REM Group (Holdings) Limited
全達電器集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1750)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of REM Group (Holdings) Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** *HK\$'000*	2017 *HK\$'000*
Revenue	4	**186,284**	198,507
Cost of sales		**(134,895)**	(141,599)
Gross profit		**51,389**	56,908
Other income, gains and losses	5	**1,884**	557
Selling and distribution expenses		**(7,438)**	(7,561)
Impairment loss recognised on trade receivables and contract assets		**(612)**	–
Administrative and other expenses		**(29,118)**	(31,648)
Finance costs	6	**(397)**	(274)
Profit before taxation	7	**15,708**	17,982
Taxation	8	**(5,551)**	(5,534)
Profit for the year		**10,157**	12,448

	Note	2018 HK$'000	2017 HK$'000
Other comprehensive (expense) income for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(4,554)**	3,352
Total comprehensive income for the year		**5,603**	15,800
Profit for the year attributable to:			
Owners of the Company		**10,157**	12,431
Non-controlling interests		**–**	17
		10,157	12,448
Total comprehensive income attributable to:			
Owners of the Company		**5,603**	15,717
Non-controlling interests		**–**	83
		5,603	15,800
Earnings per share (HK cents) – basic	10	**0.61**	0.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**19,888**	21,570
Prepaid lease payments		**2,829**	3,062
Rental deposits		**125**	83
Contract assets	11	**11,569**	–
Retention receivables	12	**–**	8,868
		34,411	33,583
Current assets			
Inventories		**27,011**	24,040
Trade and retention and other receivables	12	**80,997**	51,194
Contract assets	11	**10,776**	–
Prepaid lease payments		**77**	81
Financial assets at fair value through profit or loss		**449**	568
Amounts due from related parties		**–**	287
Amounts due from directors		**18**	2,032
Tax recoverable		**–**	944
Short-term bank deposits with original maturity more than three months		**8,580**	–
Bank balances and cash		**90,541**	42,962
		218,449	122,108
Current liabilities			
Trade and other payables	13	**49,867**	41,653
Contract liabilities		**1,397**	–
Amounts due to related parties		**–**	8,987
Amount due to a director		**3**	970
Tax payable		**3,516**	1,496
Bank loans		**271**	4,267
		55,054	57,373
Net current assets		**163,395**	64,735
Total assets less current liabilities		**197,806**	98,318

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Provision for long service payments	**736**	947
Deferred tax liabilities	**448**	442
	1,184	1,389
NET ASSETS	**196,622**	96,929
Capital and reserves		
Share capital	**18,000**	–
Share premium and reserves	**178,622**	96,929
TOTAL EQUITY	**196,622**	96,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability on 15 March 2017 under the Companies Law of the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 May 2018 (the "**Listing**"). The Company's immediate and ultimate holding company are Unique Best Limited and WAN Union Limited, respectively, which were companies incorporated in the British Virgin Islands. The address of the Company's registered office and the principal place of business are PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands and Unit B, 5th Floor, Wing Sing Commercial Centre, Nos. 12 – 16 Wing Lok Street, Hong Kong, respectively.

The principal activity of the Company is investment holding and its subsidiaries are primarily engaged in sales and manufacturing of low-voltage electrical power distribution and control devices.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standards ("**HKAS**") 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of low-voltage switchboard
- Sales of local motor control panel
- Sales of motor control centre
- Sales of electrical distribution board and control box
- Sales of electrical parts and replacements

Information about the Group's performance obligations resulting from application of HKFRS 15 is disclosed in note 4.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

For contracts of sales of products that contain warranties, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as the Directors consider these are assurance-type warranties. There is no material impact from application of HKFRS 15 on retained profits at 1 January 2018.

The Directors considered the application of HKFRS 15 has no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018***
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Retention receivables	8,868	(8,868)	–
Contract assets *(note 1)*	–	8,868	8,868
Current assets			
Trade and retention and other receivables	51,194	(11,420)	39,774
Contract assets *(note 1)*	–	11,420	11,420
Current liabilities			
Trade and other payables	41,653	(1,364)	40,289
Contract liabilities *(note 2)*	–	1,364	1,364

Notes:

(1) As at 1 January 2018, retention receivables not yet billed to customers which is conditional until the expiry of defect liability period of HK$20,288,000 in respect of sales contracts previously presented as retention receivables were reclassified to contract assets.

(2) As at 1 January 2018, advances from customers of HK$1,364,000 in respect of considerations received from sales contracts previously included in trade and other payables were reclassified to contract liabilities.

* The amounts in this column are before the adjustments from the application of HKFRS 9.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Retention receivables	–	11,569	11,569
Contract assets	11,569	(11,569)	–
Current assets			
Trade and retention and other receivables	80,997	10,776	91,773
Contract assets	10,776	(10,776)	–
Current liabilities			
Trade and other payables	49,867	1,397	51,264
Contract liabilities	1,397	(1,397)	–

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Any difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Summary of effects arising from initial application of HKFRS 9

The Directors considered the application of HKFRS 9 has no material impact on the measurement of financial assets at the date of initial application, 1 January 2018.

Below illustrates the measurement (including impairment) of financial assets and other items subject to ECL under HKFRS 9 at the date of initial application, 1 January 2018.

Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current year, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables and contract assets.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowance for other financial assets at amortised cost mainly comprises of other receivables, amounts due from directors and bank balances, which are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

The Directors considered the additional expected credit loss allowance as at 1 January 2018 measured under the ECL model is insignificant.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of low-voltage electrical power distribution and control devices, less discounts, if any, during the year.

For the year ended 31 December 2018, the executive Directors, being the chief operating decision maker (the "**CODM**"), regularly review revenue analysis by product types, including primarily low-voltage switchboard, local motor control panel, motor control centre, electrical distribution board and control box and electrical parts and replacements and by location of delivery to customers. The executive Directors considered the operating activities of sales of all products as a single operating segment. Other than revenue analysis, the CODM reviews the profit or loss for the year of the Group as a whole to make decisions about performance assessment and resources allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly, no separate segment information is prepared. No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

An analysis of the Group's revenue by products for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Low-voltage switchboard	**113,081**	71,322
Local motor control panel	**45,679**	75,308
Motor control centre	**19,058**	34,839
Electrical distribution board and control box	**6,171**	14,427
Electrical parts and replacements	**2,295**	2,611
	186,284	198,507

The Group sells all products directly to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location and customer acceptance has been obtained. The Directors considered that the Group's revenue is recognised at a point in time.

Revenue from external customers, based on location of delivery to customers is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue		
– Hong Kong	**147,612**	143,999
– People's Republic of China ("**PRC**")	**19,453**	12,261
– Macau	**19,219**	42,247
	186,284	198,507

Revenue from customers individually contributing over 10% of the total revenue of the Group of the corresponding years are as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**29,773**	21,408
Customer B	**N/A***	34,370
Customer C	**27,575**	N/A*
Customer D	**20,020**	N/A*

* No revenue contributed from such customers or the corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant year.

An analysis of the Group's non-current assets other than rental deposits and contract assets (2017: retention receivables) is presented below based on their physical geographical location:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**3,756**	3,137
PRC	**18,961**	21,495
	22,717	24,632

5. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net exchange gain (loss)	**1,580**	(227)
Interest income	**369**	72
(Decrease) increase in fair value of financial assets at fair value through profit or loss	**(93)**	150
Others	**28**	562
	1,884	557

6. FINANCE COSTS

	2018 *HK$'000*	2017 *HK$'000*
Interest on bank loans	**397**	274

7. PROFIT BEFORE TAXATION

	2018 *HK$'000*	2017 *HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation		
– cost of sales	**747**	744
– administrative and other expenses	**1,227**	1,046
Total depreciation	**1,974**	1,790
Directors' emoluments		
– fees	**323**	–
– salaries and other allowance	**836**	875
– retirement benefit scheme contributions	**32**	32
	1,191	907
– Other staff's salaries and other allowance	**25,377**	23,075
– Other staff's retirement benefits scheme contributions	**2,683**	2,885
Total staff costs	**29,251**	26,867
Auditor's remuneration	**1,450**	232
Release of prepaid lease payments	**81**	80
Cost of inventories recognised as expenses	**127,034**	131,017
Loss on disposal of property, plant and equipment	**–**	19
Listing expenses (included in administrative and other expenses)	**5,775**	11,786
Operating lease rentals in respect of rent premises	**643**	547

8. TAXATION

	2018	2017
	HK$'000	*HK$'000*
The taxation charge comprises:		
Current tax		
– Hong Kong Profits Tax	**2,385**	3,971
– PRC Enterprise Income Tax	**3,160**	1,527
Deferred tax	**6**	36
	5,551	5,534

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

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

Accordingly, starting from the current year, the Hong Kong profits tax of the elected Hong Kong subsidiary is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in PRC is 25%.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the year (2017: nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**10,157**	12,431

	2018	2017
	'000	*'000*
Weighted average number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,671,781**	1,430,784

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Company had been the holding company of the subsidiaries with shares issued and outstanding consistent with the basis of consolidation throughout the year, and the capitalisation issue that took place on 11 May 2018 had been effective on 1 January 2017.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both years.

11. CONTRACT ASSETS

Contract assets represent the retention receivable amounting to HK$22,345,000 net of allowance for credit losses HK$62,000 as at 31 December 2018. Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 6 months to 2 years from the date of delivery of finished goods to customers.

The following is an analysis of contract assets, which are to be transferred to trade receivables based on the expiry of the defect liability period, at the end of the reporting period:

	31.12.2018	1.1.2018*
	HK$'000	*HK$'000*
Within one year	**10,776**	11,420
After one year	**11,569**	8,868
	22,345	20,288

* The amounts in this column are after the adjustments from the application of HKFRS 15.

12. TRADE AND RETENTION AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**73,908**	32,086
Less: Allowance for credit losses	**(550)**	–
	73,358	32,086
Bills receivables	**–**	294
	73,358	32,380
Retention receivables	**–**	11,420
Other receivables, prepayment and deposits	**7,639**	7,394
	80,997	51,194

Trade and bills receivables

Payment terms with customers are mainly on credit together with deposits received in advance for new customers. The Group allows credit period with a range from 30 to 75 days (2017: 30 to 75 days) to its trade customers. The extension of credit period to the customers may be granted on a discretionary basis by considering the creditworthiness, the customers' financial condition and payment history with the

Group. The following is an analysis of trade and bills receivables by age, presented based on the invoice date.

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**44,430**	17,371
31 – 60 days	**16,531**	8,934
61 – 90 days	**6,811**	4,578
91 – 180 days	**2,494**	1,067
181 – 365 days	**2,702**	90
Over 1 year	**390**	340
	73,358	32,380

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by management of the Group regularly.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$17,673,000 which are past due as at the reporting date. Out of the past due balances, HK$3,498,000 has been past due 90 days or more and the Directors considered there has no default occurred as these trade receivables are still considered fully recoverable due to long-term/on-going relationship and good repayment record from these customers.

As at 31 December 2017, included in the Group's trade receivable balances were receivables with aggregate carrying amount of approximately HK$9,934,000, which were past due for which the Group had not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts were still considered recoverable. Accordingly, the Directors believed that no impairment loss was required. The Group does not hold any collateral over these balances.

Retention receivables

Retention receivables were unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 6 months to 2 years from the date of delivery of finished goods to customers. The amount was classified as contract assets upon application of HKFRS 9 as at 1 January 2018.

The following was an aged analysis of retention receivables, which were to be transferred to trade receivables based on the expiry of the defect liability period, at the end of each reporting period.

	2017
	HK$'000
Within one year	11,420
After one year	8,868
	20,288

In determining the recoverability of trade and retention receivables, the Group considered any change in credit quality of the customers from the date credit was initially granted up to the end of each reporting period.

13. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**38,686**	22,273
Bill payables	**5,755**	1,695
	44,441	23,968
Receipts in advance from customers	**–**	1,364
Accruals and other payables	**5,426**	11,559
Issue costs accrued	**–**	1,147
Listing expense payable	**–**	3,615
	49,867	41,653

The credit period granted by suppliers to the Group ranged from 30 to 75 days (2017: 30 to 75 days). The following is an aging analysis of trade and bill payables presented based on the invoice dates at the end of each reporting period:

	2018	2017
	HK$'000	*HK$'000*
1 – 30 days	**15,305**	5,491
31 – 60 days	**19,862**	8,004
61 – 90 days	**4,758**	4,617
Over 90 days	**4,516**	5,856
	44,441	23,968

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a renowned manufacturer and supplier of low-voltage electrical power distribution and control devices in Hong Kong, Macau and the PRC.

Despite the steady growth of the low-voltage electrical power distribution and control devices market in Hong Kong, Macau and the PRC during the recent years, the Group's business and operating results (excluding non-recurring Listing expenses) have experienced a dip in the year ended 31 December 2018 (the "**Year 2018**") as compared with the year ended 31 December 2017 (the "**Year 2017**"). This is the direct result from a decline in the Group's sales by approximately 6.2%, from approximately HK$198.5 million in the Year 2017 to approximately HK$186.3 million in the Year 2018 caused by delays of the site's construction progress for individual projects which disrupted the Group's production schedule, combined with a rise in the Group's post-listing expenses such as various professional fee and non-executive Directors' fee of approximately HK$4.4 million.

Revenue attributed to sales in Hong Kong, Macau and the PRC amounted to approximately HK$147.6 million, approximately HK$19.2 million and approximately HK$19.5 million, respectively for the Year 2018 (Year 2017: approximately HK$144.0 million, approximately HK$42.2 million and approximately HK$12.3 million, respectively). The significant drop in sales in Macau of approximately HK$23.0 million were due to the completion of practically all of the major projects in Macau regarding hotel development as the majority of the products were already delivered in the Year 2017. There were only two relatively large-scaled projects which contributed towards sales in Macau for the Year 2018, with revenue of approximately HK$3.5 million and approximately HK$6.8 million recognized in relation to the reconstruction of a hotel as a result of a fire damage incident and the development of a theme park, respectively. The drop in sales in Macau were offset by a rise in sales in Hong Kong and the PRC by approximately HK$3.6 million and approximately HK$7.2 million, respectively. The rise of revenue in Hong Kong by approximately 2.5% is attributed to the increased production and delivery of products for projects in Hong Kong in general while the rise in sales in the PRC is mainly attributed to the commencement of two projects awarded by two different customers but related to the same urban complex construction which is a commercial center consisting of a shopping mall and a commercial building in Kunming, which generated total revenue of approximately HK$12.8 million during the Year 2018.

MARKET PROSPECT

The continued interest rate hikes and emergence of US-China trade frictions over tariff had posed uncertainties to the global business environment. Yet the Group is cautiously optimistic about the low-voltage electrical power distribution and control devices market in Hong Kong, Macau and the PRC as low-voltage electrical distribution and control devices have a wide application in practically all buildings and facilities. The design, installation, operation and maintenance of such devices generally comply with the internal structure of buildings and facilities. Along with community development and adoption of innovative architectural design of buildings as well as modernized facilities (e.g. data centers, urban complex development in the PRC, further development of public transportation systems in Hong Kong), the demand for tailor made devices is expected to steadily grow in Hong Kong, Macau and the PRC.

The prospect of the market in which the Group operates remains promising, particularly for the PRC market in which the Group has already successfully won several tenders for large-scale development projects.

However, the Group's performance is still largely dependent on several factors, including the timing and progress of construction sites for individual projects, the pricing of the Group's products amidst intense competition and price fluctuation of principal raw materials used in the production of the Group's products.

Management shall seek to counteract the negative impacts of these factors on the Group's results via setting up various policies, including implementing a new staff bonus policy to reward staff for attaining higher gross profits for individual projects, either by means of achieving greater sales or reducing costs, as well as putting in place new procedures to better monitor and manage the Group's production and delivery process so as to achieve a more stable revenue stream in future.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 6.2%, from approximately HK$198.5 million for the Year 2017 to approximately HK$186.3 million in the Year 2018. Such decrease was mainly attributable to a decline in sales to customers based in Macau of approximately HK$23.0 million, offset by a rise in sales in Hong Kong and the PRC by approximately HK$3.6 million and approximately HK$7.2 million respectively.

Cost of sales

The Group's cost of sales amounted to approximately HK$134.9 million for the Year 2018, representing a decrease of approximately 4.7% from approximately HK$141.6 million for the Year 2017. Cost of sales mainly comprised of costs of raw materials and staff costs, which accounted for approximately 81.9% and 12.3% respectively of the Group's total cost of sales for the Year 2018 (Year 2017: approximately 82.2% and 10.3% respectively).

Gross profit/Gross profit margin

The Group's gross profit decreased by approximately 9.7% from approximately HK$56.9 million for the Year 2017 to approximately HK$51.4 million for the Year 2018. The overall gross profit margin of the Group was approximately 27.6% for the Year 2018, representing a slight decrease of approximately 1.1% as compared with that of approximately 28.7% for the Year 2017. The Group was able to generate higher gross profit margins from sales in Macau due to the distant location of the job sites and tight timeframes for the scheduled delivery of products requested for a majority of the Macau jobs in the past. For the Year 2018, only approximately 10.3% of the Group's revenue were contributed from sales in Macau as compared with approximately 21.3% for the Year 2017, representing a drop of revenue from sales in Macau of approximately HK$23.0 million. The decrease in gross profit margin was therefore due to a lower portion of revenue being generated from such higher gross profit margin projects based in Macau.

Despite the decline, the Directors consider that the gross profit margin has been maintained at a healthy position as such gross profit margin is similar with previous years' margin which ranged from approximately 27% to 31%.

Other income, gains and losses

The Group's other income, gains and losses increased by approximately HK$1.3 million, or approximately 238.2%, from approximately HK$0.6 million for the Year 2017 to approximately HK$1.9 million for the Year 2018. Such increase was mainly attributable to net exchange gain of approximately HK$1.6 million being recorded as a result of an appreciation of Renminbi against United States Dollar during the Year 2018, as oppose to a net exchange loss of approximately HK$0.2 million arising from other foreign currency transactions being recorded for the Year 2017.

Selling and distribution expenses

The Group's selling and distribution expenses remained relatively stable, with a slight decrease of approximately 1.6% being recorded, from approximately HK$7.6 million for the Year 2017 to approximately HK$7.4 million for the Year 2018.

Administrative and other expenses

The Group's administrative and other expenses decreased by approximately HK$2.5 million, or approximately 8.0%, from approximately HK$31.6 million for the Year 2017 to approximately HK$29.1 million for the Year 2018. The decrease was mainly due to the combined effects of (i) the decrease in Listing expenses by approximately HK$6.0 million, (ii) the increase in staff costs (including Directors' remuneration) of approximately HK$0.6 million, and (iii) the increase in professional fee of approximately HK$3.6 million after the Listing resulting in additional legal and compliance requirements for the Group.

Finance costs

The Group's finance costs increased by approximately 44.9% from approximately HK$0.3 million for the Year 2017 to approximately HK$0.4 million for the Year 2018. The increase in finance costs was mainly attributable to a new bank loan of HK$15 million being drawn during the Year 2018 but had been fully repaid during the Year 2018.

Taxation

The Group's income tax expense increased slightly by approximately 0.3% from approximately HK$5.5 million for the Year 2017 to approximately HK$5.6 million for the Year 2018, despite a decline in taxable profit for the Year 2018. This is mainly due to a rise in the PRC taxable profit, which is subject to a higher tax rate, along with a decline in the taxable profit in Hong Kong, which is subject to a lower tax rate.

Profit for the year attributable to the owners of the Company

Profit for the year attributable to the owners of the Company decreased by approximately HK$2.3 million or 18.3% from approximately HK$12.4 million for the Year 2017 to approximately HK$10.2 million for the Year 2018. Such decrease was mainly due to a drop of sales recorded for the Year 2018, along with the combined effects of the lesser changes to other income, administrative and other expenses, and taxation as already described above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has financed its operations primarily through cash inflows from operating activities and bank borrowings. As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$90.5 million (31 December 2017: approximately HK$43.0 million) and had bank borrowings of approximately HK$0.3 million (31 December 2017: approximately HK$4.3 million). Upon the completion of the Listing after deducting the underwriting commission and other listing expenses in connection thereto, the Group had raised net proceeds from the Listing of approximately HK$75.0 million.

As at 31 December 2018, the working capital (current assets less current liabilities) and total equity attributable to owners of the Company were approximately HK$163.4 million (31 December 2017: approximately HK$64.7 million) and approximately HK$196.6 million (31 December 2017: approximately HK$96.9 million).

Gearing ratio (total debt including amounts due to related parties and Directors and bank loans/total equity) as at 31 December 2018 was approximately 0.1% (31 December 2017: approximately 14.7%). Such decrease was mainly due to the combined effects of (i) full repayment of amounts due to related parties and Directors as at 31 December 2017, (ii) repayment of bank borrowings, and (iii) increase in equity due to the receipts of listing proceeds upon the Listing and profit generated for the Year 2018.

TRADE AND BILL RECEIVABLES

The Group's average receivable turnover days for the Year 2018 increased to approximately 103.6 days as compared to that of approximately 97.0 days for the Year 2017. The main reason for the increase is because the Group has a high ending balance of trade and bill receivables as at 31 December 2018. This is due to a large quantity of products being delivered in the last quarter of the Year 2018, especially for December, which led to significant sales being recorded during the last month and last quarter of the Year 2018. As the Group generally grants its customers credit terms of 30 to 75 days, this resulted in a much larger trade receivables balance as at 31 December 2018. Despite a rise in the receivable turnover days, the settlement of outstanding trade receivables during the Year 2018 was satisfactory and aside from impairment loss of approximately HK$0.6 million recognised, the Group did not consider there to be default on any of its trade receivables balance as at 31 December 2018.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITION OR DISPOSALS

There were no significant investments held, nor any material acquisitions or disposals during the Year 2018.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2018 (31 December 2017: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year 2018 (Year 2017: Nil).

EVENTS AFTER THE REPORTING PERIOD

There have been no other material events occurring after 31 December 2018 and up to the date of this announcement.

COMPLIANCE WITH LAWS AND REGULATIONS

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong and the PRC, while its products are also delivered to Macau. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in each of the above jurisdictions. During the Year 2018 and up to the date of this announcement, the Group had obtained all the registrations and certifications required for its business and operations in Hong Kong and the PRC, and had complied with all applicable laws and regulations in the above-mentioned jurisdictions in all material respect.

EMPLOYEES AND REMUNERATION POLICY

The Group had 225 full-time employees as at 31 December 2018 (31 December 2017: 236), among which 47 and 178 were stationed in Hong Kong and the PRC, respectively. Most of the Group's employees were factory workers in the PRC. The total staff costs (including fees, salaries and other allowance, and retirement benefit scheme contributions for both Directors and other staff) for the Year 2018 were approximately HK$29.3 million (Year 2017: approximately HK$26.9 million). The Group believes that employees are important assets and their contribution and support are valued at all times. The remuneration policy and package of the Group's employees were periodically reviewed in order to attract and retain high caliber and competent staff. Apart from retirement benefit scheme contributions, salaries increment and discretionary bonuses are also awarded to employees according to industry benchmark, the assessment of individual performance as well as with reference to the performance of the Group. The remuneration policy in place as at 31 December 2018 was in line with the current legislation in the relevant jurisdictions, market conditions and performance of the staff and the Group.

SHARE OPTION SCHEME

On 23 April 2018, the Company conditionally adopted the share option scheme (the "**Share Option Scheme**") as incentive or reward for contributions that the eligible participants have made or may make to the Group. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Statutory and General Information – D. Share Option Scheme" in Appendix V to the Prospectus.

There were no share options outstanding under the Share Option Scheme nor were any share options granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption date and up to the date of this announcement.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Company by the Directors.

Having made specific enquiry of all Directors, they confirmed that they had complied with the required standard set out in the Model Code regarding securities transactions by Directors throughout the period from the date of Listing up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board recognises that transparency and accountability are important to the Company as a listed company. Since its Listing, 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 shareholders of the Company as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. Upon the date of Listing and up to 31 December 2018, the Board is of the opinion that the Company has complied with all the code provisions of the CG Code.

The Board will continue reviewing the Company's 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 on the Company.

REVIEW BY AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process, risk management and internal control system of the Group, oversee the audit process and select external auditors and assess their independence and qualifications. The Audit Committee consists of two independent non-executive Directors namely Ms. Ng Ching Ying (the chairlady) and Mr. Cheng Sum Hing, and one non-executive Director namely Mrs. Kan Wan Wai Yee Mavis.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management, internal control and financial reporting matters, including review of the Group's consolidated financial statements for the Year 2018 and this results announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.rem-group.com.hk). The annual report will also be available at the above websites and will be despatched to the shareholders of the Company in due course.

By Order of the Board
REM Group (Holdings) Limited
Wan Man Keung
Chairman and Executive Director

Hong Kong, 28 March 2019

As at the date of this announcement, the executive Directors are Mr. Wan Man Keung and Mr. Leung Ka Wai, the non-executive Director is Mrs. Kan Wan Wai Yee Mavis, and the independent non-executive Directors are Mr. Ng Chi Keung Alex, Mr. Cheng Sum Hing and Ms. Ng Ching Ying.