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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	3
Management Discussion and Analysis	5
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Unaudited Condensed Consolidated Statement of Financial Position	17
Unaudited Condensed Consolidated Statement of Changes in Equity	19
Unaudited Condensed Consolidated Statement of Cash Flows	20
Notes to the Unaudited Condensed Consolidated Financial Statements	21

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

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.tongkee.com.hk

STOCK CODE

8305

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Company and its subsidiaries (collectively referred to as the “Group”) is an established multi-disciplinary contractor for the provision of renovation and maintenance works, alteration and addition works (“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 six months ended 30 June 2020 (“Relevant Period”), there were 124 projects (30 June 2019: 119 projects) with revenue contribution undertaken by the Group. The revenue of the Group recorded a decrease in current period, and the demands for the Group’s RMAA and new construction works services is in a decreasing trend. During the six months ended 30 June 2020, the Group was awarded 37 new projects, with total contract sum of approximately HK\$89.2 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 and expansion of the infrastructure 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 new construction works industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The outbreak of the novel coronavirus (COVID-19) and its escalation on a global scale has triggered unprecedented disruptions in business operations and to the economy. While it would be difficult to gauge the longer term impact of such events as the situation is dynamically evolving, the Group has been proactive in closely monitoring the market conditions and taking appropriate measures to respond to the challenges. During the period ended 30 June 2020, the Group has suffered temporary suspension of some of the construction works from February to May 2020 as a result of the COVID-19 epidemic, which has led to delays in schedule of on-going projects of the Group and a decrease in the amount of work recognised during the period ended 30 June 2020. Despite most of the works of on-going projects of the Group has since resumed, the Group has to incur extra cost in order to catch up the delayed schedule. The Group will continue to monitor the development of the COVID-19 epidemic and its impact on the operations and results of the Group, if any. The Group will continue to strengthen its cost control and resources management as well as to actively participate in project tenders, in order to maintain its competitiveness in the market.

In addition, a series of precautionary and control measures have been implemented across the region. In order to ensure the health and safety of our employees and to facilitate the prevention and control of the COVID-19 outbreak, the Group has, (i) promptly established a crisis management working team for coordination and arrangement of provision of services in our premises with the aim to maintain normal operation; (ii) provided sufficient protective equipment and masks to our employees; and (iii) ensured that all our employees have strictly implemented the control and prevention measures formulated by the Group, including the strict observance of personal and environmental hygiene and regular body temperature checks for all employees and visitors entering into our premises.

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 strengthen the market position in the industry and expand the market share by securing more RMAA and cathodic protection works contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately HK\$105.8 million for the six months ended 30 June 2019 to approximately HK\$83.2 million for the six months ended 30 June 2020, representing a drop of approximately 21.3%. Such decrease was mainly due to the effect of decrease in RMAA and cathodic protection works projects and new works projects undertaken by the Group as a result of the overall environment in the construction industry in Hong Kong, and also the delay in schedule of on-going projects caused by COVID-19 as mentioned above.

Direct Costs

The cost of sales decreased from approximately HK\$87.4 million for the six months ended 30 June 2019 to approximately HK\$74.2 million for the six months ended 30 June 2020, representing a decrease of approximately 15.1%. Such decrease was mainly attributable to the decrease in the subcontracting charges and construction material costs incurred with the decrease in the number of RMAA and cathodic protection work projects undertaken by the Group during the period.

Gross Profit

Gross profit of the Group decreased by approximately HK\$9.4 million from approximately HK\$18.4 million for the six months ended 30 June 2019 to approximately HK\$9.0 million for the six months ended 30 June 2020. The decrease was mainly driven by the decrease in gross profit margin for the six months ended 30 June 2020 as discussed above. The overall gross profit margin decrease from approximately 17.4% for the six months ended 30 June 2019 to approximately 10.8% for the six months ended 30 June 2020. The decrease in profit margin was principally attributable to the additional sub-contracting charges which is out of the original budgets of our projects for the six months ended 30 June 2020.

Administrative Expenses

Administrative expenses of the Group increased by approximately HK\$1.3 million or 10.0% from approximately HK\$12.8 million for the six months ended 30 June 2019 to approximately HK\$14.1 million for the six months ended 30 June 2020.

Administrative expenses primarily consist of staff costs, depreciation, transportation and motor vehicle expense, professional service fee and other costs incurred for daily operation. The increase was mainly attributable to the increase in staff costs paid to staff due to business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs for the Group increased by approximately HK\$0.4 million or 69.7% from approximately HK\$0.5 million for the six months ended 30 June 2019 to approximately HK\$0.9 million for the six months ended 30 June 2020. It was mainly due to the increase in usage of loan settlement for trade payables during the six months ended 30 June 2020.

Income Tax Expense

Income tax expense for the Group decreased by approximately HK\$1.4 million or 100% from approximately HK\$1.4 million for the six months ended 30 June 2019 to nil for the six months ended 30 June 2020. The decrease was mainly attributable to the decrease in profit before taxation (excluding the change in fair value of financial assets at fair value through profit or loss) from approximately HK\$5.6 million for the six months ended 30 June 2019 to a loss before taxation of approximately HK\$6.0 million for the six months ended 30 June 2020.

(Loss)/profit for the Period

As a result of foregoing, the Group recognised a loss for the period of approximately HK\$5.9 million for the six months ended 30 June 2020 as compared to profit of approximately HK\$4.2 million for the six months ended 30 June 2019. Such decrease was primarily attributable to the net effect of the decrease in gross profit, increase in administrative expenses and finance costs and decrease in income tax expense as discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio decreased mildly from approximately 1.7 times as at 31 December 2019 to 1.6 times as at 30 June 2020.

As at 30 June 2020, the Group had total borrowings of approximately HK\$33.3 million (31 December 2019: approximately HK\$32.3 million). The gearing ratio, calculated based on the total borrowings divided by total equity at the end of the year/period and multiplied by 100%, increased from approximately 38.3% as at 31 December 2019 to approximately 42.5% as at 30 June 2020 due to the expansion of the Group's business which requires more capital via bank borrowing. 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.

The Group's borrowings and bank balances are denominated in HK\$ and there was no significant exposure to foreign exchange rate fluctuations during the Relevant Period.

For further details regarding the borrowings, please refer to notes 14 and 15.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Relevant Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL STRUCTURE

The shares of the Company were listed on the 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 Company only comprises of ordinary shares.

As at the date of this report, 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 Group's operating lease commitments amounted to approximately HK\$10,000 as at 31 December 2019, there is no such commitments as at 30 June 2020. The operating lease commitments of the Group as at 31 December 2019 were primarily related to the short-term leases of its office premises and carpark spaces.

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed in note 4.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2020, the Group did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2020, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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

CHARGE OF GROUP'S ASSETS

As at 30 June 2020, 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 15.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of 128 employees (31 December 2019: 137 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$23.6 million for the six months ended 30 June 2020 (2019: approximately HK\$23.0 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from the Listing, after deducting Listing related expenses, were approximately HK\$25.2 million. An analysis of the utilisation of the net proceeds from the Listing Date up to the date of this report is set out below:

	Planned use of net proceeds as stated in the announcement dated 15 July 2020 HK\$ million	Actual use of net proceeds from Listing Date to the date of this report HK\$ million
Reserved capital to satisfy the Group's potential customers' requirement for surety/performance bond	1.2	0.7
Further strengthen the Group's manpower	9.4	6.0
Acquisition of additional machinery and equipment	4.3	2.3
Upgrading the Hong Kong office and workshop	7.7	5.7
General working capital	2.6	2.6

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing Prospectus while the proceeds were applied based on the actual development of the Group's business, the actual situation and the industry.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

DISCLOSURE OF INTERESTS

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

As at 30 June 2020, the Company was wholly owned by Advanced Pacific Enterprises Limited, of which the ultimate owner is Mr. Heung Chung Sum.

As at the date of this report, 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 Director	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 Director	Name of associated corporations	Capacity	Number and class of securities	Approximate percentage of shareholding
Mr. Heung Chung Sum	Advanced Pacific Enterprises Limited	Beneficial owner	2 ordinary shares	100%

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at the date of this report, 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
Advanced Pacific Enterprises Limited	Beneficial owner	600,000,000 ordinary shares	Long	75%

Save as disclosed above, as at the date of this report 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.

COMPETING AND CONFLICTS 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 period ended 30 June 2020.

INTERESTS OF COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Red Sun Capital Limited ("Red Sun"), as at 30 June 2020, save for the compliance adviser agreement dated on 9 November 2017 entered into between the Company and Red Sun, neither Red Sun, its directors, employees and associates had any interests in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2020.

CORPORATE GOVERNANCE CODE

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate 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.

As at 30 June 2020, save as disclosed above, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries of all the Directors and the Company was not aware of any noncompliance with the required standard of dealings regarding securities transactions by the Directors throughout the period ended 30 June 2020.

DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 4 June 2018 (“the Scheme”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share options has been granted during the Relevant Period and there were no share options outstanding as at 30 June 2020.

AUDIT COMMITTEE

The Company established an audit committee (“Audit Committee”) with its 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 primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to monitor the integrity of the Company’s annual report and interim financial reports before submission to the Board. The Audit Committee consists of three members, namely Mr. Chan Chi Hang, Dr. Ip Wai Hung, Mr. Ko, Wilson Wai Shun, all being independent non-executive Directors of the Company. Mr. Chan Chi Hang currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020.

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

Hong Kong, 10 August 2020

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

INTERIM RESULT

The board of directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	4	37,928	62,080	83,214	105,780
Direct costs		(32,133)	(50,195)	(74,195)	(87,405)
Gross profit		5,795	11,885	9,019	18,375
Other income		175	240	225	512
Administrative expenses		(7,173)	(6,350)	(14,051)	(12,777)
(Loss)/gain arising from change in fair value of financial assets at fair value through profit or loss		(186)	73	(172)	87
Finance costs		(486)	(402)	(918)	(541)
(Loss)/profit before income tax	5	(1,875)	5,446	(5,897)	5,656
Income tax expense	6	–	(1,360)	–	(1,412)
(Loss)/profit and total comprehensive (expense)/ income for the period		(1,875)	4,086	(5,897)	4,244
(Loss)/earnings per share — Basic and diluted (HK cents)	8	(0.23)	0.51	(0.74)	0.53

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	15,380	13,297
Financial assets at fair value through profit or loss	10	7,506	7,477
		22,886	20,774
Current assets			
Contract assets	12	71,696	77,567
Trade and other receivables	11	68,670	69,225
Amount due from the Controlling Shareholder		447	311
Bank balances and cash		14,328	13,871
		155,141	160,974
Current liabilities			
Contract liabilities	12	2,973	3,278
Trade and other payables	13	56,848	55,058
Lease liabilities	14	1,809	1,503
Bank borrowings	15	33,343	32,279
Income tax payable		3,431	3,137
		98,404	95,255
Net current assets		56,737	65,719
Total assets less current liabilities		79,623	86,493

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Non-current liabilities			
Leases liabilities	14	902	1,581
Deferred tax liabilities		312	606
		1,214	2,187
Net assets		78,409	84,306
CAPITAL AND RESERVES			
Share capital	16	8,000	8,000
Reserves		70,409	76,306
Total equity		78,409	84,306

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share capital HK\$'000 (Note 16)	Share premium HK\$'000	Capital reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2020 (audited)	8,000	33,324	1,941	41,041	84,306
Loss and total comprehensive expense for the period	-	-	-	(5,897)	(5,897)
At 30 June 2020 (unaudited)	8,000	33,324	1,941	35,144	78,409
At 1 January 2019 (audited)	8,000	33,324	1,941	38,783	82,048
Profit and total comprehensive income for the period	-	-	-	4,244	4,244
At 30 June 2019 (unaudited)	8,000	33,324	1,941	43,027	86,292

Note: Capital reserve represents the difference between the Company's share capital and the combined share capital of the subsidiaries of the Company pursuant to a reorganisation for the listing.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<i>Net cash from/(used in) operating activities</i>	4,845	(23,608)
Investing activities		
Purchase of property, plant and equipment	(3,826)	(3,821)
Acquisition of financial assets at fair value through profit or loss	(201)	–
Proceeds from disposal of property, plant and equipment	–	20
Interest received	2	1
<i>Net cash used in investing activities</i>	(4,025)	(3,800)
Financing activities		
Proceeds from bank borrowings	12,000	28,000
Repayment of bank borrowings	(10,936)	(14,482)
Payment of lease liabilities	(373)	(801)
Net changes in amount due from Controlling Shareholder	(136)	72
Interest paid	(918)	(541)
<i>Net cash (used in)/from financing activities</i>	(363)	12,248
Net increase/(decrease) in cash and cash equivalents	457	(15,160)
Cash and cash equivalents at the beginning of the period	13,871	28,336
Cash and cash equivalents at the end of the period	14,328	13,176
Analysis of cash and cash equivalent balances		
Bank balances and cash	14,328	13,176

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 April 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The immediate and ultimate holding company is Advanced Pacific Enterprises Limited, a company incorporated in the British Virgin Islands, which is controlled by Mr. Heung Chung Sum (“Controlling Shareholder” or “Mr. Heung”). The address of the registered office and principal place of business of the Company are at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands and Nos. 7 & 8, 8/F, Shatin Galleria, 18–24 Shan Mei Street, Fotan, New Territories, Hong Kong, respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to 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 unaudited condensed consolidated interim financial statements are presented in Hong Kong dollar (“HK\$”) which is the same as the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands (“HK\$’000”), except where otherwise indicated.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial information for the year ended 31 December 2019.

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis. The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the Group’s audited consolidated financial information for the year ended 31 December 2019, except for the adoption of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group’s operations and mandatory for accounting periods beginning on or after 1 January 2020. Except for those disclosed in note 3, the effect of the adoption of these new and revised standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

The preparation of the unaudited condensed consolidated interim financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise their judgments in the process of applying the Group’s accounting policies.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by the Company’s audit committee.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

3. ADOPTION OF NEW OR AMENDED HKFRSS

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2020

The condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with the accounting policies adopted in the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of the following new and amended HKFRSs effective as of 1 January 2020. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

4. REVENUE AND SEGMENT INFORMATION

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

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
RMAA works	37,251	46,596	77,232	83,417
New construction works	103	8,934	606	12,412
Cathodic protection works	574	6,550	5,376	9,951
Contract revenue	37,928	62,080	83,214	105,780

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Company. The CODM 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 reviews the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

(a) 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

(b) Major customers

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Customer A	17,796	25,695	33,779	46,072
Customer B	N/A	7,508	N/A	12,923
Customer C	4,596	N/A	8,979	N/A

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

(c) Unsatisfied 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 30 June 2020:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Remaining performance obligations expected to be satisfied		
Within one year	126,099	99,878
Over one year	9,500	10,900
	135,599	110,778

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

5. (LOSS)/PROFIT BEFORE INCOME TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
(a) Staff costs (including directors' remuneration):				
Salaries and other allowances	11,352	10,878	22,683	22,153
Retirement benefit scheme contributions	485	445	952	869
	11,837	11,323	23,635	23,022
(b) Other items				
Auditor's remuneration	–	152	–	152
Depreciation of property, plant and equipment				
— assets held under finance lease	–	188	–	467
— right-of-use assets	436	151	725	386
— owned	553	341	1,018	557
Operating lease charges in respect of				
— short term leases and leases with lease term shorter than 12 months	–	123	–	171
Provision for/(Reversal of) expected credit losses ("ECL") allowance	42	37	(8)	62

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

6. 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.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no estimated assessable profits for the six months ended 30 June 2020.

For the six months ended 30 June 2019, the provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2 million are taxed at 16.5%.

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Hong Kong Profits Tax — Current year	—	1,360	—	1,412

7. DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020 and 2019.

8. (LOSS)/EARNINGS PER SHARE

The calculations of basic earnings per share attributable to the equity holders of the Company are based on the followings:

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
(Loss)/Earnings: (Loss)/Profit for the period attributable to equity holder of the Company	(1,875)	4,086	(5,897)	4,244
Number of shares: Weighted average number of ordinary shares (in thousands)	800,000	800,000	800,000	800,000

Diluted earnings per share for both periods were the same as basic earning per share as there were no potential ordinary shares outstanding.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group incurred approximately HK\$3,826,000 (six months ended 30 June 2019: HK\$3,821,000) on the acquisition of property, plant and equipment.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Investments in life insurance policies	7,506	7,477

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 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\$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\$7,153,000). 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.

In April 2020, the Group's subsidiary, TKEL entered into 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 HK\$208,000. The Group was required to pay a one-off premium payment of HK\$208,000. 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 5th 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

Financial assets and liabilities measured at fair value in the condensed 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 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2020 (unaudited)				
Financial assets at fair value through profit or loss				
— Investments in life insurance policies	–	7,506	–	7,506
As at 31 December 2019 (audited)				
Financial assets at fair value through profit or loss				
— Investments in life insurance policies	–	7,477	–	7,477

During the reporting period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The fair value of investments in life insurance policies are determined by reference to the Cash Value as provided by the insurance companies.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Trade and retention receivables		
Trade receivables	46,455	46,177
Retention receivables	16,204	16,855
Less: ECL allowance	(1,455)	(1,457)
	61,204	61,575
Deposits, prepayments and other receivables		
Prepayments	1,544	4,413
Deposits paid to suppliers and subcontractors	2,873	203
Security for issuance of performance bonds	1,565	1,770
Other deposits	1,409	1,255
Other receivables	75	9
	7,466	7,650
	68,670	69,225

As at 30 June 2020 (unaudited), retention receivables of HK\$2,950,000 (2019: HK\$3,206,000) included under current assets in the condensed consolidated statement of financial position are expected to be recovered after one year.

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

The Group usually grants credit period ranging from 30 to 60 days to customers other than retention receivables. The terms and conditions in relation to the release of retention vary from contract to contract, which will be subject to the completion of the construction works and 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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Within 30 days	30,753	29,716
31 days to 60 days	7,268	8,635
61 days to 90 days	3,124	2,032
91 days to 365 days	5,260	5,723
Over 365 days	50	71
	46,455	46,177

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

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
At the beginning of the period/year	1,457	1,466
Reversal of ECL allowance recognised during the period/year	(2)	(9)
At the end of the period/year	1,455	1,457

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

12. CONTRACT ASSETS/CONTRACT LIABILITIES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Contract assets	71,768	77,645
Less: ECL allowance	(72)	(78)
	71,696	77,567
Contract liabilities	(2,973)	(3,278)
	68,723	74,289

The contract assets primarily relate to the Group's rights to consideration for work completed but not 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 six months ended 30 June 2020 from performance obligations satisfied in previous periods, mainly due to the changes in estimate of stage of completion and modification of contracts, is HK\$1,605,000 (2019: HK\$632,000).

	As at 30 June 2020		As at 31 December 2019	
	Contract assets HK\$'000 (unaudited)	Contract liabilities HK\$'000 (unaudited)	Contract assets HK\$'000 (unaudited)	Contract liabilities HK\$'000 (unaudited)
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	–	1,460	–	1,649
Transfers from contract assets recognised at the beginning of the period to receivables	40,421	–	49,199	–

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. TRADE AND OTHER PAYABLES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Trade and retention payables		
— Trade payables	44,522	41,630
— Retention payables	6,771	6,735
	51,293	48,365
Accrued expenses and other payable	3,753	4,979
Provision for annual leave and long service payment	1,802	1,714
	5,555	6,693
Total trade and other payables	56,848	55,058

The credit period on trade payables ranges from 30 to 60 days.

The following is an ageing analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
0–30 days	37,729	35,910
31–60 days	6,214	5,105
61–90 days	210	53
91–365 days	369	562
	44,522	41,630

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. LEASE LIABILITIES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Total minimum lease payments:		
— Within one year	1,350	1,600
— After one year but within two years	882	978
— After two years but within five years	614	661
	2,846	3,239
Future finance charges on leases liabilities	(135)	(155)
Present value of leases liabilities	2,711	3,084
Present value of minimum lease payments:		
— Within one year	1,809	1,503
— After one year but within two years	618	932
— After two years but within five years	284	649
	2,711	3,084
Less: Portion due within one year included under current liabilities	(1,809)	(1,503)
Portion due after one year included under non-current liabilities	902	1,581

As at 30 June 2020, lease liabilities of HK\$1,979,000 (2019: HK\$2,194,000) 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.

During the six months ended 30 June 2020, the total cash outflows for the leases were HK\$373,000 (six months ended 30 June 2019: HK\$801,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15. BANK BORROWINGS

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Bank loans, secured		
— repayable within one year	26,661	22,211
— not repayable within one year from the end of the reporting period but contain a repayable on demand clause	6,682	10,068
Amount shown under current liabilities	33,343	32,279

The bank loans were secured by:

- (a) land and building with a net book amount of HK\$4,453,000 (2019: HK\$4,676,000) as at 30 June 2020;
- (b) legal charge on life insurance policies with a carrying amount of HK\$7,506,000 (2019: HK\$7,477,000) as at 30 June 2020;
- (c) corporate guarantee by the Company.

16. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised		
At 1 January 2019 and 31 December 2019 and 1 January 2020 and 30 June 2020	10,000,000,000	100,000
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 1 January 2020 and 30 June 2020	800,000,000	8,000

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. RELATED PARTY DISCLOSURES

17.1 Transactions

In addition to the transactions detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group entered into the following transactions with related parties during the period:

Related parties	Nature of transactions	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Mr. Heung Chung Sum	Lease payment	42	42	84	84

17.2 Compensation of key management personnel

Related parties	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Salaries and other allowances	1,562	1,505	3,124	3,385
Retirement benefits scheme contributions	35	35	70	71
	1,597	1,540	3,194	3,456

The remuneration of key management personnel is determined with regard to the performance of the individuals and market trends.