TONG KEE (HOLDING) LIMITED
棠記(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8305)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Tong Kee (Holding) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and the Company's website at www.tongkee.com.hk.

ANNUAL RESULT

The board of Directors (the "Board") of 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 corresponding period in 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*3*	**220,256**	251,767
Direct costs		**(189,994)**	(203,492)
Gross profit		**30,262**	48,275
Other income	*4*	**540**	21
Administrative expenses		**(26,462)**	(19,673)
Gain/(loss) arising from change in fair value of financial assets at fair value through profit or loss		**150**	(1,897)
Listing expenses		**–**	(7,414)
Finance costs	*5*	**(1,302)**	(1,394)
Profit before income tax	*6*	**3,188**	17,918
Income tax expense	*7*	**(930)**	(5,006)
Profit and total comprehensive income for the year		**2,258**	12,912
Earnings per share attributable to equity holders of the Company			
Basic and diluted (HK cents)	*8*	**0.28**	1.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**13,297**	6,995
Financial assets at fair value through profit or loss	*10*	**7,477**	7,327
		20,774	14,322
Current assets			
Contract assets	*12*	**77,567**	59,519
Trade and other receivables	*11*	**69,225**	51,164
Amount due from the Controlling Shareholder		**311**	331
Bank balances and cash		**13,871**	28,336
		160,974	139,350
Current liabilities			
Contract liabilities	*12*	**3,278**	1,649
Trade and other payables	*13*	**55,058**	54,772
Lease liabilities/Obligations under finance leases	*14*	**1,503**	807
Bank borrowings	*15*	**32,279**	9,459
Income tax payable		**3,137**	2,431
		95,255	69,118
Net current assets		**65,719**	70,232
Total assets less current liabilities		**86,493**	84,554
Non-current liabilities			
Leases liabilities/Obligations under finance leases	*14*	**1,581**	2,194
Deferred tax liabilities		**606**	312
		2,187	2,506
Net assets		**84,306**	82,048
CAPITAL AND RESERVES			
Share capital	*16*	**8,000**	8,000
Reserves		**76,306**	74,048
Total equity		**84,306**	82,048

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Total equity attributable to equity holders of the Company				
		Share capital	**Share premium**	**Capital reserve**	**Retained profits**	**Total equity**
	NOTES	*HK$'000* *(Note 16)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2018		–	–	3,610	25,871	29,481
Insurance of ordinary shares pursuant to the Capitalisation Issue	*16(ii)*	6,400	(6,400)	–	–	–
Insurance of ordinary shares pursuant to the Share Offer	*16(iii)*	1,600	46,400	–	–	48,000
Expense incurred in connection with the issue of ordinary shares	*16(iii)*	–	(6,676)	(1,669)	–	(8,345)
Transaction with equity holders		8,000	33,324	(1,669)	–	39,655
Profit and total comprehensive income for the year		–	–	–	12,912	12,912
As at 31 December 2018 and 1 January 2019		8,000	33,324	1,941	38,783	82,048
Profit and total comprehensive income for the year		–	–	–	2,258	2,258
As at 31 December 2019		**8,000**	**33,324**	**1,941**	**41,041**	**84,306**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Tong Kee (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 10 April 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Office Nos. 7 & 8, 8th Floor, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred as the "Group") are multi-disciplinary contractors which are principally engaged in performing repair, maintenance, alteration and addition ("RMAA") works, new construction works and cathodic protection works in Hong Kong.

The directors consider the Company's immediate and ultimate holding company to be Advanced Pacific Enterprises Limited ("Advanced Pacific"), a company incorporated in the British Virgin Islands ("BVI"). Advanced Pacific is controlled by Mr. Heung Chung Sum ("Mr. Heung" or the "Controlling Shareholder").

The Company's shares are listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 4 July 2018.

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 23 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosures requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.2.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (HK$'000), except where otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2019

In the current year, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2019:

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

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

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaces HKAS 17 "Leases" along with three Interpretations (HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC)-Int 15 "Operating Leases-Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

As a Lessee

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2019 (Continued)

HKFRS 16 "Leases" (Continued)

As a Lessee (Continued)

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 3.4%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	HK$'000
Total operating lease commitments disclosed at 31 December 2018	1,352
Recognition exemptions:	
— Leases with remaining lease term of less than 12 months	(236)
Operating leases liabilities before discounting	1,116
Discounting using incremental borrowing rate as at 1 January 2019	(31)
Operating leases liabilities	1,085
Obligations under finance lease	3,001
Total lease liabilities recognised under HKFRS 16 at 1 January 2019	4,086
Classified as:	
Current lease liabilities	1,489
Non-current lease liabilities	2,597
	4,086

The following table summarises the impact of transition to HKFRS 16 on the Group's consolidated statement of financial position at 1 January 2019:

	HK$'000
Increase in right-of-use assets presented in property, plant and equipment	1,085
Increase in lease liabilities	1,085

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Issued but not yet effective HKFRSs

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date not yet determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

3. REVENUE AND SEGMENT REPORTING

3.1 Revenue

The Group's principal activities are disclosed in note 1 to the consolidated financial statements. Revenue represents the consideration received and receivable from these activities.

The Group's revenue recognised during the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
Types of service		
RMAA works projects	**179,048**	211,165
New construction works projects	**23,311**	5,726
Cathodic protection works projects	**17,897**	34,876
	220,256	251,767

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

3.1 Revenue (Continued)

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2019:

	2019	2018
	HK$'000	*HK$'000*
Remaining performance obligations expected to be satisfied:		
Within one year	**99,878**	73,023
Over one year	**10,900**	854
	110,778	73,877

3.2 Segment information

The Group has determined the operating segments based on the information reported to the chief operating decision maker. During the year, the chief operating decision maker regards the Group's business of performing RMAA works, new construction works and cathodic protection works in Hong Kong as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole. Accordingly, no segment information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Information about major customers

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

	2019	2018
	HK$'000	*HK$'000*
Customer A	**70,584**	131,494
Customer B	**23,762**	N/A
Customer C	**23,483**	36,647

N/A: Revenue from the customer during the year did not exceed 10% of the Group's revenue.

4. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**4**	–
Sundry income	**536**	21
	540	21

5. FINANCE COSTS

	2019 *HK$'000*	2018 *HK$'000*
Interest charges on bank borrowings	**1,146**	1,293
Finance charges on lease liabilities/obligations under finance leases	**156**	101
	1,302	1,394

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019 *HK$'000*	2018 *HK$'000*
(a) Staff cost (including directors' remuneration)		
Salaries, wages and other benefits	**45,589**	38,486
Contributions to defined contribution plans	**1,808**	1,577
	47,397	40,063
(b) Other items		
Auditor's remuneration — audit services	**852**	920
Bad debts	**–**	82
Depreciation of property, plant and equipment		
— leased assets	**–**	573
— right-of-use assets	**1,798**	–
— owned assets	**1,370**	804
Loss on disposal of property, plant and equipment	**35**	–
Lease charges in respect of:		
— premises held under operating leases	**–**	898
— machinery held under operating leases	**–**	98
— short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16	**398**	–
Provision for ECL allowance	**9**	245

7. INCOME TAX EXPENSE

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is accordingly not subject to income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK$2 million are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

7. INCOME TAX EXPENSE (CONTINUED)

	2019	2018
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
— Current year	**639**	4,640
— (Over)/Under provision in respect of prior years	**(3)**	239
	636	4,897
Deferred tax	**294**	127
Income tax expense	**930**	5,006

8. EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to equity holders of the Company	**2,258**	12,912
Weighted average number of ordinary shares (in thousands)	**800,000**	719,342
Earnings per share (HK cents)	**0.28**	1.79

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2018 includes (i) the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 16(ii)), as if all these shares had been in issue throughout the year ended 31 December 2018, and (ii) the weighted average of 160,000,000 new ordinary shares issued pursuant to the Share Offer (note 16(iii)).

Diluted earnings per share for the years ended 31 December 2018 and 2019 was the same as basic earnings per share as there were no dilutive potential ordinary shares in issue during the years.

9. DIVIDENDS

The Board did not recommend the payment of dividend for the year ended 31 December 2019 (2018: nil).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	*HK$'000*
Investment in life insurance policies	**7,477**	7,327

In August 2012, the Group's subsidiary, Tong Kee Engineering Limited ("TKEL") entered into a life insurance policy with an insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL and the total insured sum is US$800,000 (equivalent to approximately HK$6,240,000). The Group was required to pay a one-off premium payment of US$278,000 (equivalent to approximately HK$2,162,000). The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal ("Cash Value"), which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 18th policy year. The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2% per annum is guaranteed by the insurance company.

In May 2018, the Group's subsidiary, TKEL entered into another life insurance policy with another insurance company to insure Mr. Heung, a director of the Company. Under the policy, the beneficiary and the policy holder is TKEL and the total insured sum is US$1,400,000 (equivalent to approximately HK$10,920,000). The Group was required to pay a one-off premium payment of US$917,000 (equivalent to approximately HK$7,125,000). The Group can terminate the policy at any time and receive cash back based on the Cash Value, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 15th policy year. The insurance company will pay the subsidiary an interest on the outstanding Cash Value excluding the surrender charge at the prevailing interest rate fixed by the insurance company. Commencing on the 2nd policy year, a minimum guaranteed interest of 2.3% per annum is guaranteed by the insurance company.

The investment in life insurance policies is denominated in US$ and the fair value is determined by reference to the Cash Value as provided by the insurance company.

As at 31 December 2019 and 2018, the life insurance policies were pledged to a bank to secure banking facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade and retention receivables		
Trade receivables	**46,177**	33,785
Retention receivables	**16,855**	12,811
Less: ECL allowance	**(1,457)**	(1,466)
	61,575	45,130
Deposits, prepayments and other receivables		
Prepayments	**4,413**	3,086
Deposits paid to suppliers and subcontractors	**203**	9
Security for issuance of performance bonds	**1,770**	1,898
Other deposits	**1,255**	892
Other receivables	**9**	149
	7,650	6,034
	69,225	51,164

All the trade and other receivables are denominated in HK$ and the directors considered that the fair values of trade and other receivables are not materially different from their carrying amounts.

As at 31 December 2019, retention receivables of HK$3,206,000 (2018: HK$175,000) included under current assets in the consolidated statements of financial position are expected to be recovered after one year.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The majority of the Group's trade receivables that are past due but not impaired have good credit quality with reference to respective settlement history.

The Group usually grants credit period ranging from 30 to 60 days to customers other than retention receivables. The terms and conditions in relation to the release of retention vary from contract to contract, which will be subject to the expiration of the defect liability period. In general, the retention money will be released upon the expiration of the defect liability period, which is typically one year after completion of construction works.

The ageing analysis of the trade receivables based on the invoice dates is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**29,716**	18,327
31 days to 60 days	**8,635**	6,865
61 days to 90 days	**2,032**	2,498
91 days to 365 days	**5,723**	6,002
Over 365 days	**71**	93
	46,177	33,785

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The movements in the ECL allowance of trade and retention receivables are as follows:

	2019	2018
	HK$'000	*HK$'000*
At the beginning of the year	**1,466**	1,248
(Reversal)/Provision for ECL allowance recognised during the year	**(9)**	218
At the end of the year	**1,457**	1,466

12. CONTRACT ASSETS/CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Contract assets	**77,645**	59,579
Less: ECL allowance	**(78)**	(60)
	77,567	59,519
Contract liabilities	**(3,278)**	(1,649)
	74,289	57,870

The contract assets primarily relate to the Group's right to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

The amount of revenue recognised during the year ended 31 December 2019 from performance obligations satisfied in previous periods, mainly due to the changes in estimate of the stage of completion and modification of contracts, is HK$632,000 (2018: HK$7,086,000).

Movements in the contract assets and the contract liabilities balances during the year ended 31 December 2019 and 2018 are as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**1,649**	3,455
Transfers from contract assets recognised at the beginning of the year to receivables	**49,199**	20,644

The balance of contract assets and contract liabilities are expected to be recovered/settled within one year.

13. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade and retention payables		
Trade payables	**41,630**	41,212
Retention payables	**6,735**	7,550
	48,365	48,762
Other payables		
Accrued expenses and other payables	**4,979**	4,147
Provision for annual leave and long service payment	**1,714**	1,863
	6,693	6,010
	55,058	54,772

The Group is granted by its suppliers and subcontractors a credit period ranging from 30 to 60 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**35,910**	38,892
31 days to 60 days	**5,105**	1,542
61 days to 90 days	**53**	99
91 days to 365 days	**562**	679
	41,630	41,212

As at 31 December 2019, retention payables of HK$1,643,000 (2018: HK$1,517,000) included under current liabilities in the consolidated statements of financial position are expected to be payable after one year.

All trade and other payables are denominated in HK$. The carrying values of trade and other payables are considered to be reasonable approximation of their fair values.

14. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

	2019	2018
	HK$'000	*HK$'000*
Total minimum lease payments:		
— Within one year	**1,600**	924
— After one year but within two years	**978**	836
— After two years but within five years	**661**	1,497
	3,239	3,257
Future finance charges on lease liabilities (2018: obligations under finance leases)	**(155)**	(256)
Present value of lease liabilities (2018: obligations under finance leases)	**3,084**	3,001

	2019	2018
	HK$'000	*HK$'000*
Present value of minimum lease payments:		
— Within one year	**1,503**	807
— After one year but within two years	**932**	755
— After two years but within five years	**649**	1,439
	3,084	3,001
Less: Portion due within one year included under current liabilities	**(1,503)**	(807)
Portion due after one year included under non-current liabilities	**1,581**	2,194

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Details for transitions to HKFRS 16 are set out in note 2.

As at 31 December 2019, lease liabilities (2018: obligations under finance leases) of HK$2,194,000 (2018: HK$3,001,000) are effectively secured by corporate guarantees from a subsidiary of the Company and the underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2019, the total cash outflows for the leases were HK$2,245,000.

As at 31 December 2018, the Group has entered into finance leases for motor vehicles. The lease periods ranged from 3 to 5 years.

15. BANK BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Bank loans, secured:		
— repayable within one year	**22,211**	5,522
— not repayable within one year from the end of the reporting period but contain a repayment on demand clause	**10,068**	3,937
Amounts shown under current liabilities	**32,279**	9,459

As at 31 December 2019 and 2018, all the bank loans were denominated in HK$.

The bank loans were secured by:

(a) land and buildings with a net book amount of HK$4,676,000 (2018: HK$1,818,000) as at 31 December 2019;

(b) legal charge on life insurance policies with a carrying amount of HK$7,477,000 (2018: HK$7,327,000) as at 31 December 2019 (note 10);

(c) Corporate guarantee by the Company as at 31 December 2019 and 31 December 2018.

16. SHARE CAPITAL

	2019		2018	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each				
As at 1 January	**10,000,000,000**	**100,000**	38,000,000	380
Increase in authorised share capital *(note i)*	**–**	**–**	9,962,000,000	99,620
As at 31 December	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:				
As at 1 January	**800,000,000**	**8,000**	1,000	–*
Issuance of ordinary shares pursuant to the Capitalisation Issue *(note ii)*	**–**	**–**	639,999,000	6,400
Issuance of ordinary shares pursuant to the Share Offer *(note iii)*	**–**	**–**	160,000,000	1,600
As at 31 December	**800,000,000**	**8,000**	800,000,000	8,000

* Represent amount of less than HK$1,000.

16. SHARE CAPITAL (CONTINUED)

Notes:

(i) Pursuant to the written resolutions of the sole shareholder passed on 4 June 2018, the authorised share capital of the Company increased from HK$380,000 to HK$100,000,000 divided into 10,000,000,000 ordinary shares of HK$0.01 each by creation of an additional 9,962,000,000 shares.

(ii) On 4 June 2018, 639,999,000 new ordinary shares of nominal value of HK$6,399,990 were issued and credited as fully paid, by way of capitalisation from the share premium account of the Company, pursuant to the Capitalisation Issue as detailed in the prospectus dated 20 June 2018 (“Prospectus”).

(iii) On 4 July 2018, 160,000,000 new ordinary shares of par value of HK$0.01 each share were issued at a price of HK$0.3 per share and credited as fully paid pursuant to the Share Offer as detailed in the Prospectus. The gross proceeds amounted to HK$48,000,000 and the listing costs directly attributable to the issue of shares amounted to approximately HK$6,676,000. Certain listing costs of HK$1,669,000 were related to the sale shares of the Controlling Shareholder and were charged to the capital reserve account. HK$6,400,000 was credited to share capital and the remaining net proceeds amounted to approximately HK$39,724,000 were credited to the Company’s share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an established multi-disciplinary contractor for the provision of RMAA, new construction works, and cathodic protection works in Hong Kong. The Group is responsible for the overall management, implementation and supervision of projects. The Group focuses on the management of projects, development of work programmes, procurement of works materials, operation of site works, co-ordination with the customers or their consultants and quality control of the works carried by the employees and the subcontractors.

For RMAA works, the Group provides repair, alteration and addition, maintenance, modification, rehabilitation, steel, civil and demolition works in various venues such as residential building, commercial building, carpark, road, footbridge and theme park in Hong Kong. For new construction works, the Group provides a variety of constructions and related alteration and additions works and facilities such as noise mitigation work, architectural metalwork, bus shelter, dangerous goods store building, innovative and creative structure such as air balloon. For cathodic protection works, the Group provides installation of cathodic protection systems including sacrificial anodes protection and impressed current systems.

For the year ended 31 December 2019, there were 168 projects (2018: 139 projects) with revenue contribution undertaken by the Group. The demands for the Group's RMAA and cathodic protection works services remained at a steady level. During the year ended 31 December 2019 and up to the date of this announcement, the Group was awarded 94 new projects, with total original contract sum of approximately HK$246.5 million.

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the property market in Hong Kong as well as factors affecting the labour costs, material costs and social event. The Directors are of the view that the number of properties to be built and maintained in Hong Kong remains to be the key driver for the growth of the Hong Kong RMAA and fitting-out industry. In particular, year 2020 is expected to be a challenging year. The unexpected outbreak of COVID-19 has brought adverse impact on the macroeconomic condition in an international and domestic context which is expected to persist. The Directors will continue to observe closely and manage risks associated. With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) strengthen the market position in the industry and expand the market share by securing more RMAA and cathodic protection works contracts by utilising the net proceeds from the Listing of the Shares on GEM of the Stock Exchange on 4 July 2018 (the "Listing Date"); and (ii) expanding the customer base and strengthening the scope of services.

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately HK$251.8 million for the year ended 31 December 2018 to approximately HK$220.3 million for the year ended 31 December 2019, representing a decrement of approximately 12.5%. Such decrease was mainly due to the decrease in contract sum of RMAA and cathodic protection works projects undertaken by the Group as a result of the overall development in the construction industry in Hong Kong.

Cost of Sales

The cost of sales decreased from approximately HK$203.5 million for the year ended 31 December 2018 to approximately HK$190.0 million for the year ended 31 December 2019, representing a decrease of approximately 6.6%. Such decrease was mainly attributable to the decrease in the subcontracting charges and rental of machinery and equipment cost incurred in line with the revenue decrease during the year.

Gross Profit

Gross profit of the Group decreased by approximately HK$18.0 million from approximately HK$48.3 million for the year ended 31 December 2018 to approximately HK$30.3 million for the year ended 31 December 2019. The overall gross profit margin decreased from approximately 19.2% for the year ended 31 December 2018 to approximately 13.8% for the year ended 31 December 2019 as the projects undertaken by the Group during the year ended 31 December 2019 were generally in lower gross profit margin, also the extent of decrease in revenue was overweighted that of the decrease in subcontracting charges, staff salary and construction material costs for the year ended 31 December 2019.

Listing Expenses

During the year ended 31 December 2018, the Group recognised non-recurring Listing expenses of approximately HK$7.4 million as expenses in connection with its Listing exercise, no such expenses was incurred for the year ended 31 December 2019.

Administrative Expenses

Administrative expenses of the Group increased by approximately HK$6.8 million or 34.5% from approximately HK$19.7 million for the year ended 31 December 2018 to approximately HK$26.5 million for the year ended 31 December 2019.

Administrative expenses primarily consist of staff costs, depreciation, audit fee and other professional costs in relation to the compliance with the GEM Listing Rules. The increase was mainly attributable to the increase in staff costs due to business expansion and the abovementioned audit fee and other professional costs in relation to the compliance with the GEM Listing Rules during the year.

Finance Costs

Finance costs for the Group decreased by approximately HK$0.1 million or 7.1% from approximately HK$1.4 million for the year ended 31 December 2018 to approximately HK$1.3 million for the year ended 31 December 2019. The Group maintained a low level of bank borrowing until third quarter of the year, leading to the decrease in average usage of loan settlement for trade payables and bank borrowings during the year ended 31 December 2019.

Income Tax Expense

Income tax expense for the Group decreased by approximately HK$4.1 million or 82% from approximately HK$5.0 million for the year ended 31 December 2018 to approximately HK$0.9 million for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in profit before tax (excluding the Listing expenses) from approximately HK$25.3 million for the year ended 31 December 2018 to approximately HK$3.2 million for the year ended 31 December 2019.

Profit and Total Comprehensive Income for the year attributable to the owners of the Company

Profit and total comprehensive income for the year attributable to the owners of the Company decreased by approximately HK$10.6 million or 82.2% from approximately HK$12.9 million for the year ended 31 December 2018 to approximately HK$2.3 million for the year ended 31 December 2019.

Such decrease was primarily attributable to the net effect of (i) the decrease in revenue for the year ended 31 December 2019; (ii) the decrease in gross profit for the year ended 31 December 2019; (iii) the increase in the administrative expenses incurred by the Group for the year ended 31 December 2019; and (iv) less Listing expenses incurred by the Group for its Listing exercise during the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio improved steadily from approximately 2 times as at 31 December 2018 to 1.7 times as at 31 December 2019.

As at 31 December 2019, the Group had bank borrowings of approximately HK$32.3 million (2018: HK$9.5 million). The gearing ratio, calculated based on the total borrowings divided by total equity at the end of the year and multiplied by 100%, increased from approximately 11.5% as at 31 December 2018 to approximately 38.3% as at 31 December 2019 due to the increase in equity of the Group. The Group's financial position is sound and strong. With available bank balances and cash and bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 4 July 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2019, the Company's issued share capital was HK$8,000,000 and the number of its issued ordinary shares was 800,000,000 of HK$0.01 each.

COMMITMENTS

The operating lease commitments of the Group as at 31 December 2019 were primarily related to the short-term leases of its office premises and carpark spaces. The Group's operating lease commitments amounted to approximately HK$10,000 as at 31 December 2019 (2018: approximately HK$1,352,000).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 3 of the notes to the consolidated financial statements. There is no material changes in the industrial segment.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2019, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2019, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group's revenue generating operations are mainly transacted in HK$. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

CHARGE OF GROUP'S ASSETS

As at 31 December 2019, the Group pledged certain amount of land and buildings and investments in life insurance policies to secure short-term bank borrowings and other general banking facilities granted to the Group. For details, please refer to note 15 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of 137 employees (2018: 119 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK$47.4 million for the year ended 31 December 2019 (2018: approximately HK$40.1 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to a basic salary, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

USE OF PROCEEDS

The net proceeds from the Listing on 4 July 2018, after deducting listing related expenses, were approximately HK$25.2 million. After the Listing, these proceeds were used for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus. The unused amount of the net proceeds from the Listing as at 31 December 2019 was approximately HK$9.9 million.

An analysis of the planned amount utilised up to 31 December 2019 is set out below:

	Planned use of net proceeds as stated in the Prospectus *HK$'million*	**Actual use of net proceeds from Listing Date to 31 December 2019** *HK$'million*
Reserved capital to satisfy the Group's potential customers' requirement for surety/performance bond	2.0	0.7
Further Strengthen the Group's manpower	7.4	4.8
Acquisition of additional machinery and equipment	7.5	1.5
Upgrading the Hong Kong office and workshop	5.7	5.7
General working capital	2.6	2.6

OTHER INFORMATION

Corporate Governance Practices

Since the Listing, the Board has recognised that the transparency and accountability is important to a listed company. Therefore, the Company is committed in establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's stakeholders as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules. The Directors will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation of shareholders and other stakeholders of the Company.

Under the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

Mr. Heung Chung Sum currently assumes the role of both chairman of the Company and chief executive of the Company. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies. The Board will review the need of appointing suitable candidate to assume the role of chief executive when necessary.

Save as disclosed above, the Board is pleased to report compliance with all applicable code provisions of the CG Code during the year ended 31 December 2019.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the year ended 31 December 2019.

Non-Competition Undertakings by Controlling Shareholders

Each of the Controlling Shareholders (namely Mr. Heung Chung Sum, Advanced Pacific Enterprises Limited ("Advanced Pacific") has made an annual declaration to the Company that for the year ended 31 December 2019, it has complied with the terms of non-competition undertakings ("Non-Competition Undertakings") given in favour of the Company which are contained in the Deed of Non-Competition Undertaking. Details of the Non-Competition Undertakings are set out in the section headed "Relationship with the Controlling Shareholders" of the Prospectus. The INEDs have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Competition Undertakings and as far as the INEDs can ascertain, there is no breach of any of the undertakings in the Non-Competition Undertakings.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2019.

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019.

Annual General Meeting and Closure of Register Of Members

The annual general meeting is scheduled on Monday, 11 May 2020. In order to determine entitlements to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 5 May 2020 to Monday, 11 May 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 May 2020.

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules, in accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of three independent non-executive Directors namely Mr. Chan Chi Hang, Mr. Dr. Ip Wai Hung and Mr. Ko, Wilson Wai Shun. The chairman of the Audit Committee is Mr. Chan Chi Hang, who has appropriate professional qualifications and experience in accounting matters.

Review of Annual Results

The audit committee of the Company has reviewed the annual results for the year ended 31 December 2019 before the results were submitted to the Board for approval.

The figures in respect of the result announcement of the Group for the year ended 31 December 2019 have been agreed by the Company's auditor, Grant Thornton Hong Kong Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Grant Thornton Hong Kong Limited 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 the Grant Thornton Hong Kong Limited on the announcement.

Events after the Reporting Period

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2019 and up to the date of this announcement.

Appreciation

On behalf of the Board, I would like to extend our sincere thanks to our shareholders, business partners and customers for their utmost support to the Group. I would also like to take this opportunity to thank all management members and staffs for their hard work and dedication throughout the year.

By order of the Board
Tong Kee (Holding) Limited
Heung Chung Sum
Chairman and Executive Director

Hong Kong, 23 March 2020

As at the date of this announcement, the executive Directors are Mr. Heung Chung Sum and Mr. Chan Wai Hon, Alan, and the non-executive Directors are Ms. Heung Joe Yee, Ms. Heung Joe Tung, and the independent non-executive Directors are Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun, and Mr. Chan Chi Hang.