therefore the relevant revenue recognition has been postponed to 2020; (iii) the increase in legal and professional fee and non-audit services charges, which were mainly related to a potential major acquisition (which has been terminated on 26 March 2020); and (iv) the increase in share based payment expenses for the share options granted during the year.

Except for the decrease in gross profit margin, the other reasons which affected the Group's performance for the year ended 31 December 2019 mentioned above were not directly related to the operation of the Group. Further, the relevant revenue and profit which arises from the two stone sales projects will only be recognised in 2020.

Revenue

The Group generated revenue from the foundation projects it undertook. The Group recorded a revenue of approximately HK\$324.3 million for the year ended 31 December 2019, representing an increase of approximately 8.4% when compared with 2018. This was due to the increase of revenue generated from the supply and installation services and stone sales.

Hong Kong

The Group provided both supply and installation services and stone sales to customers in Hong Kong. Revenue in Hong Kong increased by approximately HK\$61.5 million or 31.3% in 2019, which is driven by the fact that most supply and installation projects (including variation orders) were completed or had achieved significant progress during the year ended 31 December 2019.

Macau

The Group focuses primarily on hotel development projects in Macau. Revenue in Macau decreased by approximately HK\$7.7 million or 10.3% in 2019.

The USA

In 2019, the stone sales project in the USA has been postponed by the property developer and therefore no revenue was generated in the USA during the year ended 31 December 2019.

Administrative expenses

The administrative expenses of the Group in 2019 amounted to approximately HK\$31.3 million, representing a decrease of approximately HK\$7.0 million, or 18.3% as compared to approximately HK\$38.3 million in 2018. The decrease was mainly due to: (i) the decrease in non-recurring listing-related expenses by approximately HK\$13.6 million; and (ii) the decrease in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK\$2.2 millions, which is mainly due to the resignation of an Executive Director in January 2019 and the decrease in overall headcount.

However, such decrease has been partially off-set by: (i) the increase in legal and professional fee by approximately HK\$5.7 million and non-audit service charge by approximately HK\$0.7 million, concerning predominantly a potential major acquisition (which has been terminated on 26 March 2020); and (ii) the increase in share-based payment expenses by approximately HK\$2.2 million for the share options granted to Executive Directors of the Company and an external consultant during the year.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company was approximately HK\$2.1 million for the year ended 31 December 2019, as compared to approximately HK\$20.5 million for the year ended 31 December 2018.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK 1 cent per ordinary share, totaling HK\$12,000,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded the liquidity and capital requirements primarily through its retained profits and borrowings. As at 31 December 2019, the capital structure of the Group consisted of equity of approximately HK\$152.1 million (31 December 2018: HK\$159.2 million) and bank borrowing of approximately HK\$146.4 million (31 December 2018: HK\$124.1 million). For details, please refer to the paragraph headed “Bank borrowings” below.

The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

Cash position and fund available

The Group maintained a healthy liquidity position by managing its gearing ratio and its current ratio. As at 31 December 2019, the current ratio of the Group was approximately 1.8 times (31 December 2018: 2.1 times) and its gearing ratio was 41% (31 December 2018: 33%). Although the current ratio and gearing ratio were slightly increased in 2019, the range of increment is within the control of the management.

The Group’s current ratio was calculated as the current assets divided by the current liabilities as at the end of the respective years while the gearing ratio was calculated as the net debts (bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%.

As at 31 December 2019, the Group’s cash and cash equivalents were approximately HK\$2.9 million (31 December 2018: HK\$9.8 million). It has pledged bank deposits of approximately HK\$37.4 million (31 December 2018: HK\$34.2 million) to secure the Group’s banking facilities. The significant drop in cash and cash equivalents was mainly due to: (i) the increase in pledged bank deposits for obtaining additional banking facilities; and (ii) the increase in inventories for two significant stone sales projects undertaken in the last quarter of 2019, which are expected to be realised into cash subsequent to the financial year ended 31 December 2019 when the quality inspection is completed.

Bank borrowings

As at 31 December 2019, the Group had total bank borrowings of approximately HK\$146.4 million (31 December 2018: HK\$124.1 million). As at 31 December 2019, the Group had an aggregate banking facilities of approximately HK\$174.9 million (2018: HK\$164.6 million), of which approximately HK\$28.5 million (2018: HK\$40.5 million) was unutilised.

FOREIGN EXCHANGE RISK

The Group mainly operates in Hong Kong and Macau. Most of its operating transactions and financial activities, such as revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, the Directors are of the view that the Group’s risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and when they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group has issued performance bonds in respect of construction contracts through the bank which amounted to approximately HK\$1.5 million and HK\$3.0 million respectively. These performance bonds were secured by bank facilities.

During the year ended 31 December 2019, there were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of this announcement, two cases had developed to legal proceedings while the other two cases were still at their initial stage. The amount being claim for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained with reliability.

In addition, a previous subcontractor of the Group initiated a claim for payment for services rendered in the sum of HK\$6.5 million. The Group actively defended against the claim dispute and the liability of the Group cannot be ascertained with reliability as at the date of this announcement.

SUBSEQUENT EVENTS

(i) Outbreak of Coronavirus Disease 2019

After the outbreak of Coronavirus Disease 2019 in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group has assessed and preliminary concluded that there was no significant impact on the financial position of the Group.

(ii) Termination of potential major transaction

Reference is made to the announcements of the Company dated 21 November 2019 and 27 December 2019 in relation to the acquisition of the entire interest in the target company (“**Target Company**”) involving issue of conversion shares upon conversion of convertible bonds under specific mandate and the announcement of the Company dated 26 March 2020 in relation to the termination of the transaction. Because of the travel restrictions and the public health measures imposed in various areas in China to contain and stop the spreading of the novel coronavirus epidemic, due diligence on the Target Group could not be carried out. On 26 March 2020, Stable Wealthy Holdings Limited, a wholly-owned subsidiary of the Company, has signed a deed of termination with New Chain Limited whereby the parties agreed not to proceed with the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement).

(iii) Placing of bonds

To strengthen the working capital of the Group, on 27 March 2020, the Company entered into a placing agreement to place for a 18-month bonds in the principal amount of up to HK\$16,000,000, at a 12% coupon interest rate per annum. On 30 March 2020, all conditions precedent to completion as set out in the placing agreement have been fulfilled and the bonds were issued in full on the same day.

HUMAN RESOURCES

As at 31 December 2019, the Group had 29 full-time employees who were directly employed by the Group. Total staff costs including Directors' emoluments for the year ended 31 December 2019, amounted to approximately HK\$14.4 million (2018: approximately HK\$14.4 million). The Group conducts annual review on salary adjustment, discretionary bonuses and promotions based on the performance of each individual employee. During the year ended 31 December 2019, there has not been any incident of strike or labour shortage which adversely affected the Group's operations. In addition, the Group has not experienced any significant problem with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

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

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed its own shares through the Stock Exchange or otherwise.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Chairman and Chief Executive Officer

The roles of the chairman and chief executive of the Company have not been segregated as required by the code provision A.2.1 of the Code. Mr. Lui Yue Yun Gary ("**Mr. Lui**") is the chairman of the Company and the founder of the Group. The Board considers that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is adequately ensured by the Board which comprise experienced and high caliber individuals with a sufficient number of them being independent non-executive directors of the Company ("**Independent Non-Executive Directors**"). Therefore, it has a strong independent element in its composition.

Full details on the Company's corporate governance practices will be set out in the Company's 2019 Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct regarding securities transactions by Directors. The Company has made specific enquiries and all the Directors confirmed that they have complied with the required standards set out in the Model Code in 2019.

AUDIT COMMITTEE

The Audit Committee, with its terms of reference established in compliance with the Listing Rules, is composed of all the three Independent Non-Executive Directors (Mr. Ko Tsz Kin, Mr Choi Hok Ya and Mr. Ng Yau Wah Daniel). The Audit Committee has reviewed the management and accounting policies adopted by the Group and discussed auditing issues, risk management and internal control system, and financial reporting matters.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Group and internal control with senior management members and the external auditor of the Group, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

REMUNERATION COMMITTEE

The Remuneration Committee, with its terms of reference established in compliance with the Listing Rules, was set up with the responsibility of making recommendations to the Board the remuneration policy of all the Directors and the senior management. The Remuneration Committee is composed of the chairman of the Board (Mr. Lui) and two Independent Non-Executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin).

NOMINATION COMMITTEE

The Nomination Committee, with its terms of reference established in compliance with the Listing Rules, is composed of the chairman of the Board (Mr. Lui) and two Independent Non-Executive Directors (Mr. Ng Yau Wah Daniel and Mr. Ko Tsz Kin). The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed change.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of 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, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The Audit Committee has reviewed the annual results for the year ended 31 December 2019.

ANNUAL REPORT

The 2019 Annual Report will be despatched to Shareholders and will be published on the websites of the Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.anchorstone.com.hk) in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting (the “AGM”) will be held on Monday, 29 June 2020. Notice of AGM will be published on the websites of the Stock Exchange and the Company, and despatched to Shareholders in due course.

Shareholders whose names appear on the register of members of the Company on 29 June 2020 are entitled to attend and vote at the AGM. The register of members of the Company will be closed from Wednesday, 24 June 2020 to Monday, 29 June 2020, both days inclusive. In order to qualify for attending and voting at the AGM, shareholders should ensure that all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East Hong Kong, no later than 4:30 p.m. on Tuesday, 23 June 2020.

On behalf of the Board
Anchorstone Holdings Limited
Lui Yue Yun Gary
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the Executive Directors of the Company are Mr. Lui Yue Yun Gary, Ms. Lui Po Kwan Joyce, Mr. Lui Edwin Wing Yiu and Mr. Fung Wai Hang, and the Independent Non-Executive Directors are Mr. Ko Tsz Kin, Mr. Choi Hok Ya and Mr. Ng Yau Wah Daniel.