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 2019

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 2019 (the "**Year 2019**"), together with comparative figures for the year ended 31 December 2018 (the "**Year 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	4	**211,741**	186,284
Cost of sales		**(157,234)**	(134,895)
Gross profit		**54,507**	51,389
Other income, gains and losses	5	**689**	1,884
Selling and distribution expenses		**(10,276)**	(7,438)
Net impairment loss recognised on trade receivables and contract assets		**(776)**	(612)
Administrative and other expenses		**(28,482)**	(29,118)
Finance costs	6	**(108)**	(397)
Profit before taxation	7	**15,554**	15,708
Taxation	8	**(4,093)**	(5,551)
Profit for the year		**11,461**	10,157
Other comprehensive expense for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,447)**	(4,554)
Total comprehensive income for the year		**10,014**	5,603
Earnings per share (HK cents) – basic	10	**0.64**	0.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**26,195**	19,888
Right-of-use assets		**4,590**	–
Prepaid lease payments		**–**	2,829
Rental deposits		**84**	125
Contract assets	11	**18,473**	11,569
		49,342	34,411
Current assets			
Inventories		**30,485**	27,011
Trade and other receivables	12	**72,266**	80,997
Contract assets	11	**20,413**	10,776
Prepaid lease payments		**–**	77
Financial assets at fair value through profit or loss		**523**	449
Amount due from a director		**–**	18
Short-term bank deposits with original maturity more than three months		**–**	8,580
Bank balances and cash		**77,709**	90,541
		201,396	218,449
Current liabilities			
Trade and other payables	13	**34,084**	49,867
Contract liabilities		**1,516**	1,397
Lease liabilities		**1,337**	–
Amount due to a director		**56**	3
Tax payable		**5,228**	3,516
Bank loan		**–**	271
		42,221	55,054
Net current assets		**159,175**	163,395
Total assets less current liabilities		**208,517**	197,806

	2019	2018
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**504**	–
Provision for long service payments	**790**	736
Deferred tax liabilities	**587**	448
	1,881	1,184
NET ASSETS	**206,636**	196,622
Capital and reserves		
Share capital	**18,000**	18,000
Share premium and reserves	**188,636**	178,622
TOTAL EQUITY	**206,636**	196,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standards ("**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

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 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The average incremental borrowing rates applied by the relevant group entities ranged from 4.36% to 5.00%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	1,128
Less: Transitional practical expedients – lease with lease terms within 12 months of the date of initial application	(198)
	930
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	872
Analysed as	
Current	560
Non-current	312
	872

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	872
Reclassification from prepaid lease payments *(Note)*	2,906
	3,778
By class:	
Leasehold lands	2,906
Leasehold land and buildings	872
	3,778

Note: Upfront payments for leasehold lands in the People's Republic of China ("**PRC**") were reclassified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$77,000 and HK$2,829,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current Assets			
Right-of-use assets	–	3,778	3,778
Prepaid lease payments	2,829	(2,829)	–
Current Assets			
Prepaid lease payments	77	(77)	–
Current Liabilities			
Lease liabilities	–	560	560
Non-current liabilities			
Lease liabilities	–	312	312

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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 the 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.

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 CODM 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:

	2019	2018
	HK$'000	*HK$'000*
Low-voltage switchboard	**92,111**	113,081
Local motor control panel	**84,901**	45,679
Motor control centre	**21,605**	19,058
Electrical distribution board and control box	**4,997**	6,171
Electrical parts and replacements	**8,127**	2,295
	211,741	186,284

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:

	2019	2018
	HK$'000	*HK$'000*
Revenue		
– Hong Kong	**118,907**	147,612
– PRC	**81,231**	19,453
– Macau	**11,603**	19,219
	211,741	186,284

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

	2019 HK$'000	2018 HK$'000
Customer A	**83,441**	29,773
Customer B	**21,792**	27,575
Customer C	**N/A***	20,020

* 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 is presented below based on their physical geographical location:

	2019 HK$'000	2018 HK$'000
Hong Kong	**6,700**	3,756
PRC	**24,085**	18,961
	30,785	22,717

5. OTHER INCOME, GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Net exchange (loss) gain	**(205)**	1,580
Interest income	**620**	369
Increase (decrease) in fair value of financial assets at fair value through profit or loss	**83**	(93)
Others	**191**	28
	689	1,884

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses on bank loan	**2**	397
Interest expenses on lease liabilities	**106**	–
	108	397

7. PROFIT BEFORE TAXATION

	2019 HK$'000	2018 HK$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment		
– cost of sales	**800**	747
– administrative and other expenses	**1,808**	1,227
Total depreciation of property, plant and equipment	**2,608**	1,974
Depreciation of right-of-use assets	**1,169**	–
Directors' emoluments		
– fees	**504**	323
– salaries and other allowance	**1,104**	836
– retirement benefit scheme contributions	**36**	32
	1,644	1,191
– Other staff's salaries and other allowance	**28,696**	25,377
– Other staff's retirement benefits scheme contributions	**3,311**	2,683
Total staff costs	**33,651**	29,251
Auditor's remuneration	**1,300**	1,450
Release of prepaid lease payments	**–**	81
Cost of inventories recognised as expenses	**145,640**	127,034
Listing expenses (included in administrative and other expenses)	**–**	5,775
Expenses relating to short-term leases	**236**	N/A
Operating lease rentals in respect of rent premises	**N/A**	643

8. TAXATION

	2019 HK$'000	2018 HK$'000
The taxation charge comprises:		
Current tax		
– Hong Kong Profits Tax	**408**	2,385
– PRC Enterprise Income Tax	**3,546**	3,160
Deferred tax	**139**	6
	4,093	5,551

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (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. The two-tier profits tax rate applies to years of assessment commencing on or after 1 April 2018.

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% (2018: 16.5%).

For both years, 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% for both years.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2019, nor has any dividend been proposed since the end of the year (2018: nil).

10. EARNINGS PER SHARE

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

	2019 ***HK$'000***	2018 *HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**11,461**	10,157

	2019 ***'000***	2018 *'000*
Weighted average number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,800,000**	1,671,781

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 receivables amounting to HK$38,886,000 (31 December 2018: HK$22,345,000) net of allowance for expected credit losses HK$561,000 (31 December 2018: HK$62,000). 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 retention receivables are transferred to trade receivables based on the expiry of the defect liability period.

The following is an analysis of contract assets at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**20,413**	10,776
After one year	**18,473**	11,569
	38,886	22,345

As at 1 January 2018, contract assets amounted to HK$20,288,000.

The significant increase in current year is the result of the increase in revenue from PRC which normally have higher retention receivable amount.

12. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**61,309**	73,908
Less: Allowance for credit losses	**(822)**	(550)
	60,487	73,358
Bills receivables *(Note)*	**5,460**	–
Other receivables, prepayment and deposits	**6,319**	7,639
	72,266	80,997

Note: All bills received by the Group are within a maturity period of less than one year.

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$39,774,000.

Trade 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 90 days (2018: 30 to 75 days) to its trade customers. A longer credit period may be granted to large or long established customer with good payment history. The following is an analysis of trade receivables by age, presented based on the invoice date.

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**35,181**	44,430
31–60 days	**11,093**	16,531
61–90 days	**3,678**	6,811
91–180 days	**3,751**	2,494
181–365 days	**2,289**	2,702
Over 1 year	**4,495**	390
	60,487	73,358

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 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$20,581,000 (2018: HK$17,673,000) which are past due as at the reporting date. Out of the past due balances, HK$6,887,000 (2018: 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.

13. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**25,744**	38,686
Bill payables	**1,877**	5,755
	27,621	44,441
Accruals and other payables	**6,463**	5,426
	34,084	49,867

The credit period granted by suppliers to the Group ranged from 30 to 75 days (2018: 30 to 75 days). The following is an ageing analysis of trade and bill payables presented based on the invoice dates at the end of each reporting period:

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**5,550**	15,305
31–60 days	**7,965**	19,862
61–90 days	**5,905**	4,758
Over 90 days	**8,201**	4,516
	27,621	44,441

The other payables mainly consist of accrual of staff salaries and benefits.

14. EVENT AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("**COVID-19**") in the PRC and the subsequent quarantine measures and travel restrictions imposed in early 2020 by the PRC government had impact on the full resumption of the Group's operation at that initial phase. The Group had since, for all its operation locations, implemented hygiene and work resumption policies and procedure in accordance to the government regulation and guidelines. As of the date of this announcement, the Group has already resumed a normal operation according to the production plan and not aware of an material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

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.

Due to various factors including the continuing trade dispute between the PRC and the United States as well as social unrest in Hong Kong during the latter half of the year, Hong Kong experienced an economic downturn for the Year 2019. However, the effect on the Group's business is not immediately apparent as the Group's projects can take between a few months to a few years to complete and a majority of the Group's revenue for the Year 2019 were contributed by projects already awarded to the Group before the start of the year. In fact, the Group achieved a rise in revenue for the Year 2019 as a result of a significant growth in sales from the PRC region as the Group had successfully secured several major projects in the PRC since its Listing. This in turn, resulted in a drop in revenue from Hong Kong and Macau due to the saturated production capacity of the Group's factories which resulted in the apportioning of the Group's resources towards the completion of the PRC's jobs where priority is given in view of the tighter deadlines of such projects. Nevertheless, total revenue rose by approximately 13.7% for the Year 2019. Revenue attributed to sales in Hong Kong, Macau and the PRC amounted to approximately HK$118.9 million, approximately HK$11.6 million and approximately HK$81.2 million, respectively for the Year 2019 (Year 2018: approximately HK$147.6 million, approximately HK$19.2 million and approximately HK$19.5 million, respectively). Despite the rise in revenue, the Group recorded profit after tax of approximately HK$11.5 million for the Year 2019, representing a decrease of approximately 28.1% over the previous financial year, after excluding the one-off Listing expenses incurred in the Year 2018. Such decrease in net profit after tax was mainly attributable to a lower gross profit margin, a rise in selling and distribution expenses, as well as expenses incurred for setting up and operating a new production line under a new factory in Dongguan, including rental expenses, costs for hiring additional staff, depreciation expense for new machineries and equipments acquired and other operating expenses.

MARKET PROSPECT

Hong Kong's economy experienced negative growth during the Year 2019 and the property market was adversely affected, which also impacted adversely on the construction industry. Stepping into the year 2020, the spreading of the COVID-19 disease together with the challenges posed by the political unrest in Hong Kong is expected to further contribute towards a downward trend on the property and construction market, and consequently impact unfavorably upon the market for low-voltage electrical power distribution and control devices. The PRC market will also be deeply affected and the Group estimate that revenue from the PRC segment will be much lower in the coming years than that of the current year as GDP growth forecast for the PRC is further downgraded amid the COVID-19 outbreak, hence the Group is not optimistic in securing new major PRC projects in the year 2020. In fact, the Group's operations had already been directly affected by the COVID-19 disease as all of its factories are located in the PRC, which resulted in an extended break for all PRC staff as the Group's factories were closed for over a month since the Chinese new year's holidays. Around a quarter of the PRC staff resumed work towards the end of February, with production recommencing only in early March when the majority of the workers were finally able to return to work. Hence minimal sales were generated during the first two months of the year 2020, with sales gradually building up and projected to return to a normal range in around April.

Moreover, due to the ongoing social unrest in Hong Kong, government projects are expected to be deferred as the finance committee of the legislative council are not functioning as effectively to approve budgets for projects relating to the development of government infrastructures. However, it is predicted that Hong Kong sales will not be significantly affected by the drop in the number of government jobs in the year 2020 as the Group has sufficient outstanding contract backlogs from non-government jobs to keep the production line operating near full capacity.

The aftermath of the COVID-19 epidemic might also suggest a higher level of impairment on the Group's trade receivables and contract assets in the foreseeable future as the world economy suffers, with the most immediate and significant economic impact being reflected in the PRC, which could result in delayed payments, default in payment or even the cessation and closure of business for a number of the Group's customers within the industry.

Management shall seek to counteract the negative impacts of all the above factors on the Group's results as best as they can via tighter cost control, closely monitoring the payment status of trade receivables and stricter implementation of the credit policy where necessary, as well as putting in extra efforts to secure new projects via more competitive pricing strategies so as to achieve a more sustainable and stable revenue stream in the near future.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 13.7%, from approximately HK$186.3 million for the Year 2018 to approximately HK$211.7 million for the Year 2019. Such increase was mainly attributable to a substantial rise in sales to customers based in the PRC, where the projects in relation to the urban complex constructions in Kunming and Wuhan contributed approximately HK$16.3 million and approximately HK$61.6 million, respectively, towards the Group's total revenue for the Year 2019.

Cost of sales

The Group's cost of sales amounted to approximately HK$157.2 million for the Year 2019, representing an increase of approximately 16.6% from approximately HK$134.9 million for the Year 2018. Cost of sales mainly comprised of costs of raw materials and staff costs, which accounted for approximately 79.2% and 11.1% respectively of the Group's total cost of sales for the Year 2019 (Year 2018: approximately 81.9% and 12.3% respectively).

Gross profit/Gross profit margin

The Group's gross profit increased by approximately 6.1% from approximately HK$51.4 million for the Year 2018 to approximately HK$54.5 million for the Year 2019, as a result of the rise in sales for the year. The overall gross profit margin of the Group, on the other hand, decreased by approximately 1.9% from approximately 27.6% for the Year 2018 to approximately 25.7% for the Year 2019. The decrease of gross profit margin was mainly due to (i) a decrease in the revenue from Macau sales by approximately 39.6% coupled with a rise of revenue from sales in the PRC by approximately 317.6% (Macau projects were able to generate higher gross profit margins in the past while PRC jobs had lower gross profit margins than for Hong Kong jobs), and (ii) an increase in subcontracting fee of approximately HK$5.8 million from approximately HK$2.1 million to approximately HK$7.9 million as a result of the saturated production capacity of the old factories which led to the subcontracting of more manufacturing and installation works to third parties during the Year 2019.

The Group has set up a new factory in Dongguan during the Year 2019 in order to increase the production capacity with an aim of managing the growth of sales from the PRC market while maintaining the stream of revenue from the Hong Kong and Macau market. The new factory has acquired the necessary machineries and equipment to set up a new production line and completed test running by the newly hired production staff and has been able to commence production operations during the last quarter of the Year 2019, which is expected to reduce the subcontracting costs considerably and thereby will have a positive impact on the gross profit margin of the Group in the future.

Other income, gains and losses

The Group's other income, gains and losses decreased by approximately HK$1.2 million, or approximately 63.4%, from approximately HK$1.9 million for the Year 2018 to approximately HK$0.7 million for the Year 2019. Such decrease was mainly attributable to a net exchange loss of approximately HK$0.2 million being recorded as oppose to a net exchange gain of approximately HK$1.6 million being recorded for the Year 2018. On the other hand, bank interest income rose by approximately 68.0% to approximately HK$0.6 million as more funds were placed under short term bank deposits during the Year 2019.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately HK$2.8 million, or approximately 38.2%, from approximately HK$7.4 million for the Year 2018 to approximately HK$10.3 million for the Year 2019 which was mainly attributable to a rise in transportation expenses of approximately HK$2.7 million as a result of an increase in sales during the Year 2019.

Administrative and other expenses

The Group's administrative and other expenses decreased by approximately HK$0.6 million, or approximately 2.2%, from approximately HK$29.1 million for the Year 2018 to approximately HK$28.5 million for the Year 2019. The decrease was mainly due to the combined effects of (i) the drop in Listing expenses by approximately HK$5.8 million which had been fully recognised for the Year 2018 upon the Listing, (ii) the additional expenses for running a new factory including hiring of new staff and other operating expenses amounting to approximately HK$1.5 million; and (iii) the increase in professional fee of approximately HK$1.6 million primarily due to a few more months of professional fees required in the Year 2019 resulting from the additional legal and compliance requirements for the Group since the Listing.

Impairment loss recognised on trade receivables and contract assets

The impairment loss recognised on trade receivables and contract assets for the Year 2019 is mainly attributable to additional impairment on trade receivables and contract assets from debtors in Hong Kong amounting to a total of approximately HK$0.6 million.

Finance costs

The Group's finance costs decreased by approximately 72.8% from approximately HK$0.4 million for the Year 2018 to approximately HK$0.1 million for the Year 2019. The decrease in finance costs was mainly attributable to full repayment of the Group's bank loans at the beginning of the Year 2019, which resulted in a significant decline in bank interest expense.

Taxation

The Group's income tax expense decreased by approximately 26.3% from approximately HK$5.6 million for the Year 2018 to approximately HK$4.1 million for the Year 2019, mainly as a result of a decline in taxable profit for the Year 2019. Despite a relatively stable profit before tax being recorded between the two years, the Group's expenses for the Year 2018 comprised of more non-deductible expenses, of which a substantial portion related to Listing expenses of approximately HK$5.8 million being incurred during the Year 2018 but where none is recorded for the Year 2019.

Profit for the year attributable to the owners of the Company

As a result of the above effects, profit for the year attributable to the owners of the Company rose by approximately HK$1.3 million or approximately 12.8% from approximately HK$10.2 million for the Year 2018 to approximately HK$11.5 million for the Year 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded its liquidity and capital requirements primarily through cash inflows from operating activities and proceeds received from the Listing. There had been no change in the capital structure of the Group for the Year 2019.

As at 31 December 2019, the Group had cash and cash equivalents of approximately HK$77.7 million (31 December 2018: approximately HK$90.5 million) and had no short-term bank deposits with original maturity more than three months (31 December 2018: approximately HK$8.6 million). The decrease was primarily due to acquisition of property, plant and equipment of approximately HK$9.2 million as well as more settlement made to suppliers during the Year 2019 which resulted in a decline in trade and bill payables of approximately HK$16.8 million as at 31 December 2019.

As at 31 December 2019, the working capital (current assets less current liabilities) and total equity attributable to owners of the Group were approximately HK$159.2 million (31 December 2018: approximately HK$163.4 million) and approximately HK$206.6 million (31 December 2018: approximately HK$196.6 million) respectively.

The Group did not have any interest-bearing borrowings and thus the computation of the gearing ratio was not applicable as at 31 December 2019. The gearing ratio as at 31 December 2018 was approximately 0.1%. Such decrease was due to full repayment of bank borrowings during the Year 2019.

TRADE AND BILL RECEIVABLES

The Group's average receivable turnover days for the Year 2019 increased to approximately 120.1 days as compared to that of approximately 103.6 days for the Year 2018. The main reason for the increase is because the Group has a higher average beginning and ending balance of trade and bill receivables for the Year 2019 as compared with that of the Year 2018. This is due to a larger quantity of products being delivered in the last quarter of the past two years, especially for December, which led to significant sales being recorded during the last month and last quarter of the Year 2019 and 2018. As the Group generally grant its customers credit terms of 30 to 90 days, this resulted in a larger beginning and ending trade receivables balance for the Year 2019. Despite a rise in the receivable turnover days, the settlement of outstanding trade receivables during the Year 2019 was satisfactory and although an impairment loss of approximately HK$0.8 million was recognised, aside from individually assessed credit impaired debtors with gross carrying amounts of approximately HK$138,000, the Group did not consider there to be default on any of its other trade receivables balance as at 31 December 2019.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITION OR DISPOSALS

Save as disclosed in this announcement, there were no significant investments held, nor any material acquisitions or disposals during the Year 2019.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2019 (31 December 2018: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year 2019 (Year 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 14 to the consolidated financial statements, there have been no other material events occurring after 31 December 2019 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 2019 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 255 full-time employees as at 31 December 2019 (31 December 2018: 225), among which 45 and 210 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 2019 were approximately HK$33.7 million (Year 2018: approximately HK$29.3 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 2019 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 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 of the Company dated 27 April 2018.

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, REDEMPTION OR SALE 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 2019.

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 during the Year 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board recognises that transparency and accountability are important to the Company as a listed company. 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. The Board is of the opinion that the Company has complied with all the code provisions of the CG Code for the Year 2019.

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 2019 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, 30 March 2020

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.