

TONG KEE (HOLDING) LIMITED

棠記(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8305

2018

ANNUAL REPORT



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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

*This report, 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 report 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 report misleading.*

*This report 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.*

CONTENTS

Corporate Information	02
Chairman's Statement	03
Management Discussion and Analysis	04
Corporate Governance Report	08
Biographical Details of Directors and Senior Management	21
Report of Directors	28
Independent Auditor's Report	37
Consolidated Statement of Profit or Loss and Other Comprehensive Income	42
Consolidated Statement of Financial Position	43
Consolidated Statement of Changes in Equity	45
Consolidated Statement of Cash Flows	46
Notes to the Consolidated Financial Statements	48
Financial Summary	104

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Heung Chung Sum (*Chairman*)

Mr. Chan Wai Hon, Alan

Non-executive Directors

Ms. Heung Joe Yee

Ms. Heung Joe Tung

Independent non-executive Directors

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

COMPANY SECRETARY

Mr. Chan Wai Hon, Alan

COMPLIANCE OFFICER

Mr. Heung Chung Sum

COMPLIANCE ADVISER

Red Sun Capital Limited

AUTHORISED REPRESENTATIVES

Mr. Heung Chung Sum

Mr. Chan Wai Hon, Alan

AUDIT COMMITTEE

Mr. Chan Chi Hang (*Chairman*)

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

REMUNERATION COMMITTEE

Dr. Ip Wai Hung (*Chairman*)

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

NOMINATION COMMITTEE

Dr. Ip Wai Hung (*Chairman*)

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

AUDITOR

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai, Hong Kong

REGISTERED OFFICE

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Nos. 7 & 8, 8/F

Shatin Galleria

18-24 Shan Mei Street

Fotan

New Territories

Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

COMPANY'S WEBSITE

www.tongkee.com.hk

STOCK CODE

8305

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of Tong Kee (Holding) Limited (the "**Company**"), it is my pleasure to present the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 to the shareholders of the Company.

RESULTS

The total revenue of the Group increased by approximately HK\$73.2 million or 41.0% from approximately HK\$178.6 million for the year ended 31 December 2017 to approximately HK\$251.8 million for the year ended 31 December 2018. In general, the increase in revenue was resulted by the greater demand for the Group's repair and maintenance works, alteration and addition works ("RMAA") and cathodic protection works projects and favorable market condition.

BUSINESS REVIEW AND PROSPECT

During the year ended 31 December 2018, the overall market condition of the construction industry in Hong Kong were relatively stable and expected to keep steady growth in the coming years. Looking ahead to the coming years, although certain challenging factors such as (i) the intense competition in the market; (ii) continuously rising the construction labour and material costs; and (iii) the increase in the staff costs and the shortage of the professional may exert pressure on the Group's business, the Group remains cautiously optimistic about the overall business prospects.

To optimise our competitive advantages, we will continue to provide integrated service of both RMAA, new construction works and cathodic protection works projects to our customers. We believe that our proven track record and the experience from various types of projects will provide a wide range of quality and professional services to our customers, potential customers and enable us to react to the changing needs of our customers more efficiently and effectively.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my gratitude to our shareholders, clients, business partners, and suppliers who trust and remain faithful to the Group. I would also like to express our sincere thanks to the management and staffs for their commitment and contribution throughout the years.

Heung Chung Sum

Chairman

Hong Kong, 25 March 2019

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 2018, there were 139 projects (2017: 149 projects) with revenue contribution undertaken by the Group. The demands for the Group's RMAA and cathodic protection works services remained at a high level and thus, the revenue of the Group recorded a significant growth in current year. During the year ended 31 December 2018 and up to the date of this annual report, the Group was awarded 67 new projects, with total original contract sum of approximately HK\$138.5 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 and material costs. 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. 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 increased from approximately HK\$178.6 million for the year ended 31 December 2017 to approximately HK\$251.8 million for the year ended 31 December 2018, representing a growth of approximately 41.0%. Such increase was mainly due to the increase 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 increased from approximately HK\$149.0 million for the year ended 31 December 2017 to approximately HK\$203.5 million for the year ended 31 December 2018, representing an increase of approximately 36.6%. Such increase was mainly attributable to the increase in the subcontracting charges and staff costs incurred in line with the revenue increase during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit of the Group increased by approximately HK\$18.7 million from approximately HK\$29.6 million for the year ended 31 December 2017 to approximately HK\$48.3 million for the year ended 31 December 2018. The overall gross profit margin increased from approximately 16.6% for the year ended 31 December 2017 to approximately 19.2% for the year ended 31 December 2018 as the projects undertaken by the Group during the year ended 31 December 2018 are generally in higher gross profit margin, and the Group have exercised better cost management, resulting in the extent of increase in subcontracting charges and construction material costs is lower than that of the increase in revenue for the year ended 31 December 2018.

Listing Expenses

During the year ended 31 December 2018, the Group recognised non-recurring Listing expenses of approximately HK\$7.4 million (2017: HK\$8.7 million), as expenses in connection with its Listing exercise.

Administrative Expenses

Administrative expenses of the Group increased by approximately HK\$5.6 million or 39.7% from approximately HK\$14.1 million for the year ended 31 December 2017 to approximately HK\$19.7 million for the year ended 31 December 2018.

Administrative expenses primarily consist of staff costs, 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 increased by approximately HK\$0.3 million or 27.3% from approximately HK\$1.1 million for the year ended 31 December 2017 to approximately HK\$1.4 million for the year ended 31 December 2018. It was mainly due to the increase in usage of loan settlement for trade payables and bank borrowings during the year ended 31 December 2018.

Income Tax Expense

Income tax expense for the Group increased by approximately HK\$2.6 million or 108.3% from approximately HK\$2.4 million for the year ended 31 December 2017 to approximately HK\$5.0 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in profit before tax (excluding the Listing expenses) from approximately HK\$14.6 million for the year ended 31 December 2017 to approximately HK\$25.3 million for the year ended 31 December 2018.

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 increased by approximately HK\$9.3 million or 258.3% from approximately HK\$3.6 million for the year ended 31 December 2017 to approximately HK\$12.9 million for the year ended 31 December 2018.

Such increase was primarily attributable to the net effect of (i) the increase in gross profit for the year ended 31 December 2018; (ii) the increase in the administrative expenses incurred by the Group for the year ended 31 December 2018; and (iii) less Listing expenses incurred by the Group for its Listing exercise during the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio improved steadily from approximately 1.4 times as at 31 December 2017 to 2.0 times as at 31 December 2018.

As at 31 December 2018, the Group had bank borrowings of approximately HK\$9.5 million (2017: HK\$15.0 million). The gearing ratio, calculated based on the total borrowings divided by total equity at the end of the year and multiplied by 100%, decreased from approximately 48.9% as at 31 December 2017 to approximately 11.5% as at 31 December 2018 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 2018, 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 were primarily related to the leases of its office premises and carpark spaces. The Group's operating lease commitments amounted to approximately HK\$1,352,000 as at 31 December 2018 (2017: approximately HK\$1,183,000).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 5 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 2018, 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 2018, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

Save as disclosed on note 26 of the notes to the consolidated financial statements, as at 31 December 2017 and 2018, the Group did not have other material 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE OF GROUP'S ASSETS

As at 31 December 2018, the Group pledged certain amount of land and building 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 21 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 119 employees (2017: 110 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$40.1 million for the year ended 31 December 2018 (2017: approximately HK\$33.0 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 2018 was approximately HK\$20.6 million.

An analysis of the planned amount utilised up to 31 December 2018 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 2018 HK\$'million
Reserved capital to satisfy the Group's potential customers' requirement for surety/ performance bond	2.0	–
Further Strengthen the Group's manpower	7.4	1.0
Acquisition of additional machinery and equipment	7.5	0.2
Upgrading the Hong Kong office and workshop	5.7	0.8
General working capital	2.6	2.6

CORPORATE GOVERNANCE REPORT

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 2018.

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 2018.

BOARD OF DIRECTORS

As at 31 December 2018, the Board comprised seven Directors, including two executive Directors, namely Mr. Heung Chung Sum and Mr. Chan Wai Hon, Alan, two non-executive Directors are Ms. Heung Joe Yee and Ms. Heung Joe Tung, and three independent non-executive Directors are Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang.

Mr. Heung Chung Sum is the chairman (the "**Chairman**") of the Board.

RESPONSIBILITIES OF THE BOARD

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has the full support from the executive Directors and the senior management of the Company to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety Compliance Committee.

The biographical details of the Directors and other senior management are set out in the section headed with **"Biographical Details of Directors and Senior Management"** of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles 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.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the **"Board Diversity Policy"**) for the year ended 31 December 2018 and up to the date of this corporate governance report. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

BOARD MEETING, GENERAL MEETING AND PROCEDURES

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year among other matters, review past financial and operating performance and discuss the Group's direction and strategy. During the year ended 31 December 2018, four Board meetings were held. The attendance record of each Director at the Board meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Board meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	4/4
Mr. Chan Wai Hon, Alan	4/4
Non-executive Directors	
Ms. Heung Joe Yee	4/4
Ms. Heung Joe Tung	4/4
Independent non-executive Directors	
Dr. Ip Wai Hung	4/4
Mr. Ko, Wilson Wai Shun	4/4
Mr. Chan Chi Hang	4/4

The attendance record of each Director at the annual general meeting is set out in the table below:

Name of Directors	Number of attendance/ number of general meeting
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "**Articles**") provide that subject to the manner of retirement by rotation of Directors as from time to time prescribed by the GEM Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independency pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers these independent non-executive Directors to be independent.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills.

CORPORATE GOVERNANCE REPORT

According to the training record maintained by the Company, during the year ended 31 December 2018, all Directors had participated in continuous professional development in the following manner:

Name of Directors	Type of trainings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	i and ii
Mr. Chan Wai Hon, Alan	i and ii
Non-executive Directors	
Ms. Heung Joe Yee	i and ii
Ms. Heung Joe Tung	i and ii
Independent non-executive Directors	
Dr. Ip Wai Hung	i and ii
Mr. Ko, Wilson Wai Shun	i and ii
Mr. Chan Chi Hang	i and ii

i. reading journals and newspaper updates on corporate governance and directors' duties and responsibility.

ii. attending training/seminars/conferences arranged by the professional firms/organisations.

BOARD COMMITTEES

The Board has established three board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**").

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.

CORPORATE GOVERNANCE REPORT

The Audit Committee is mainly responsible for the followings:

- (a) make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure coordination where more than one audit firm is involved;
- (c) monitor the integrity of the Company's annual report, interim financial reports and quarterly reports before submission to the Board, and focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the GEM Listing Rules and other legal requirements in relation to financial reporting.
- (d) Oversight of the Company's financial reporting system, risk management and internal control systems
 - (i) reviewing the Company's financial controls, accounting policies and the risk management and internal control systems;
 - (ii) discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (iii) where an internal audit function exists, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
 - (iv) reviewing the external auditor's management letter and management's response;
 - (v) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, one Audit Committee meetings were held. The attendance record of each Director at the Audit Committee meetings is set out in the table below:

Name of Directors	Number of attendance/ number of Audit Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established comprising three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang, with Dr. Ip Wai Hung as the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The main roles and functions of the Remuneration Committee include the followings:

- (a) establish a formal and transparent procedure for developing remuneration policy;
- (b) recommend to the Board the policy and structure for the remuneration of directors and senior management whilst ensuring no director or any of his associates is involved in deciding his own remuneration;
- (c) determine the remuneration of directors and senior management, including benefits in kind, pension right, compensation payment (including compensation for loss of office or appointment etc). The chairman and/or the chief executive shall be consulted respectively about their proposals relating to the remuneration of the chief executive and/or senior management, as the case may be;
- (d) review and approve the compensation arrangements in connection with any loss or termination of their office or appointment, or dismissal or removal for misconduct to executive directors and senior management which shall be consistent with contractual terms and fair and not excessive;

CORPORATE GOVERNANCE REPORT

- (e) determine the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and
- (f) consider the annual performance bonus for executive directors, senior management, and the general staff, having regard to the achievements against the performance criteria by reference to corporate goals and objectives resolved by the Board, and make recommendation of the Board.

During the year ended 31 December 2018, one Remuneration Committee meetings were held. The attendance record of each Director at the Remuneration Committee meetings is set out in the table below:

Name of Directors	Number of attendance/ number of Remuneration Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

The emolument payable to Directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 10 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee was established comprising three independent non-executive Directors, namely Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang, with Dr. Ip Wai Hung as the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange.

The main roles and functions of the Nomination Committee include the followings:

- (a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually to complement the Company's corporate strategy;
- (b) identify and nominate qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise;
- (c) make recommendations to the Board on matters relating to the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- (d) assess the independence of independent non-executive Directors; and
- (e) implement and review the Board Diversity Policy to ensure its effectiveness; and make disclosure of its review results in the corporate governance report of the Company's annual report.

During the year ended 31 December 2018, one Nomination Committee meeting were held. The attendance record of each Director at the Nomination Committee meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Nomination Committee meetings
Executive Directors	
Mr. Heung Chung Sum (<i>Chairman</i>)	1/1
Mr. Chan Wai Hon, Alan	1/1
Non-executive Directors	
Ms. Heung Joe Yee	1/1
Ms. Heung Joe Tung	1/1
Independent non-executive Directors	
Dr. Ip Wai Hung	1/1
Mr. Ko, Wilson Wai Shun	1/1
Mr. Chan Chi Hang	1/1

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2018, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, Grant Thornton Hong Kong Limited, about their reporting responsibility on the financial statements of the Group are set out in the independent auditor's report on pages 37 to 41 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholders' investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management system. The Board keeps monitoring the risk management system on an ongoing basis, ensuring a review of the effectiveness of the Group's risk management system is conducted regularly. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Group recognises that good risk management is essential for the long-term development on the Group's business. Management is responsible for establish, implement, review and evaluate the sound and effective internal control system underpinning the risk management framework. While taking into full account of the new requirements effective from the Listing Date under the GEM Listing Rules brought by Hong Kong Exchanges and Clearing Limited relating to risk management and internal control, the management has formulated the risk management and control framework. All employees are committed to implement the risk management framework into the daily operation.

OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The objectives of the risk management and internal control framework of the Group are to identify and manage the risk of the Group's with the acceptable safety levels and achieve the Group's strategic objectives. The Group has adopted a three line risk management approach to identify, analysis, evaluation, mitigate and handle risks. At the first line of defence, staff in office/on site who must understand their roles and responsibilities are responsible for identifying, assessing and monitoring risks associated with transactions. The second line of defence is the Group's management that provides independent oversight of the risk management activities of the first line of defence. It ensures that risks are within the Group's risk capacity and that the control of the first line of defence is effective. As the final line of defence, the audit committee of the Company, with the advices and opinions from the external professional party (such as the external auditor) was conducted the review in annual basis and ensures that the first and second lines of defence are performed effective.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2018, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	2018 HK\$'000	2017 HK\$'000
Fees paid/payable for the services rendered		
Statutory audit services	920	65
Non-audit services	35	35

COMPANY SECRETARY

Mr. Chan Wai Hon, Alan was appointed as the company secretary of the Company on 21 October 2017. Mr. Chan has taken no less than 15 hours of relevant professional training for the year ended 31 December 2018. The biographical details of Mr. Chan are set out under the section headed "**Biographical Details of Directors and Senior Management**" of this annual report.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the website of The Stock Exchange and the Company's website after the relevant shareholders' meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

The following procedures for shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

- (a) any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "**Eligible Shareholder(s)**") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition;
- (b) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Nos 7 & 8, 8/F, Shatin Galleria, 18–24 Shan Mei Street, Fotan, New Territories, Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Board and/or the Company Secretary;

CORPORATE GOVERNANCE REPORT

- (c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) of convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders;
- (d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM;
- (e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "**Corporate Information**" of this annual report).

Should there are any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Nos 7 & 8, 8/F, Shatin Galleria, 18-24 Shan Mei Street, Fotan, New Territories, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

CORPORATE GOVERNANCE REPORT

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.tongkee.com.hk and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

During the year ended 31 December 2018, there had been no significant change in the Company's constitutional documents.

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 2018, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Heung Chung Sum (向從心先生), aged 62, is the co-founder, the executive Director, the Chairman and the compliance officer of the Group. He is also one of the Controlling Shareholders. Mr. Heung was appointed as an executive Director on 10 April 2017, the Chairman on 25 October 2017 and the compliance officer on 25 October 2017. Mr. Heung is primarily responsible for the overall business development and financial and strategic planning of the Group and ensuring compliance with the Group's policies and objectives.

Mr. Heung has over 36 years of experience in providing building construction services in Hong Kong and over 21 years of experience in providing cathodic protection services. Prior to founding the Group in 1994, Mr. Heung had accumulated 13 years of experience in the construction industry in Hong Kong, he served as a junior foreman with Gammon-Leighton Joint Venture from 1981 to 1983. From 1983 to 1985, he served with Leighton Contractors Pty. Ltd. as an electrical foreman. From 1985 to 1988, Mr. Heung worked as a freelancer in providing steel structuring and electrical engineering works. He established a sole proprietorship Tong Kee Engineering Co in 1987 and further expanded Tong Kee Engineering Co's operation to fitting-out works and cathodic protection works until the incorporation of TKEL in 1994.

Mr. Heung is a corporate member of the Society of Environmental Engineers and he was awarded with a Fellowship by the Asian College of Knowledge Management in 2011. He is a life member of the Association of Electrical Contractors.

Mr. Chan Wai Hon Alan (陳維漢先生), aged 56, is the executive Director, chief financial officer and the company secretary of the Group. Mr. Chan was appointed as an executive Director on 25 October 2017 and company secretary on 18 September 2017. Mr. Chan is responsible for overall management and administration of the Group's business operations and overseeing the Group's financial planning and management and corporate governance.

Mr. Chan has over 30 years of experience in auditing, accounting, merger and acquisition and taxation with listed and non-listed companies, financial institution and different industry and manufacturing business.

Prior to joining the Group, Mr. Chan has been serving as a practicing accountant in the accounting industry. Mr. Chan served as a junior accountant in the audit department of Kwan Wong Tan & Fong (關黃陳方會計師事務所) (subsequently merged with Deloitte Touche Tohmatsu), an accounting and audit firm, from July 1987 to August 1989. From August 1989 to June 1990, he serviced with Byrne & Co., an accounting and audit company, as an audit senior. Mr. Chan has started his own practice from 1993 to the date of this report.

Mr. Chan has obtained a degree of Bachelor of Arts in Accounting from City Polytechnic of Hong Kong (now City University of Hong Kong) in November 1993. He has been admitted as an associate member of Hong Kong Institute of Certified Public Accountant (HKICPA) since 25 February 1992. Mr. Chan was also admitted as an associate of the Taxation Institute of Hong Kong in September 1993 and as an associate member of Association of Chartered Certified Accountants (ACCA) in 1996. He was first issued with a valid practicing certificate by the HKICPA on 15 July 1993 up to the date of this report. He was advanced to fellowship on 9 May 2000 as FCPA (practising) subject to prevailing legislation by the HKICPA. Alan Chan & Co. was also an authorised employer under the HKICPA since September 2006 up to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Ms. Heung Joe Yee (向祖兒女士), aged 33, was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Yee is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct. She is the daughter of Mr. Heung and sister of Ms Heung Joe Tung.

Prior to joining the Group, she served as an engineer assistant with Gearing Consulting Services from January 2005 to November 2005. From January 2007 to November 2007, she served with Law in Order as a part time paralegal. From November 2008 to January 2011, she served with Coffee and Chocolate as a bistro supervisor. From June 2011 to June 2012, she served with Ocean Park Corporation as a marine mammal trainee. From July 2012 to November 2012, she served with Ocean Park Corporation as an assistant clinical laboratory administrator and she was promoted to an assistant administration supervisor in December 2012. She was further promoted to the position of administration supervisor in April 2016.

Ms. Heung Joe Yee obtained a Bachelor of Commerce degree and a Bachelor of Science degree from the University of Queensland in 2008 and 2009, respectively.

Ms. Heung Joe Tung (向祖彤女士), aged 30, re-joined the Group and was appointed as the Group's non-executive Director on 25 October 2017. Ms. Heung Joe Tung is responsible for providing judgement on the Group's strategy, performance, resources and standard of conduct. She is the daughter of Mr. Heung and sister of Ms. Heung Joe Yee.

Ms. Heung Joe Tung joined the Group in March 2009 as a project coordinator of TKEL up to February 2016. She has five years of experience in law field. From October 2011 to October 2015 and from October 2016 to March 2017, she worked with Loeb & Loeb LLP as a paralegal and was further promoted to the position of registered foreign lawyer in April 2017.

Ms. Heung Joe Tung obtained a Master of Laws in Arbitration and Dispute Resolution from City University of Hong Kong and a Bachelor of Laws degree from the University of London in 2015. She obtained a Bachelor of Commerce degree from the University of Melbourne in 2008. She obtained a graduate diploma of legal practice in Australia from the College of Law in September 2016. Ms. Heung Joe Tung has been a lawyer of the Supreme Court of New South Wales since November 2016, a member of the Chartered Institute of Arbitrators since September 2015 and an associate member of Hong Kong Institute of Arbitrators since September 2015. She was registered as a foreign lawyer in Hong Kong in January 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ip Wai Hung (葉偉雄博士), aged 61, was appointed as an independent non-executive Director on 4 June 2018. Dr. Ip is responsible for providing independent advice to the Board. He has more than 30 years of experience in the education industry and consultancy industry. He received his Doctor of Philosophy degree from Loughborough University of Technology (U.K.), a Master of Business Administration degree from Brunel University (U.K.), a Master of Science in Industrial Engineering specialising in management science from Cranfield Institute of Technology, and Bachelor of Laws (Hons) degree from the University of Wolverhampton (U.K.). Dr. Ip is now the Professor Emeritus and adjunct professor of Mechanical Engineering at the University of Saskatchewan, the principal research fellow in the department of industrial and systems engineering of the Hong Kong Polytechnic University, and the visiting lecturer of Integrated Graduate Development Scheme (IGDS). He was previously an associate professor of the same department from April 1986 to August 2017.

In 2015, Dr. Ip was awarded the “Gold Medal with the Congratulations of Jury” and the “Thailand Award for Best International Invention” in the 43rd International Exhibition of Inventions Geneva. He was also awarded the “Natural Science Award — Second Class” in 2014 of the Ministry of Education Higher Education Outstanding Scientific Research Output Awards by the Ministry of Education of China.

In addition, Dr. Ip has published more than 240 papers with over 130 papers published in SCI indexed journals and over 100 papers in conference proceedings, and has written books and invited book chapters. He is also the chief editor of Enterprise Information Systems (SCI indexed) and chief editor of the International Journal of Engineering Business Management (ESCI Indexed) and editorial member of various international journals. He is a senior member of the Institute of Electrical and Electronics Engineers (IEEE), and a member of the Hong Kong Institution of Engineers (HKIE).

He has been a consultant for various companies. He is a visiting professor of Sun Yat-Sen University, South China Normal University, Civil Aviation University of China and the University of Electronic Science and Technology of China, and Honorary Fellow of the Warwick Manufacturing Group, The University of Warwick (U.K.). He is the vice chairman of the China & Hong Kong Enterprise Market Development Association and the vice chairman of the Africa Chamber of Commerce Hong Kong.

Dr. Ip was an independent non-executive Director of Grand Peace Group Holdings Limited (stock code: 8108) from June 2000 to 17 August 2001 and Interactive Entertainment China Cultural Technology Investment Limited (stock code: 8081) from January 2011 to December 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ko, Wilson Wai Shun (高偉舜先生), aged 48, was appointed as an independent non-executive Director on 4 June 2018.

Mr. Ko graduated from the Technical University of Nova Scotia (now known as Dalhousie Technical University) in May 1993 with a Bachelor of Environmental Design Studies. Mr. Ko further graduated from the University of Leeds, United Kingdom in July 1994 with a Bachelor of Laws. Mr. Ko was admitted as a solicitor of the High Court in Hong Kong in 1997. Mr. Ko is a member of the Law Society of Hong Kong.

From November 2000 to June 2004, Mr. Ko was employed at United UOB Asia (Hong Kong) Limited as a representative where he was mainly responsible for advising listed and private companies on corporate finance matters. From June 2004 to March 2010, Mr. Ko was employed by Boulton Capital Asia Limited as a senior manager and was mainly responsible for advising listed and private companies on corporate finance matters. From April 2010 to July 2010, Mr. Ko was employed by Shenyin Wanguo Capital (H.K.) Ltd as an associate director and was mainly responsible for advising listed and private companies on corporate finance matters. From July 2010 to November 2012, Mr. Ko was employed by OSK Capital Hong Kong Limited as a director and was mainly responsible for marketing, deal origination and liaison with a focus on developing new business in Mainland China. From June 2013 to October 2015, Mr. Ko was employed at Veda Capital Limited as a representative and mainly responsible for advising on corporate finance matters. Mr. Ko worked for Robertsons from July 2013 to February 2018 as a consultant and specialised in representing issuers or their sponsors on their listing on the Main Board and GEM. Mr. Ko joined Wellington Legal as a Partner in March 2018 and is the Head of Corporate Finance & Capital Markets Department and specialises in representing issuers or their sponsors on their listing on the Main Board and GEM.

Mr. Chan Chi Hang (陳志恒先生), aged 41, was appointed as an independent non-executive Director on 4 June 2018. Mr. Chan graduated from the University of Otago in December 1999 with a Bachelor of Commerce. He has been admitted as a member of Hong Kong Institute of Certified Public Accountant (HKICPA) since January 2004 and as a member of Association of Chartered Certified Accountants (ACCA) since December 2004.

From September 2000 to November 2014, Mr. Chan worked at the audit department of Deloitte Touche Tohmatsu and he last served as a senior manager. From November 2014 to July 2015, Mr. Chan worked at Financial Reporting Council as a manager to conduct investigations and compliance.

Mr. Chan has been serving as the chief financial officer of AV Concept Holdings Limited (stock code: 0595) since August 2015, the shares of which are listed on the Stock Exchange.

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information in relation to the Directors that is required to be disclosed pursuant to Rules 17.50(2) of the GEM Listing Rules as at the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chu Siu Cheung Antony (朱兆鏘先生), aged 60, joined TKEL in September 2003 as a general manager. He is responsible for tendering, contracting, procurement, administration and project management of the Group.

Mr. Chu has over 31 years of experience in the construction industry. Prior to joining the Group, he served as a vice president with Ball Construction Service, Inc. in the United States from February 1986 to July 1988. From August 1988 to December 1993, he served with Westfield Inc. as a project manager. From January 1994 to May 1996, he served the Alley Group and Associates, Inc. in the United States as a chief estimator and project manager. From July 1996 to July 2000, he served Advance Specialist Treatment Engineering Limited as a project manager. From July 2000 to August 2003, he served Hong Kong Construction-Amec Joint Venture as a project co-ordinator.

Mr. Chu obtained a Bachelor of Science in Civil Engineering from the University of Santa Clara in June 1981.

Mr. Wong King Ho (王景豪先生), aged 48, joined TKEL as a site supervisor in May 2006 and was the authorized signatory of TKEL from September 2009 to August 2012. He has re-joined TKEL since May 2013 as the authorized signatory. He was appointed as a project manager in June 2013. He has been a deputy general manager of TKEL since January 2017. Mr. Wong is responsible for tendering and project management of the Group.

Mr. Wong has over 25 years of experience in the construction industry. Prior to joining the Group, he served as an assistant ganger for land surveying with Gammon Construction Limited from June 1992 to July 1994. From July 1994 to March 1996, he served tarzan Construction Co. Limited as an assistant quantity surveyor. From March 1996 to April 1999, he served Aoki Cooperation Limited as site foreman. From May 1999 to March 2001, he served Good Development Engineering Company as a director. From March 2001 to August 2004, he served Richfield Construction Engineering Limited as a sub-agent. From August 2004 to December 2005, he served KaiWing Engineering Limited as a project manager. In March 2006, he served Shanghai urban Construction (Group) Corporation as an engineer. From September 2012 to May 2013, he served Gammon Construction Limited as a sub-agent.

Mr. Wong obtained a Bachelor of Science in construction project management from the university of Central Lancashire in February 2013. He has been a member of the Chartered Institute of Building since November 2013.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chui Wai Chiu (徐惠潮先生), aged 56, joined TKEL in September 2009 as a project engineer. He was appointed as an engineering manager in January 2013. He is responsible for tendering, project management and technical support of the Group.

Mr. Chui has over 31 years of experience in the construction industry. He served as an assistant laboratory technician with Hong Kong Testing Co., Ltd from November 1982 to September 1983. From December 1986 to April 1987, he served Materials Consultant (Asia) Ltd as an assistant engineer. From May 1987 to February 1988, he served Mott, Hay & Anderson Consultant Engineers as a works supervisor II. From February 1988 to June 1990, he served Freyssinet Hong Kong Limited as an assistant engineer III. He was later promoted to engineer and quality engineer in July 1990 and June 1993 respectively. He was transferred to B+B Asia Limited in November 1996. He was subsequently transferred to Freyssinet Hong Kong in November 1998 with the same title and grade. He left Freyssinet Hong Kong in August 2009.

Mr. Chui obtained a Master of Science from Sheffield Hallam University in June 2001, a Bachelor of Management from James Cook University in April 1999 and a Higher Diploma in Civil Engineering from Hong Kong Polytechnic in November 1986. He has been a chartered member of Chartered Quality Institute since September 2008 and acted as the chairman of Chartered Quality Institute (Hong Kong Branch) from January 2015 to March 2017. He was awarded as a certified cathodic protection specialist (CP4) by NACE in October 2011. Since July 2013, he has been the authorized signatory (class II & III, type A, B, C, D, E, F & G) of Tong Kee Civil.

Mr. Mok Yam Chung (莫蔭忠先生), aged 51, joined the Group as the project representative of Tong Kee Civil in October 2011 and was transferred to TKEL in December 2013. He was appointed as a site manager in January 2014 and has been the quantity surveying manager of TKEL since 1 January 2017. Mr. Mok is responsible for tendering and project management of construction services projects of the Group.

Mr. Mok has over 33 years of experience in the construction services industry. Prior to joining the Group, he served as a quantity surveyor with Asiaway Engineering Ltd from September 2007 to September 2011. He served as a quantity surveying officer with BIS Water Works Company Limited from January 2007 to August 2007. In January 2007, he served as a project supervisor with APS Construction Systems (Macau) Ltd. From November 2006 to December 2006, he served as a clerk of works with Multiple Surveyors Ltd. From April 2006 to October 2006, he served as a quantity surveyor with Kingsway Expand Limited. From May 2005 to March 2006, he served as a quantity surveyor with Winsway Enterprises Limited. From January 2005 to March 2005, he served as a quantity surveyor with Hoi Yat Repairing Engineering Ltd. From June 2002 to December 2004, he served as a quality control and quantity surveying officer with Cheong Shing Repair & Maintenance Limited. From February 2001 to June 2002, he served as a quantity surveying officer with Sheung Man Engineering Co., Ltd. From November 1998 to January 2001, he served as a work supervisor I (construction) with LWK & Partners (HK) Limited. From July 1998 to September 1998, he served as a site agent with Wing Fai Construction Co., Ltd. From August 1996 to June 1998, he served as a site agent with Ken Shing Construction Co., Limited. From August 1993 to July 1996, he served as a site agent with Wai Shun Construction Co. Limited. From March 1990 to August 1993, he served as a general foreman with Wai Cheong Construction Co.. From January 1990 to March 1990, he served as a plumbing site foreman with Golden Day Engineering Co. Limited. From July 1986 to January 1990, he served as a plumbing site foreman with Tat Keung Engineering Limited. From July 1984 to March 1986, he served as an assistant foreman with K.E. Construction Co..

Mr. Mok completed a post experience certificate in Clerks of Works Studies from the Hong Kong Polytechnic University in December 1999 and completed a higher certificate in Building Studies from Hong Kong Technical Colleges in July 1996. In September 2016, he also completed a construction safety supervisor course conducted by the Construction Industry Council.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Cheng Wa Ping (鄭華萍女士), aged 41, joined the Group as the quantity surveyor supervisor of TKEL in May 2012. She was appointed as the quantity surveyor manager in January 2014 and has been the commercial manager of TKEL since 1 January 2017. Ms. Cheng is responsible for the supervision of junior quantity surveyors, contracts administration, and tendering and procurement administration of the Group.

Ms. Cheng has over 14 years of experience in the construction services industry. Prior to joining the Group, she served as a quantity surveyor with Kin Shing (Leung's) General Contractors Limited from September 2010 to April 2012. She served as an accountant and assistant quantity surveyor in Yufair Engineering Ltd. from November 2007 to August 2010. Ms. Cheng was a site clerk of Chun Wo Construction & Engineering Co. from December 2002 to June 2003.

Ms. Cheng obtained a Bachelor degree in Science in Quantity Surveying from Nottingham Trent University in May 2014, a higher diploma in Surveying (Quantity Surveying Stream) from the Hong Kong Institute of Vocational Education in July 2011, and a certificate in Quantity Surveying from the Hong Kong Institute of Vocational Education in July 2006. She was elected as a professional member of the Royal Institution of Chartered Surveyors in April 2017.

Mr. Chau Yun Cheung (周潤璋先生), aged 34, has been the financial controller of the Group since July 2017. Mr. Chau is responsible for overseeing financial management and regulatory compliance, as well as reporting obligations of the Group.

Prior to joining the Group, Mr. Chau had worked in accounting firm Deloitte Touche Tohmatsu for approximately seven years from October 2010 to July 2017, where the last position he served was the audit manager of the audit department.

Mr. Chau has been admitted as a member of HKICPA since January 2014. Mr. Chau obtained a degree of Master of Commerce in the field of professional accounting from the University of Queensland in July 2010 and a degree of Bachelor of Business with major in marketing from Queensland University of Technology in July 2008.

REPORT OF DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the year ended 31 December 2018.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 10 April 2017.

In preparing for the listing of the Company's shares on the GEM Board of the Stock Exchange, the Company became the holding company of the companies comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") upon the completion of the Reorganisation on 20 October 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 29 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Detailed business review is set out in the section of "Management Discussion and Analysis" ("**MD&A**") in this annual report from pages 4 to 7. Future development of the company's business is set out in the section of "Chairman's Statement" and MD&A in this annual report from page 3 and pages from 4 to 7 respectively. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

Key risks and uncertainties

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

The Group's key business risk exposures are summarised as follows:

- (i) the Group has relatively thin net profit margin and the financial results are highly sensitive to any unfavourable change in the cost of sales, contract prices and the market conditions in the RMAA and fitting-out industry in Hong Kong;
- (ii) the Group may not be able to maintain or increase the success rate of the projects tendered;
- (iii) the Group derives the revenue from projects of a non-recurrent nature, where there is no guarantee that the customers will provide us with new business or that the Group will secure new contracts;
- (iv) reliance on customers;
- (v) any significant increase in the subcontracting charges and substandard subcontractor works may have adverse impacts on the financial results;
- (vi) the Group determines the contract price based on the estimated time and costs involved in the project. The actual time and costs may deviate from the estimations. An inaccurate estimation or ineffective cost management may adversely affect the Group's financial results;
- (vii) the surety bonds may be forfeited in the event of the non-performance of contracts and the amount of such surety bonds may increase, in either case, the cash flows and financial position could be adversely affected;

REPORT OF DIRECTORS

- (viii) the business is labour intensive. If the Group or the Group's subcontractors experience any shortage of labour, industrial actions or strikes, the operations and financial results would be adversely affected; and
- (ix) time required to award and complete renovation work may be lengthened in the future.

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

Environment Protection

The Group committed to contributing to the sustainability of the environment from its business activities. The Group established measures and created certain environmental framework to minimise and monitor the environmental impacts attributable to its operational. The Group implemented the green office practices such as re-deployment of office furniture as far as possible, encouraged use of recycled paper for printing and copying and reduced energy consumption by switching off idling lightings and electrical appliances. Moreover, the Group also established air pollution, noise and waste disposal control such as watering when necessary for any dusty materials before loading and unloading on site; works that create loud noise are to be carried out during day-time or non noise sensitive hours only; labelled bins to be provided to allow segregation of recyclable materials from other waste for transportation to landfills or public fill whenever possible.

Workplace quality

The Group believes that employees are the valuable assets and regards human resources as its corporate wealth. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing an attractive remuneration package. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct, employees' rights and benefits.

DIVIDEND POLICY

The Company has a dividend policy, the objective of which is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves to sustain the Group's future growth. The declaration, form, frequency and amount of dividend paid by the Company must be in accordance with relevant laws and regulations and subject to the Articles. In deciding whether to declare any dividend, the Board will take into account a number of factors, including the financial results, the distributable reserves, the operations and liquidity requirements, and the current and future development plans of the Company. The Board will review the dividend policy of the Company as appropriate from time to time.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 42 of this annual report.

The Board do not recommend the payment of any final dividend for the year ended 31 December 2018.

REPORT OF DIRECTORS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled on Monday, 6 May 2019. 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, 30 April 2019 to Monday, 6 May 2019, 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 29 April 2019.

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out on page 104 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 23 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme (the "**Scheme**") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contribution of the Directors and other employees who have made valuable contribution to the Group. The Scheme of the Company was adopted on 4 June 2018 (the "**Adoption**"). There was no share option granted or agreed to be granted under the Scheme for the year ended 31 December 2018.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose

The Scheme is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

REPORT OF DIRECTORS

(b) The Participants of the Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "**Eligible Participants**") to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

(c) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue, being 800,000,000 shares, unless the Company obtains a fresh approval.

(d) Maximum number of options to any one individual

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the issued shares of the Company as at the date of grant.

(e) Price of Shares

The subscription price of a share in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

(f) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

REPORT OF DIRECTORS

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 2018.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to the shareholders, comprising share premium and retained profits, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK\$30.9 million (2017: nil).

MAJOR CLIENTS AND SUPPLIERS

For the year ended 31 December 2018, the percentage of revenue attributable to the Group's major customers is set out below:

Revenue

— The largest customer	52.2%
— The total of the five largest customers	82.5%

For the year ended 31 December 2018, the percentage of cost of sales attributable to the Group's major suppliers is set out below:

Cost of sales

— The largest supplier	19.2%
— The total of the five largest suppliers	64.2%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers and major suppliers noted above.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Heung Chung Sum (*Chairman*)

Mr. Chan Wai Hon, Alan

Non-executive Directors

Ms. Heung Joe Yee

Ms. Heung Joe Tung

Independent non-executive Directors

Dr. Ip Wai Hung

Mr. Ko, Wilson Wai Shun

Mr. Chan Chi Hang

REPORT OF DIRECTORS

Pursuant to Article 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108(a) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 21 to 27 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the month of Listing or the date of appointment and will continue thereafter until terminated in accordance with the terms of the agreement. Non-executive Directors are appointed for a term of three year initially and will continue thereafter until terminated in accordance with the terms of the agreement. Independent non-executive Directors are appointed for a term of three year initially and will continue thereafter unless terminated by either party giving at least six month's notice in writing.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation other than the statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance, to which the Company, its holding company or subsidiaries was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Share Option Scheme.

COMPETING AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018.

REPORT OF DIRECTORS

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, interests or short positions of the Directors, chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) *Long Position in the Company's Shares*

Name of Directors	Capacity	Number and class of securities	Approximate percentage of shareholding
Mr. Heung Chung Sum	Interest in a controlled corporation	600,000,000 ordinary shares	75%

(ii) *Long position in the ordinary shares of associated corporations*

Name of Directors	Name of associated corporations	Capacity	Number and class of securities	Approximate percentage of shareholding
Mr. Heung Chung Sum	Advance Pacific	Beneficial owner	2 ordinary shares	100%

Save as disclosed above, as at 31 December 2018, none of the Directors nor chief executive of the Company has registered an interest or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

REPORT OF DIRECTORS

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interest and short positions of the person (other than the Directors or chief executive of the Company) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number and class of securities	Long/short position	Approximate percentage of shareholding
Advance Pacific	Beneficial owner	600,000,000 ordinary shares	Long	75%

Save as disclosed above, as at 31 December 2018 and so far as is known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Red Sun Capital Limited, as at 31 December 2018 and the date of this report, save for the compliance adviser agreement dated 30 September 2017 entered into between the Company and Red Sun Capital Limited, neither Red Sun Capital Limited, its directors, employees and associates had any interest in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2018, the Group has not entered into any connected transaction that are not exempt under Rule 20.31 of the GEM Listing Rules nor any continuing connected transaction that are not exempt under Rule 20.33 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company complies with the minimum of public float as required under the GEM Listing Rules.

AUDITOR

Grant Thornton Hong Kong Limited was appointed by the Directors as the auditor of the Company for the year ended 31 December 2018. The Company has not changed its auditor since the listing date and up to the date of this report. Grant Thornton Hong Kong Limited will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 31 December 2018 have been audited by Grant Thornton Hong Kong Limited.

REPORT OF DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

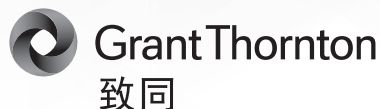
By Order of the Board

Heung Chung Sum

Chairman

Hong Kong, 25 March 2019

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Tong Kee (Holding) Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tong Kee (Holding) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 103, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

How our audit addressed the Key Audit Matter

Accounting for construction contracts

Refer to notes 2.7, 2.12, 5 and 16 to the consolidated financial statements.

The Group recognised revenue from construction contracts amounted to approximately HK\$251,767,000 for the year ended 31 December 2018, and had contract assets of approximately HK\$59,519,000 and contract liabilities of approximately HK\$1,649,000 as at 31 December 2018.

The Group's revenue and cost of construction contracts are recognised by reference to the progress of satisfying the performance obligation at the reporting date. The measurement of the revenue amount in each period is based on the costs incurred up to the end of the reporting period as a percentage of total estimated costs for a contract. This requires the management's estimation of the total budget cost of the construction contracts. In addition, significant judgment is required in estimating the contract revenue, the contract costs and variation works which may have an impact on progress of the construction contracts and the corresponding profit taken.

Our procedures in relation to the construction contracts included the following:

- understood the basis of estimation of the budgets through discussion with the management who are responsible for reviewing budgeted costs and budgeted revenue of the construction contracts, and evaluated the reasonableness of the estimated profit margins by taking into account of the profit margins of historical similar projects;
- inspected the terms and conditions of construction contracts such as contract sum, construction period, performance obligations, payment schedule, retention and warranty clauses, etc.;
- assessed and checked the accuracy of the budgeted construction revenue by agreeing to contracts sum or variation orders as set out in the construction contracts, the agreements entered with customers;
- tested, on a sample basis, the contract costs incurred to date to supporting documents including the subcontractor payment certificates and suppliers' invoices, etc.;
- recalculated the percentage of completion based on the latest budgeted final costs and the total actual costs incurred; and
- assessed the appropriateness of contract assets/contract liabilities and performed recalculation on progress of satisfying the performance obligation, revenue and gross profit.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS' FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagements and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

25 March 2019

Shaw Chi Kit

Practising Certificate No.: P04834

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	5	251,767	178,565
Direct costs		(203,492)	(148,961)
Gross profit		48,275	29,604
Other income	6	21	219
Administrative expenses		(19,673)	(14,117)
Loss arising from change in fair value of financial assets at fair value through profit or loss		(1,897)	–
Listing expenses		(7,414)	(8,710)
Finance costs	7	(1,394)	(1,082)
Profit before income tax	8	17,918	5,914
Income tax expense	9	(5,006)	(2,400)
Profit for the year		12,912	3,514
Other comprehensive income			
Item that will be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial asset		–	63
Total comprehensive income for the year		12,912	3,577
			(Restated)
Earnings per share attributable to equity holders of the Company			
Basic and diluted (HK cents)	11	1.79	0.55

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	6,995	4,778
Available-for-sale financial asset		–	2,099
Financial assets at fair value through profit or loss	14	7,327	–
		14,322	6,877
Current assets			
Contract assets	16	59,519	–
Trade and other receivables	15	51,164	43,460
Amounts due from customers for contract work		–	33,534
Amount due from the Controlling Shareholder	28	331	13,207
Pledged bank deposit	17	–	1,002
Bank balances and cash	18	28,336	2,302
		139,350	93,505
Current liabilities			
Bank overdrafts	18	–	3,265
Contract liabilities	16	1,649	–
Trade and other payables	19	54,772	44,664
Amounts due to customers for contract work		–	4,423
Obligations under finance leases	20	807	481
Bank borrowings	21	9,459	15,045
Income tax payable		2,431	415
		69,118	68,293
Net current assets		70,232	25,212
Total assets less current liabilities		84,554	32,089

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current liabilities			
Obligations under finance leases	20	2,194	1,142
Deferred tax liabilities	22	312	185
		2,506	1,327
Net assets			
		82,048	30,762
CAPITAL AND RESERVES			
Share capital	23	8,000	—*
Reserves	24	74,048	30,762
Total equity			
		82,048	30,762

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

Heung Chung Sum

Director

Chan Wai Hon Alan

Director

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Total equity attributable to equity holders of the Company							
		Share capital	Share premium	Capital reserve	Available- for-sale financial asset reserve	Retained profits	Total equity
	NOTES	HK\$'000 (Note 23)	HK\$'000 (Note 24)	HK\$'000 (Note 24)	HK\$'000 (Note 24)	HK\$'000	HK\$'000
As at 1 January 2017		–	–	3,610	(126)	23,701	27,185
Profit for the year		–	–	–	–	3,514	3,514
Other comprehensive income							
– change in fair value of available-for-sale financial asset		–	–	–	63	–	63
Profit and total comprehensive income for the year		–	–	–	63	3,514	3,577
Issue of share capital	23(i)&(iii)	–*	–	–	–	–	–
As at 31 December 2017 as originally presented		–*	–	3,610	(63)	27,215	30,762
Change in accounting policies	3.1	–	–	–	63	(1,344)	(1,281)
As at 1 January 2018		–	–	3,610	–	25,871	29,481
Insurance of ordinary shares pursuant to the Capitalisation Issue	23(iv)	6,400	(6,400)	–	–	–	–
Insurance of ordinary shares pursuant to the Share Offer	23(v)	1,600	46,400	–	–	–	48,000
Expense incurred in connection with the issue of ordinary shares	23(v)	–	(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		8,000	33,324	1,941	–	38,783	82,048

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

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Operating activities			
Profit before income tax		17,918	5,914
Adjustments for:			
Depreciation of property, plant and equipment		1,377	1,230
Provision for ECL allowance		245	–
Bad debts		82	54
Interest expenses		1,394	1,082
Loss arising from change in fair value of financial assets at fair value through profit or loss		1,897	–
Gain on disposal of property, plant and equipment		–	(102)
Operating profit before working capital changes		22,913	8,178
Increase in contract assets/amounts due from customers for contract work		(26,045)	(23,890)
(Increase)/Decrease in trade and other receivables		(9,252)	2,492
Decrease in contract liabilities/amounts due to customers for contract work		(2,774)	(783)
Increase in trade and other payables		10,108	19,685
Cash (used in)/generated from operations		(5,050)	5,682
Income tax paid		(2,863)	(3,172)
Net cash (used in)/generated from operating activities		(7,913)	2,510
Investing activities			
Purchase of property, plant and equipment		(1,051)	(1,017)
Proceeds from disposal of property, plant and equipment		–	102
Increase in financial assets at fair value through profit or loss		(7,125)	–
Increase in pledged bank deposit		–	(10,002)
Withdrawal of pledged bank deposit		1,002	9,000
Net cash used in investing activities		(7,174)	(1,917)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Financing activities			
Proceeds from bank borrowings		59,064	44,880
Repayment of bank borrowings		(64,650)	(41,763)
Payment of obligations under finance leases		(1,165)	(534)
Net changes in amount due from the Controlling Shareholder		12,876	(4,462)
Net changes in amounts due from related parties		–	1,492
Interest paid		(1,394)	(1,082)
Transaction costs directly attributable to issue of ordinary shares		(8,345)	–
Proceeds from the Share Offer		48,000	–
Net cash generated from/(used in) financing activities		44,386	(1,469)
Net increase/(decrease) in cash and cash equivalents		29,299	(876)
Cash and cash equivalents at the beginning of the year		(963)	(87)
Cash and cash equivalents at the end of the year	18	28,336	(963)

The notes on pages 48 to 103 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 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 is 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").

Pursuant to a group reorganisation (the "Reorganisation") of the Group in connection with the listing of the share of the Company on the GEM (the "Listing"), the Company became the holding company of the companies now comprising the Group on 20 October 2017.

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

The consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 25 March 2019.

1.2 Reorganisation and basis of presentation

Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" in the Company's prospectus dated 20 June 2018 (the "Prospectus"). The Group is under the common control of the Controlling Shareholder prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended 31 December 2018 and 2017 which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended 31 December 2018 and 2017, or since their respective dates of incorporation, where it is a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 the GEM of 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 3.

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.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of subsidiaries in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

2.4 Property, plant and equipment

Land held for own use under finance leases and buildings thereon, buildings held for own use which are situated on leasehold land classified as held under operating leases, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost less their residual values, over the estimated useful lives, using the straight-line method, at the following rates per annum:

Land and building	Over the term of lease on land and 4% on building
Plant and machinery	25%
Motor vehicles	25%
Furniture and fixtures	25%
Office equipment	25%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Policy applicable from 1 January 2018

Classification and initial measurement of financial assets

Except for those trade receivables and retention receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both the entity's business model for managing the financial asset; and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for expected credit losses ("ECL") of trade receivables and retention receivables which is presented within administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets

Debt investments — Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amount due from the Controlling Shareholder, pledged bank deposit and cash and bank balances fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model than 'hold to collect' or 'hold to collect and sell', and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

This category contains investments in life insurance policies. The Group accounts for the investments at FVTPL.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Financial instruments (Continued)

Financial liabilities

Policy applicable from 1 January 2018

Classification and measurement of financial liabilities

The Group's financial liabilities include bank borrowings and overdrafts, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and that are reported in profit or loss are included within finance costs.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and other payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Financial assets

Policy applicable before 1 January 2018

Financial assets are classified into loans and receivables and available-for-sale financial asset. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at FVTPL, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable before 1 January 2018 (Continued)

Classification and measurement of financial liabilities (Continued)

Available-for-sale financial asset

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial asset reserve in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at each reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

2.6 Impairment of financial assets and contract assets

Policy applicable from 1 January 2018

HKFRS 9's impairment requirements use more forward looking information to recognise ECL — the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Trade receivables, retention receivables and contract assets

For trade receivables, retention receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables, retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and contract assets and retention receivables have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets and retention receivables.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other financial assets at amortised cost equal to 12-month ECL when they do not have significant increase in credit risk since initial recognition.

Policy applicable before 1 January 2018

At each reporting date, financial assets other than at FVTPL are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- the disappearance of an active market for that financial asset because of financial difficulties.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data including but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Impairment of financial assets and contract assets (Continued)

Policy applicable before 1 January 2018 (Continued)

If any such evidence exists, the impairment loss is measured and recognised as follows:

Available-for-sale financial assets carried at fair value

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than financial assets at FVTPL and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.12) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.6 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.5).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.12). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.5).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand. For the purpose of the consolidated statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.9 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Leases (Continued)

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.10 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.11 Share capital

Ordinary shares are classified as equity. The amount of share capital recognised is determined using the nominal value and any related transaction costs are deducted from the share premium.

2.12 Revenue recognition

Revenue arises mainly from the provision of performing RMAA works, new construction works and cathodic protection works in Hong Kong .

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Revenue recognition (Continued)

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Construction contracts

Revenue from construction contracts are recognised over time as the Group's performance creates and enhances an asset that the customer controls. The progress towards complete satisfaction of a performance obligation is measured based on input method, i.e. the costs incurred up to date compared with the total budgeted costs, which depict the Group's performance towards satisfying the performance obligation.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Incremental cost of obtaining a contract is capitalised if the Group expects to recover those costs, unless the amortisation period for such costs would be one year or less. Costs that will be incurred regardless of whether the contract is obtained are expensed as they are incurred.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.13 Impairment of non-financial assets

Property, plant and equipment and the Company's interest in a subsidiary are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.15 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.16 Accounting for income taxes

Income tax comprises current tax and deferred tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Accounting for income taxes (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity or any member of a group of which it is a part, provide key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.18 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, i.e. the chief operating decision maker, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSSs 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 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments

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

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit losses ("ECL") model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained profits.

The adoption of HKFRS 9 has impacted the following areas:

- the classification and measurement of the Group's financial assets. Investment in a life insurance policy classified as available-for-sale financial asset under HKAS 39 has been reclassified as financial asset at FVTPL under HKFRS 9. Fair value changes previously accounted for in other comprehensive income has transferred to the opening balance of retained profits as at 1 January 2018.
- HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018 (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including trade and other receivables, amount due from the Controlling Shareholder, pledged bank deposit and bank balances and cash); and
- contract assets as defined in HKFRS 15.

For trade receivables, retention receivables and contract assets arising from HKFRS 15, the Group applies a simplified approach of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Upon the adoption of HKFRS 9, the Group recognised additional ECL on the Group's trade and other receivables and contract assets of HK\$1,248,000 and HK\$33,000, respectively, which resulted in a decrease in retained profits of HK\$1,281,000 as at 1 January 2018.

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) are summarised as follows:

		Measurement category		31 December 2017	Adoption of	1 January 2018
	Original HKAS 39 category	New HKFRS 9 category	(HKAS 39)	HKFRS 9 Reclassification	(HKFRS 9)	
			HK\$'000	HK\$'000	HK\$'000	
Non-current financial assets						
Investment in life insurance policies	Available-for-sale	N/A	2,099	(2,099)	–	
Investment in life insurance policies	N/A	FVTPL	–	2,099	2,099	

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

For trade and other receivables, amount due from the Controlling Shareholder, pledged bank deposit and bank balances and cash are changed from "loans and receivables" to "at amortised cost".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018 (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The total impact on the Group's retained profits, net of tax, as at 1 January 2018 is as follows:

	HK\$'000
Retained earnings	
Recognition of ECL under HKFRS 9	(1,281)
Reclassification from available-for-sale financial asset to financial asset at FVTPL	(63)
Impact at 1 January 2018	(1,344)

The details of new significant accounting policies are set out in note 2.5.

ECL

For further details on the Group's accounting policy for accounting for ECL, see note 2.6.

The following table reconciles the loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening ECL allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK\$'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional ECL recognised at 1 January 2018 on:	
– Contract assets recognised on adoption of HKFRS 15	33
– Trade receivables	972
– Retention receivables	276
ECL allowance at 1 January 2018 under HKFRS 9	1,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- a. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- b. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or
- c. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from construction contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Presentation of contract assets and liabilities

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under "amounts due from customers for contract work" or "amounts due to customers for contract work" respectively.

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2.12) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

At the date of initial application of HKFRS 15, unbilled revenue of HK\$33,534,000 arising from some of contracts are conditional and hence such balance was reclassified from amounts due from customers for contract work to contract assets.

Besides, advances from customers of HK\$4,423,000 previously included in amounts due to customers for contract work were reclassified to contract liabilities.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.1 New and amended HKFRSSs that are effective for annual periods beginning on or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Presentation of contract assets and liabilities (Continued)

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.

	Carry amounts under HKASs 11 and 18 at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK\$'000	HK\$'000	HK\$'000
Current assets			
Amounts due from customers for contract work	33,534	(33,534)	–
Contract assets	–	33,534	33,534
Current liabilities			
Amounts due to customers for contract work	4,423	(4,423)	–
Contract liabilities	–	4,423	4,423

3.2 Issued but not yet effective HKFRSSs

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRSSs	Annual Improvements to HKFRSSs 2015-2017 Cycle ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective date not yet determined

⁵ 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.2 Issued but not yet effective HKFRSSs (Continued)

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. Information on new and amended HKFRSSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

As disclosed in note 2.9, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a "lease liability" and a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSS (CONTINUED)

3.2 Issued but not yet effective HKFRSSs (Continued)

HKFRS 16 "Leases" (Continued)

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

As disclosed in note 25, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$1,352,000 for premises, the majority of which is payable within 5 years after the reporting date.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting judgements

Construction contract

As explained in note 2.12, the Group recognises construction revenue under construction contracts by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. This is measured based on the costs incurred up to the reporting date and budgeted costs which depict the Group's performance towards satisfying the performance obligation. Significant estimates and judgments are required in determining the accuracy of the budgets and the extent of the costs incurred. In making the above estimation, the Group conducts periodic review on the budgets and make reference to past experience and work of contractors and surveyors.

4.2 Estimation uncertainties

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amounts of property, plant and equipment at each reporting date is set out in note 13 to the consolidated financial statements.

Estimation of impairment of trade receivables and other items within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.6. The carrying amounts of trade and other receivables and contract assets at the reporting date is set out in notes 15 and 16 to the consolidated financial statements.

Before the adoption of HKFRS 9, the Group's management determines the loss allowance of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition, and requires the use of judgments and estimates. It could change as a result of change in the financial position of customers and other debtors. Management reassesses the provision at each reporting date.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL upon application of HKFRS 9/other financial instruments before application of HKFRS 9 and credit losses in the periods in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT REPORTING

5.1 Revenue

The Group's principle activities are disclosed in note 1.1 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:

	2018 HK\$'000	2017 HK\$'000
Types of service		
RMAA works projects	211,165	138,202
New construction works projects	5,726	10,024
Cathodic protection works projects	34,876	30,339
	251,767	178,565

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 2018:

	2018 HK\$'000
Remaining performance obligations expected to be satisfied during the year ending	
31 December 2019	73,023
31 December 2020	854
	73,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT REPORTING (CONTINUED)

5.2 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:

	2018 HK\$'000	2017 HK\$'000
Customer A	131,494	69,134
Customer B	36,647	29,463
Customer C	N/A	18,429

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

6. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Gain on disposal of property, plant and equipment	–	102
Exchange gain	–	3
Sundry income	21	114
	21	219

7. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest charges on bank borrowings and overdrafts	1,293	1,011
Finance charges on obligations under finance leases	101	71
	1,394	1,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. PROFIT BEFORE INCOME TAX

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

	2018 HK\$'000	2017 HK\$'000
(a) Staff cost (including directors' remuneration)		
Salaries, wages and other benefits	38,486	31,596
Contributions to defined contribution plans	1,577	1,395
	40,063	32,991
(b) Other items		
Auditor's remuneration — audit services	920	65
Bad debts	82	54
Depreciation		
— owned assets	804	591
— leased assets	573	639
Operating lease charges in respect of:		
— premises	898	713
— machinery	98	147
Exchange (gains)/losses, net	—	(3)
Provision of ECL allowance on trade receivables, retention receivables and contract assets	245	—

9. 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.

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 rate 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 qualifying entities will be taxed at 8.25%, and the profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of Tong Kee Engineering Limited ("TKEL"), a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. INCOME TAX EXPENSE (CONTINUED)

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the year.

	2018 HK\$'000	2017 HK\$'000
Current tax		
Hong Kong Profits Tax		
— Current year	4,640	2,361
— Under provision in respect of prior years	239	—
Deferred tax	4,897	2,361
— Current year (note 22)	127	39
Income tax expense	5,006	2,400

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	2018 HK\$'000	2017 HK\$'000
Profit before income tax	17,918	5,914
Tax on profit before income tax, calculated at the Hong Kong Profits Tax rate of 16.5%	2,956	976
— Tax effects of non-deductible expenses	1,943	1,471
— Tax effects of non-taxable income	—	(17)
— Effect of two-tiered profits tax rates regime	(165)	—
— Under provision in respect of prior years	239	—
— Others	33	(30)
Income tax expense	5,006	2,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

10.1 Directors' emoluments

	Year ended 31 December 2018			
	Fees HK\$'000	Salaries, allowances and benefits	Retirement scheme contributions	Total HK\$'000
		HK\$'000	HK\$'000	
Executive directors:				
Mr. Heung Chung Sum (chairman) (note a)	–	181	9	190
Mr. Li Mei Shan (note d)	–	–	–	–
Mr. Chan Wai Hon Alan (note b)	60	–	3	63
Non-executive directors:				
Ms. Heung Joe Tung (note c)	60	–	–	60
Ms. Heung Joe Yee (note c)	60	–	–	60
Independent non-executive directors:				
Dr. Ip Wai Hung (note e)	60	–	–	60
Mr. Ko, Wilson Wai Shun (note e)	60	–	–	60
Mr. Chan Chi Hang (note e)	60	–	–	60
	360	181	12	553
Year ended 31 December 2017				
	Fees HK\$'000	Salaries, allowances and benefits	Retirement scheme contributions	Total HK\$'000
		HK\$'000	HK\$'000	
Executive directors:				
Mr. Heung Chung Sum (note a)	–	261	12	273
Ms. Li Mei Shan (note d)	–	235	12	247
Mr. Chan Wai Hon Alan (note b)	–	–	–	–
Non-executive directors:				
Ms. Heung Joe Tung (note c)	–	–	–	–
Ms. Heung Joe Yee (note c)	–	–	–	–
	–	496	24	520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

10.1 Directors' emoluments (Continued)

Notes:

- (a) Mr. Heung Chung Sum was appointed as executive director of the Company on 10 April 2017.
- (b) Mr. Chan Wai Hon Alan was appointed as executive director of the Company on 25 October 2017.
- (c) Ms. Heung Joe Tung and Ms. Heung Joe Yee were appointed as non-executive directors of the Company on 25 October 2017.
- (d) Ms. Li Mei Shan was appointed as executive director of the Company on 10 April 2017 and resigned on 1 January 2018.
- (e) Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun and Mr. Chan Chi Hang were appointed as independent non-executive directors of the Company on 4 June 2018.

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of the office during the year (2017: nil). None of the directors of the Company waived any emoluments during the reporting period.

10.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include nil (2017: two) directors whose emoluments are disclosed in note 10.1. The aggregate of the emoluments of the remaining five (2017: three) individuals for the year are as follows:

	2018	2017
	HK\$'000	HK\$'000
Salaries, allowances and benefits	3,903	2,242
Retirement scheme contributions	90	56
	3,993	2,298

The above individuals' emoluments are within the following band:

	2018	2017
Nil to HK\$1,000,000	5	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. EARNINGS PER SHARE

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

	2018 HK\$'000	2017 HK\$'000
Earnings		
Profit for the year attributable to equity holders of the Company	12,912	3,514
		(Restated)
Weighted average number of ordinary shares (in thousands)	719,342	640,000
Earnings per share (HK cents)	1.79	0.55

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 23(iv)), 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 23(v)).

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 representing the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 23(iv)), as if all these shares had been in issue throughout the year ended 31 December 2017.

Diluted earnings per share for the year was the same as basic earnings per share as there were no dilutive potential ordinary shares in issue during the year.

12. DIVIDENDS

The Board did not recommend the payment of dividend for the year ended 31 December 2018 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Total HK\$'000
Cost						
As at 1 January 2017	1,980	53	3,822	873	461	7,189
Additions	–	–	1,378	394	561	2,333
Disposals	–	–	(593)	–	(4)	(597)
As at 31 December 2017	1,980	53	4,607	1,267	1,018	8,925
As at 1 January 2018	1,980	53	4,607	1,267	1,018	8,925
Additions	–	–	2,543	846	205	3,594
As at 31 December 2018	1,980	53	7,150	2,113	1,223	12,519
Accumulated depreciation						
As at 1 January 2017	18	41	2,992	224	239	3,514
Charge for the year	72	11	706	270	171	1,230
Written back on disposals	–	–	(593)	–	(4)	(597)
As at 31 December 2017	90	52	3,105	494	406	4,147
As at 1 January 2018	90	52	3,105	494	406	4,147
Charge for the year	72	1	714	351	239	1,377
As at 31 December 2018	162	53	3,819	845	645	5,524
Net book amount						
As at 31 December 2017	1,890	1	1,502	773	612	4,778
As at 31 December 2018	1,818	–	3,331	1,268	578	6,995

As at 31 December 2018, the Group's land and building with a net book amount of HK\$1,818,000 (2017: HK\$1,890,000) were pledged to a bank to secure the bank borrowings granted to the Group.

As at 31 December 2018, motor vehicles of net book amount of HK\$3,074,000 (2017: HK\$1,445,000) were held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK\$'000	2017 HK\$'000
Investment in life insurance policies	7,327	2,099

The investment was reclassified from available-for-sale financial asset of HK\$2,099,000 at 1 January 2018 after the adoption of HKFRS 9 as detailed in note 3.

In August 2012, the Group's subsidiary, 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 2018 and 2017, the life insurance policies were pledged to a bank to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. TRADE AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade and retention receivables		
Trade receivables	33,785	24,149
Retention receivables	12,811	10,665
Less: ECL allowance/loss allowance	(1,466)	–
	45,130	34,814
Deposits, prepayments and other receivables		
Prepayments	3,086	2,595
Prepaid Listing expenses	–	3,298
Deposits paid to suppliers and subcontractors	9	57
Security for issuance of performance bonds	1,898	1,813
Other deposits	892	705
Other receivables	149	178
	6,034	8,646
	51,164	43,460

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 2018, retention receivables of HK\$175,000 (2017: nil) 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 expiry of the defect liability period. In general, the retention money will be released upon the expiry of the defect liability period, which is typically one year after completion of construction works.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2018 HK\$'000	2017 HK\$'000
Within 30 days	18,327	11,426
31 days to 60 days	6,865	7,006
61 days to 90 days	2,498	766
91 days to 365 days	6,002	4,828
Over 365 days	93	123
	33,785	24,149

The movements in the ECL allowance (2017: loss allowance) of trade and retention receivables are as follows:

	2018 HK\$'000	2017 HK\$'000
At the beginning of the year as originally presented	-	-
Amounts restated through opening retained profits (note 3.1)	1,248	-
At the beginning of the year	1,248	-
Provision for ECL allowance recognised during the year	218	-
At the end of the year	1,466	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. CONTRACT ASSETS/CONTRACT LIABILITIES

	2018 HK\$'000	2017 HK\$'000
Contract assets	59,579	–
Amounts due from customers for contract work	–	33,534
Less: ECL allowance (note)	(60)	–
	59,519	33,534
Contract liabilities	(1,649)	–
Amounts due to customers for contract work	–	(4,423)
	57,870	29,111

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018 as disclosed in note 3.1. The Group applies simplified approach to provide for ECL prescribed in HKFRS 9. Provision for ECL allowance have been included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

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 2018 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\$7,086,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. CONTRACT ASSETS/CONTRACT LIABILITIES (CONTINUED)

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

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

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

17. PLEDGED BANK DEPOSIT

As at 31 December 2017, the pledged bank deposit was denominated in HK\$, carried interest at market rate of 0.2% per annum, had a maturity of one month and was pledged to secure bank borrowings granted to the Group (note 21). The pledged bank deposit was released during the year ended 31 December 2018.

18. CASH AND CASH EQUIVALENTS

	2018	2017
	HK\$'000	HK\$'000
Bank balances and cash	28,336	2,302
Bank overdrafts	–	(3,265)
Cash and cash equivalents per the consolidated statement of cash flows	28,336	(963)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade and retention payables		
Trade payables	41,212	33,850
Retention payables	7,550	4,737
	48,762	38,587
Other payables		
Accrued expenses and other payables	4,147	4,331
Provision for annual leave and long service payment	1,863	1,746
	6,010	6,077
	54,772	44,664

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:

	2018 HK\$'000	2017 HK\$'000
Within 30 days	38,892	32,810
31 days to 60 days	1,542	997
61 days to 90 days	99	34
91 days to 365 days	679	9
	41,212	33,850

As at 31 December 2018, retention payables of HK\$1,517,000 (2017: nil) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK\$'000	2017 HK\$'000
Total minimum lease payments:		
— Within one year	924	542
— After one year but within two years	836	409
— After two years but within five years	1,497	780
— After five years	—	38
	3,257	1,769
Future finance charges on finance leases	(256)	(146)
Present value of finance lease liabilities	3,001	1,623
	2018	2017
	HK\$'000	HK\$'000
Present value of minimum lease payments:		
— Within one year	807	481
— After one year but within two years	755	368
— After two years but within five years	1,439	737
— After five years	—	37
	3,001	1,623
Less: Profit due within one year included under current liabilities	(807)	(481)
Portion due after one year included under non-current liabilities	2,194	1,142

The Group has entered into finance leases for motor vehicles. The lease periods ranged from 3 to 5 years (2017: 3 to 6 years).

Finance lease liabilities are effectively secured by corporate guarantees from Tong Kee Engineering (Civil) Limited ("Tong Kee Civil"), 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.

As at 31 December 2018 and 2017, all the obligations under finance leases were denominated in HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. BANK BORROWINGS

	2018	2017
	HK\$'000	HK\$'000
Bank loans, secured:		
— repayable within one year	5,522	13,429
— not repayable within one year from the end of the reporting period but contain a repayment on demand clause	3,937	1,616
	9,459	15,045
Amounts shown under current liabilities	9,459	15,045

As at 31 December 2018 and 2017, all the bank loans were denominated in HK\$.

The bank loans were secured by:

- (a) land and building with a net book amount of HK\$1,818,000 (2017: HK\$1,890,000) as at 31 December 2018 (note 13);
- (b) personal guarantees and pledged assets provided by the Controlling Shareholder as at 31 December 2017;
- (c) guarantee as provided by the Government of Hong Kong Special Administrative Region under the Small and Medium Enterprise Loan Guarantee — For Working Capital Loans as at 31 December 2017;
- (d) legal charge on life insurance policies with a carrying amount of HK\$7,327,000 (2017:HK\$2,099,000) as at 31 December 2018 (note 14);
- (e) pledged bank deposit of HK\$1,002,000 as at 31 December 2017 (note 17); and
- (f) corporate guarantee by the Company as at 31 December 2018 (2017: nil).

22. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation
	HK\$'000
At 1 January 2017	146
Recognised in profit or loss (note 9)	39
At 31 December 2017 and 1 January 2018	185
Recognised in profit or loss (note 9)	127
At 31 December 2018	312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. SHARE CAPITAL

	2018		2017	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each				
As at 1 January 2018/Upon incorporation (note i)	38,000,000	380	38,000,000	380
Increase in authorised share capital (note iii)	9,962,000,000	99,620	–	–
	10,000,000,000	100,000	38,000,000	380
Issued and fully paid:				
As at 1 January 2018/Upon incorporation (note i)	1,000	–*	1	–*
Issuance of shares upon Reorganisation (note ii)	–	–	999	–*
Issuance of ordinary shares pursuant to the Capitalisation Issue (note iv)	639,999,000	6,400	–	–
Issuance of ordinary shares pursuant to the Share Offer (note v)	160,000,000	1,600	–	–
As at 31 December	800,000,000	8,000	1,000	–*

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

Note:

- (i) The Company was incorporated in the Cayman Islands on 10 April 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. On the date of incorporation, one share was issued and allotted to the subscriber, which was transferred to Advanced Pacific on the same day.
- (ii) On 20 October 2017, 399 shares were issued and allotted at par for cash to Advanced Pacific. On the same day, an additional 600 shares were issued and allotted to Advanced Pacific pursuant to the share swap agreements at a consideration of HK\$30,100,000, of which HK\$6 was credited to the Company's share capital account and the remaining HK\$30,100,000 was credited to the Company's capital reserve account.
- (iii) 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.
- (iv) 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.
- (v) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. RESERVES

The amounts of the Group's reserves and the movements during the year are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve represents the share capital of entities comprising the Group prior to the reorganisation and the reserves arising from the reorganisation for the purpose of listing of the Company's shares on the Stock Exchange. The capital reserve also includes listing costs attributable to the sale shares of the Controlling Shareholder.

Available-for-sale financial asset reserve

The available-for-sale financial asset reserve represents the change in fair value arising from the investment in a life insurance policy (note 14). Available-for-sale financial asset under HKAS 39 has been reclassified as financial asset at FVTPL under HKFRS 9. Fair value changes previously accounted for in other comprehensive income has transferred to the opening balance of retained profits as at 1 January 2018 as disclosed in note 3.1.

25. OPERATING LEASE COMMITMENTS

As at 31 December 2018, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2018	2017
	HK\$'000	HK\$'000
Within one year	944	905
Second to fifth years	408	278
	1,352	1,183

As at 31 December 2018, the Group leases properties under operating leases and the leases run for an initial period of three years (2017: three), with an option to renew the lease and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. CONTINGENT LIABILITIES

A claim in the amount of approximately HK\$4,290,000 (the "Claim") was filed against a subsidiary of the Group in 2016 by an ex-employee for personal injury. The directors considered the claim would be covered by the insurance obtained by the subsidiary and the Claim would not have any material financial impact on the Group. Accordingly, no provision has been made in the consolidated financial statements.

27. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

(a) Reconciliation of liabilities arising from financing activities:

	Amount due from related parties HK\$'000	Amount due from the Controlling Shareholder HK\$'000	Bank borrowings HK\$'000	Obligations under finance leases HK\$'000
As at 1 January 2017	(1,492)	(8,745)	11,928	841
Non-cash changes				
— Additions	—	—	—	1,316
Financing cash flows	1,492	(4,462)	3,117	(534)
As at 31 December 2017 and 1 January 2018	—	(13,207)	15,045	1,623
Non-cash changes				
— Additions	—	—	—	2,543
Financing cash flows	—	12,876	(5,586)	(1,165)
As at 31 December 2018	—	(331)	9,459	3,001

(b) Major non-cash transactions

For the year ended 31 December 2018, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of leases of HK\$2,543,000 (2017: HK\$1,316,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

(a) Key management personnel remuneration

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and benefits	5,914	4,356
Retirement scheme contributions	156	132
	6,070	4,488

(b) Material related party transaction

Name of related party	Nature	2018 HK\$'000	2017 HK\$'000
Mr. Heung Chung Sum (Note)	Operating lease charges paid	168	64

Note: Mr. Heung Chung Sum is the Controlling Shareholder and an executive director of the Company.

(c) Balances with a related party

	Maximum outstanding during the year		2018 HK\$'000	2017 HK\$'000
	2018 HK\$'000	2017 HK\$'000		
Amounts due from:				
The Controlling Shareholder	13,207	13,207	331	13,207

The amount due is non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. INTEREST IN A SUBSIDIARY

	The Company	
	2018	2017
	HK\$'000	HK\$'000
Unlisted shares, at cost	30,100	30,100

Particulars of the principal subsidiaries as at 31 December 2018 and 2017 as follows:

	Place of incorporation and operation	Type of legal entity	Issued and paid up capital	Equity interest attributable to the Group		Principal activities
				As at 31 December 2018	2017	
Directly held:						
Nova Genesis Enterprises Limited	BVI	Limited liability	United States dollar ("US\$")1	100%	100%	Investment holding
Indirectly held:						
TKEL	Hong Kong	Limited liability	HK\$3,600,000	100%	100%	Performing RMAA works, new construction works and cathodic protection works in Hong Kong
Tong Kee Civil	Hong Kong	Limited liability	HK\$10,000	100%	100%	Performing RMAA works and new construction works in Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

30.1 Categories of financial assets and liabilities

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Financial assets at FVTPL	7,327	–
Available-for-sale financial asset	–	2,099
Financial assets at amortised cost:		
Trade and other receivables	48,078	
Amount due from the Controlling Shareholder	331	–
Bank balances and cash	28,336	–
Loans and receivables:		
Trade and other receivables	–	37,567
Amount due from the Controlling Shareholder	–	13,207
Pledged bank deposit	–	1,002
Bank balances and cash	–	2,302
	84,072	56,177
Financial liabilities		
Financial liabilities measured at amortised cost:		
Bank overdrafts	–	3,265
Trade and other payables	52,909	42,918
Obligations under finance leases	3,001	1,623
Bank borrowings	9,459	15,045
	65,369	62,851

30.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arise primarily from its financial assets at FVTPL (2017: available-for-sale financial asset) denominated in US\$.

As the rate of exchange between HK\$ and US\$ is controlled within a tight range, the directors consider the exposure to foreign currency risk is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank borrowings bearing variable rates expose the Group to cash flow interest rate risk. Obligations under finance leases bearing fixed rates expose the Group to fair value interest rate risk.

The effective interest rates of the Group's borrowings at the reporting date were as follows:

	2018	HK\$'000	2017	HK\$'000
	Effective interest rate		Effective interest rate	
Bank borrowings	2.3%–5.6%	9,459	2.8%–6.0%	15,045
Bank overdrafts	–	–	6.0%	3,265
Less: Pledged bank deposit	–	–	0.2%	(1,002)
		9,459		17,308

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity to a possible change in interest rates.

	Decrease in profit for the year and equity	
	2018	2017
	HK\$'000	HK\$'000
Increase by 50 basis points	39	72

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the year and equity as at each reporting dates but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at each reporting date as detailed in note 30.1.

Effective on 1 January 2018

In respect of trade and other receivables, contract assets and amount due from the Controlling Shareholder individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable and contract asset balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2018, 47.2% (2017: 37.58%) of trade and retention receivables was due from the largest customer and 81.5% (2017: 89.2%) of trade and retention receivables was due from the five largest customers of the Group. The Group does not hold any collateral from its debtors.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward looking information. Internal credit rating, actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations, actual or expected significant changes in the operating results of the borrower and significant changes in the expected performance and behaviour of the borrower including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower are indicators to be incorporated.

The Group accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considers historical elements and forward looking elements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(i) Trade receivables, retention receivables and contract assets

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade and retention receivables and contract assets.

	Neither pass due nor impaired HK\$'000	Less than 30 days past due HK\$'000	31 days to 60 days past due HK\$'000	61 days to 90 days past due HK\$'000	91 days to 365 days past due HK\$'000	Over 365 days past due HK\$'000	Total HK\$'000
Trade receivables							
At 31 December 2018							
Expected loss rate	0.1%	0.5%	1.0%	10.0%	20.0%	100%	
Gross carrying amount	19,780	7,281	1,555	308	4,777	84	33,785
Loss allowance provision	20	36	16	31	955	84	1,142
At 1 January 2018							
Expected loss rate	0.1%	0.5%	1.0%	10.0%	20.0%	100%	
Gross carrying amount	13,335	5,348	766	467	4,193	40	24,149
Loss allowance provision	13	27	8	46	838	40	972
Retention receivables							
At 31 December 2018							
Expected loss rate	0.1%	0.5%	1.0%	10.0%	20.0%	100%	
Gross carrying amount	10,842	–	84	1,167	653	65	12,811
Loss allowance provision	11	–	1	116	131	65	324
At 1 January 2018							
Expected loss rate	0.1%	0.5%	1.0%	10.0%	20.0%	100%	
Gross carrying amount	9,502	46	10	45	1,003	59	10,665
Loss allowance provision	10	–	1	5	201	59	276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

- (i) Trade receivables, retention receivables and contract assets (Continued)

Contract assets are related to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same type of contract. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Since the contract assets are still in performing and the payment is not due. The expected loss rate of contract assets is assessed to be 0.1% which is the same as that of trade receivables neither pass due nor impaired.

- (ii) Other receivables and amount due from the Controlling Shareholder

For other receivables and amount due from the Controlling Shareholder, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward looking information. The Group considered counter parties having a low risk of default and a strong capacity of to meet contractual cash flow as performing.

- (iii) Bank balances and cash

Cash and cash equivalents are placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

Effective before 1 January 2018

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as pertaining to the economic and business environment in which the counterparties operates. Monitoring procedures have been implemented to ensure the following-up action is taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual trade and other receivables balance at the end of each reporting periods to ensure adequate impairment losses are made for irrecoverable amounts. Given the constant repayment history, the directors are of the view that the risk of default by these counterparties is low.

30.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables and financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2018. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.5 Liquidity risk (Continued)

	Within 1 year or on demand HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted amount HK\$'000	Carrying amount HK\$'000
As at 31 December 2018						
Trade and other payables	51,392	1,517	-	-	52,909	52,909
Obligations under finance leases	924	836	1,497	-	3,257	3,001
Bank borrowings (note)	9,671	-	-	-	9,671	9,459
	61,987	2,353	1,497	-	65,837	65,369
As at 31 December 2017						
Bank overdrafts	3,265	-	-	-	3,265	3,265
Trade and other payables	42,918	-	-	-	42,918	42,918
Obligations under finance leases	542	409	780	38	1,769	1,623
Bank borrowings (note)	15,127	-	-	-	15,127	15,045
	61,852	409	780	38	63,079	62,851

Note:

Bank loans with a repayment on demand clause are included in the "Within 1 year or on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that the bank loans with a repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements as follows:

	Aggregate principal and interest cash outflows				Carrying amount HK\$'000
	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000	
As at 31 December 2018	1,124	2,772	317	4,213	3,937
As at 31 December 2017	989	292	413	1,694	1,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.6 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety based on the lowest level of input that is significant to the fair value measurement. The financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2018				
Financial assets at FVTPL				
— Investment in life insurance policies	—	7,327	—	7,327
As at 31 December 2017				
Financial assets:				
Available-for-sale financial asset				
— Investment in a life insurance policy	—	2,099	—	2,099

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in a subsidiary	29	30,100	30,100
Current assets			
Amount due from a subsidiary		33,146	–
Bank balances and cash		5,085	–
		38,231	–
Current liabilities			
Other payables		795	–
Amount due to the Controlling Shareholder		210	42
		1,005	42
Net current assets/(liabilities)		37,226	(42)
Net assets		67,326	30,058
CAPITAL AND RESERVES			
Share capital	23	8,000	–*
Reserves		59,326	30,058
Total equity		67,326	30,058

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

Approved and authorised for issue by the board of directors on 25 March 2019

Heung Chung Sum
Director

Chan Wai Hon Alan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: The movements of the Company's reserves are as follows:

	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 10 April 2017 (date of incorporation)	–	–	–	–
Loss for the period	–	–	(42)	(42)
Issuance of shares upon Reorganisation (note 23)	–	30,100	–	30,100
As at 31 December 2017 and 1 January 2018	–	30,100	(42)	30,058
Insurance of ordinary shares pursuant to the Share Offer (note 23)	46,400	–	–	46,400
Insurance of ordinary shares pursuant to the Capitalisation Issue (note 23)	(6,400)	–	–	(6,400)
Expense incurred in connection with the issue of ordinary shares	(6,676)	(1,669)	–	(8,345)
Loss for the year	–	–	(2,387)	(2,387)
	33,324	28,431	(2,429)	59,326

Capital reserve

Capital reserve of the Company represents the difference between the total equities of TKEL and Tong Kee Civil acquired by the Company pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor. The capital reserve also includes listing costs attributable to the sale shares of the Controlling Shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings and obligations under finance leases less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date is as follows:

	2018	2017
	HK\$'000	HK\$'000
Borrowings	9,459	15,045
Obligations under finance leases	3,001	1,623
Less: cash and cash equivalents (note 18)	(28,336)	963
Net debt	(15,876)	17,631
Total equity	82,048	30,762
Net debt to equity ratio	N/A	57.3%

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, extracted from the audited financial statements in this annual report and the Prospectus of the Company dated 20 June 2018, is as follows.

RESULTS

	Year ended 31 December			2018 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
Revenue	129,765	134,066	178,565	251,767
Profit before taxation	8,848	13,227	5,914	17,918
Income tax expense	(1,624)	(2,055)	(2,400)	(5,006)
Profit and total comprehensive income for the year	7,287	11,235	3,577	12,912

ASSETS AND LIABILITIES

	At 31 December			2018 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
Total assets	56,726	77,439	100,382	153,672
Total liabilities	(39,822)	(50,254)	(69,620)	(71,624)
Net assets	16,904	27,185	30,762	82,048