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Wing Fung Group Asia Limited

榮豐集團亞洲有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8526)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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.

*This announcement, for which the directors (the “**Directors**”) of Wing Fung Group Asia 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 and its subsidiaries (collectively, the “**Group**”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

ANNUAL RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020, together with the comparative audited figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	3	221,225	190,486
Cost of sales	4	<u>(179,561)</u>	<u>(145,242)</u>
Gross profit		41,664	45,244
Other income, net		5,332	164
Impairment losses on trade receivables and contract assets	4	(590)	(1,195)
Administrative expenses	4	(15,311)	(17,490)
Expenses in relation to the transfer of listing	4	<u>(4,403)</u>	<u>—</u>
Operating profit		26,692	26,723
Finance costs		<u>(980)</u>	<u>(552)</u>
Profit before income tax		25,712	26,171
Income tax expense	5	<u>(3,141)</u>	<u>(4,860)</u>
Profit for the year		22,571	21,311
Other comprehensive income for the year, net of tax			
<i>Item that may be reclassified to profit or loss:</i>			
— Exchange differences on translation of a foreign operation		<u>95</u>	<u>159</u>
Total comprehensive income for the year		<u>22,666</u>	<u>21,470</u>
Basic and diluted earnings per share for profit attributable to the ordinary equity holders of the Company (HK cents per share)	7	<u>3.93</u>	<u>3.71</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Plant and equipment		895	1,177
Right-of-use assets		1,265	812
Deferred income tax assets		367	211
		<u>2,527</u>	<u>2,200</u>
Current assets			
Contract assets	8	100,566	29,247
Trade and other receivables, deposits and prepayments	9	74,595	67,814
Pledged and restricted bank deposits	10	20,212	13,407
Cash and cash equivalents	10	18,718	28,071
		<u>214,091</u>	<u>138,539</u>
Total assets		<u>216,618</u>	<u>140,739</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		—	730
Lease liabilities		536	181
		<u>536</u>	<u>911</u>
Current liabilities			
Trade and retention payables	11	40,953	23,180
Other payables and accrued expenses		5,758	3,911
Lease liabilities		737	645
Current income tax liabilities		5,620	3,517
Bank borrowings	12	38,224	6,451
		<u>91,292</u>	<u>37,704</u>
Total liabilities		<u>91,828</u>	<u>38,615</u>
Net assets		<u>124,790</u>	<u>102,124</u>
EQUITY			
Share capital	13	5,740	5,740
Reserves		119,050	96,384
Total equity		<u>124,790</u>	<u>102,124</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 31 December 2020

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 September 2016 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of Units 13 & 14, 9th Floor, Worldwide Industrial Centre, 43-47 Shan Mei Street, Fotan, the New Territories, Hong Kong was valid until 31 December 2020. The new principal place of business is Unit D, 21st Floor, Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong, effective from 1 January 2021.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of supply, installation and fitting-out services of mechanical ventilation and air-conditioning ("MVAC") system for buildings. The Company's immediate and ultimate holding company is Wing Fung Capital Limited, a private company incorporated in the British Virgin Islands.

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

The Company listed its shares on GEM of the Stock Exchange on 27 February 2018 (the "Listing").

2 BASIS OF PREPARATION

The consolidated financial information of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial information have been prepared under the historical cost convention.

The preparation of consolidated financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New standards, amendments to standards and interpretation adopted by the Group

The Group has applied the following standards, amendments and interpretation for the first time for their annual reporting period commencing on 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting

The adoption of the above new standards, amendments and interpretation did not have any significant impact on the significant accounting policies of the Group and the presentation of these consolidated financial information.

(b) New standards, amendments to standards and revised conceptual framework that are not yet effective and have not been early adopted by the Group

The following new standards, amendments to standards and revised conceptual framework have been published and are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ¹
Amendments to HKFRS 16	Covid-19 Related Rent Concessions ¹
Amendments to Annual Improvement Project	Annual Improvements to HKFRSs 2018–2020 ²
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for the Group for annual periods beginning on or after 1 January 2021

² Effective for the Group for annual periods beginning on or after 1 January 2022

³ Effective for the Group for annual periods beginning on or after 1 January 2023

⁴ Date to be determined

The Group will apply the above new standards, amendments and revised conceptual framework when they become effective. The Group anticipates that the application of the above new standards, amendments and revised conceptual framework have no material impact on the results and the financial position of the Group.

3 REVENUE AND SEGMENT INFORMATION

The Group's revenue are derived from the provision of supply, installation, and fitting-out services of MVAC system for buildings to external customers in Hong Kong and Macau during the year. For the purposes of resources allocation and performance assessment, the chief operating decision maker reviews the overall results and financial position of the Group as a whole prepared based on the Group's accounting policies. The Group has only one single operating segment and no further analysis of this single segment is presented.

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from construction contracts	<u>221,225</u>	<u>190,486</u>

The Group's revenue is recognised over time for the years ended 31 December 2020 and 2019.

Unsatisfied construction contracts

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and 2019 and the expected timing of recognising revenue are as follows:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from construction contracts to be recognised		
— Within one year	280,971	275,053
— More than one year	336,402	101,218
	<u>336,402</u>	<u>101,218</u>

Geographical information

The following table provides an analysis of the Group's revenue from external customers based on geographical location of the customers:

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	163,156	152,916
Macau	58,069	37,570
	<u>221,225</u>	<u>190,486</u>

The following is an analysis of the carrying amounts of non-current assets, excluding deferred income tax assets, analysed by the geographical area in which the assets are located:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,566	1,031
Macau	594	958
	<u>2,160</u>	<u>1,989</u>

Information about major customers

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

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	N/A ¹	38,617
Customer B	68,467	98,808
Customer C	N/A ¹	19,058
Customer D	44,333	N/A ¹
Customer E	80,590	N/A ¹
Customer F	25,408	N/A ¹

¹ Revenue from the customer is less than 10% of the total revenue of the Group for the respective years.

4 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs of materials	61,929	38,225
Subcontractor costs	92,566	89,214
Employee benefit expenses		
— directors' remuneration	4,309	6,648
— direct labour	16,986	14,934
— administrative staff	2,376	2,767
Impairment losses on trade receivables	317	946
Impairment losses on contract assets	273	249
Auditor's remuneration		
— Audit services	1,100	1,000
— Non-audit services	68	70
Depreciation of plant and equipment	379	372
Depreciation of right-of-use assets	685	462
Operating lease rentals in respect of minimum lease payments of rented premises	1,317	668
Expenses in relation to the transfer of listing	4,403	—
Write-off of plant and equipment	12	—
Legal and professional fees	2,674	2,815
Travelling expenses	699	404
Other expenses	9,772	5,153
	199,865	163,927

5 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax:		
— Hong Kong profits tax	4,145	2,509
— Macau complementary tax	196	1,777
— (Over)/under provision in prior years	(314)	3
	<u>4,027</u>	<u>4,289</u>
Deferred income tax	(886)	571
	<u>(886)</u>	<u>571</u>
Income tax expense	<u>3,141</u>	<u>4,860</u>

(i) Hong Kong profits tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2019: 16.5%).

(ii) Macau Complementary Tax

Pursuant to a tax incentive approved under Section 20 of Decree Law No. 11/2016, Macau Complementary Tax is levied at a fixed rate of 12% (2019: 12%) on the taxable income above Macau Pataca (“**MOP**”) 600,000 (approximately HK\$586,000) of the Group’s operations in Macau. On 16 April 2020, the Legislative Assembly approved an additional tax incentive to reduce the 2019 complementary tax payment by MOP300,000 (approximately HK\$293,000) as a relief measure for the negative impacts of COVID-19.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>25,712</u>	<u>26,171</u>
Tax calculated at the applicable tax rates	3,943	3,549
Expenses not deductible for tax purpose	2,006	1,173
Income not subject to tax	(2,222)	(81)
(Over)/under provision in prior years	(314)	3
Others	<u>(272)</u>	<u>216</u>
Income tax expense	<u><u>3,141</u></u>	<u><u>4,860</u></u>

6 DIVIDENDS

No dividend was declared or paid by the Company during the year ended 31 December 2020 (2019: Nil).

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to owners of the Company (in HK\$'000)	<u>22,571</u>	<u>21,311</u>
Weighted average number of ordinary shares in issue	<u>574,000,000</u>	<u>574,000,000</u>
Basic earnings per share (HK cents per share)	<u><u>3.93</u></u>	<u><u>3.71</u></u>

Diluted earnings per share is equal to the basic earnings per share since the Company has no dilutive potential shares during the year ended 31 December 2020 (2019: Nil).

8 CONTRACT ASSETS

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction contracts	101,558	29,965
Less: Provision for impairment loss allowance	(992)	(718)
	<u>100,566</u>	<u>29,247</u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of payment certificates issued by the customers when such right of collections becomes unconditional other than the passage of time.

Movement in the allowance for doubtful debts on contract assets:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	718	467
Exchange differences	1	2
Impairment loss allowance recognised	273	249
	<u>992</u>	<u>718</u>

9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (<i>Note i</i>)	73,723	67,939
Less: Provision for impairment loss allowance	(2,435)	(2,115)
	<u>71,288</u>	<u>65,824</u>
Other receivables and deposits (<i>Note ii</i>)	1,188	402
Other current assets — prepayments	2,119	1,588
	<u>74,595</u>	<u>67,814</u>

(i) **Trade receivables**

Trade receivables arise from the provision of supply, installation and fitting-out services of MVAC system for buildings. The Group grants a credit period ranged from 30 to 45 days to its customers. The following is an aging analysis of trade receivables based on valuation dates of payment certificates or reports net of provision for impairment loss allowance at the end of the reporting period:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	30,072	29,917
31 to 60 days	22,698	11,180
61 to 90 days	891	16,073
91 to 180 days	1,486	8,654
181 to 365 days	5,368	—
Within 1 to 2 years	10,773	—
	<u>71,288</u>	<u>65,824</u>

The fair value of trade receivables approximate their carrying values.

The carrying amounts of trade receivables are denominated in the following currencies:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	58,883	38,470
MOP	12,405	27,354
	<u>71,288</u>	<u>65,824</u>

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed periodically. Management of the Group closely monitors the credit quality of trade receivables and considers 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.

Movement of the provision for impairment loss allowance on trade receivables are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	2,115	1,165
Exchange differences	3	4
Impairment loss allowance recognised	<u>317</u>	<u>946</u>
At 31 December	<u><u>2,435</u></u>	<u><u>2,115</u></u>

(ii) Other receivables and deposits

The fair value of other receivables and deposits approximate their carrying values.

10 PLEDGED AND RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Pledged bank deposits	11,927	3,132
Restricted bank deposits	<u>8,285</u>	<u>10,275</u>
	<u><u>20,212</u></u>	<u><u>13,407</u></u>
Cash and cash equivalents	18,718	28,071
Bank overdrafts (<i>Note 12</i>)	<u>(9,461)</u>	<u>—</u>
	<u><u>9,257</u></u>	<u><u>28,071</u></u>

The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group (including overdraft and performance guarantee issued by the banks) with maturity within one year from the end of the reporting period and is therefore classified as a current asset. The pledged bank deposits carried interest at a fixed rate ranging from 1.5% to 1.55% per annum as at 31 December 2020 (2019: 2.0% per annum).

The restricted bank deposits represent cash held at banks as security for due performance under several service contracts of MVAC system for buildings with prevailing market interest rate ranging from 0.01% to 2.1% per annum as at 31 December 2020 (2019: 0.25% to 0.3% per annum) (Note 14).

The carrying amounts of pledged and restricted bank deposits and cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	24,414	33,330
MOP	5,055	8,148
	<u>29,469</u>	<u>41,478</u>

11 TRADE AND RETENTION PAYABLES

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
— Third parties	30,359	12,609
— Related parties	—	937
	<u>30,359</u>	<u>13,546</u>
Retention payables	10,594	9,634
	<u>40,953</u>	<u>23,180</u>

The credit period of trade payables granted by subcontractors and suppliers range from 30 to 60 days upon the issue of invoices or application of interim payment generally.

The following is an aging analysis of trade payables based on the invoice dates or the dates of application of interim payment, as appropriate.

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	21,988	7,396
31 to 60 days	5,270	2,330
61 to 90 days	190	134
91 to 180 days	140	138
181 days to 1 year	98	—
Over 1 year	2,673	3,548
	<u>30,359</u>	<u>13,546</u>

Retention payables to subcontractors are interest-free and payable at the end of the defect liability period of individual contracts, normally one year from the completion date of the respective project.

The retention payables are expected to be settled, based on the expiry date of the defect liability period, at the end of the reporting period as follows:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within one year	3,763	2,378
Due after one year	<u>6,831</u>	<u>7,256</u>
	<u>10,594</u>	<u>9,634</u>

The carrying amounts of trade and retention payables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	34,230	17,194
MOP	<u>6,723</u>	<u>5,986</u>
	<u>40,953</u>	<u>23,180</u>

12 BANK BORROWINGS

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured		
— Bank borrowings	28,763	6,451
— Bank overdrafts	<u>9,461</u>	<u>—</u>
	<u>38,224</u>	<u>6,451</u>

The fair value of the bank borrowings approximate their carrying amounts as the impact of discounting is not significant.

14 CONTINGENCIES

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Performance bonds (<i>Note a</i>)	17,343	10,275
Corporate guarantee (<i>Note b</i>)	4,376	—
	<u>21,719</u>	<u>10,275</u>

Note a:

Balance refers to the indemnities issued to a bank for performance bonds in respect of construction contracts. In the event of non-performance, the customers might call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

Note b:

As at 31 December 2020, the Group provided corporate guarantee amounted to approximately HK\$4,376,000 (2019: Nil) to a customer as an indemnity for a construction contract.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group is principally engaged as a subcontractor for the provision of supply, installation and fitting-out services of MVAC system for various types of private and public building projects including infrastructural, commercial and residential building projects in Hong Kong and Macau.

Since the outbreak of the novel coronavirus (COVID-19) in early 2020, the pandemic has continued to generate unprecedented disruptions in business operations on a global scale. Despite the market downturn, and the suffering from temporary suspension of construction works in February and March 2020 leading to a decrease in the amount of work recognised during the first quarter of 2020 for the Group, the Group has remained resilient and recorded an increase in revenue for the year ended 31 December 2020 as compared to the year ended 31 December 2019. In particular, during the second half of 2020, amongst the new projects awarded to the Group, two new projects with an initial contract sum exceeding HK\$88 million and HK\$159 million respectively marked a new business milestone in the development of the Group for being the largest contracts in terms of contract sum the Group has ever been awarded in Hong Kong. The Group will continue to regularly and closely monitor the progress of its on-going projects and will continue to identify suitable tender opportunities and submit tenders for potential projects to maximize the Group's profits and return to its shareholders.

Further, as disclosed in the announcement of the Company dated 23 July 2020, the work of a project with a contract sum of over MOP170 million (the “**Affected Project**”) was suspended since 31 July 2020. The revenue contribution of the Affected Project in the second half of year 2020 was impacted as a result of the delay in completion accordingly. As at the date of this announcement, the work for the Affected Project is still pending further instruction or notice from the customer. Other than the Affected Project, the work of all other on-going projects of the Group are progressing as scheduled and the pipeline of projects of the Group remains sufficient. While it is unclear how much longer the COVID-19 pandemic may last and the extent of impact on the local and global economy, the Group will continue to pay attention to the situation of the pandemic and assess its impact on the operations and financial performance of the Group, and will make further announcement(s) as and when appropriate.

On the corporate development front, the Company submitted an application for a transfer of listing from GEM to the Main Board of the Stock Exchange (the “**Proposed Transfer of Listing**”) on 14 May 2020 and the said application was renewed on 23 November 2020, details of which have been set out in the announcements of the Company published on the respective dates.

Looking forward, the Board remains confident in the core competencies and prospect of the Group, and is committed in creating long-term value to the shareholders of the Company.

Financial Review

Revenue

Our revenue increased from approximately HK\$190.5 million for the year ended 31 December 2019 to approximately HK\$221.2 million for the year ended 31 December 2020, representing an increase of approximately 16.1%. In particular, while the Group recorded (i) an increase in revenue of approximately HK\$52.6 million from new projects (in particular two new projects located at Chek Lap Kok which collectively contributed to an increase in revenue of approximately HK\$47.3 million); and (ii) an increase in revenue of approximately HK\$134.0 million due to the increase in the amount of work under our existing projects as compared with the year ended 31 December 2019 (in particular, another project located at Chek Lap Kok and a project located at Freguesia da Sé in Macau), the aforesaid increments were offset by (i) a decrease in revenue of approximately HK\$39.8 million resulting from the completion of certain projects during the year ended 31 December 2020; and (ii) a decrease in revenue of approximately HK\$116.1 million due to the decrease in the amount of work under our existing projects as compared with the year ended 31 December 2019 (in particular, two projects located at Shatin and Taipa in Macau together accounted for a decrease in revenue of approximately HK\$79.0 million).

Cost of Sales

Our cost of sales increased from approximately HK\$145.2 million for the year ended 31 December 2019 to approximately HK\$179.6 million for the year ended 31 December 2020, representing an increase of approximately 23.7% which was in line with the increase in our revenue for the year ended 31 December 2020.

Gross Profit and Gross Profit Margin

Our gross profit decreased by approximately 7.7% from approximately HK\$45.2 million for the year ended 31 December 2019 to approximately HK\$41.7 million for the year ended 31 December 2020. The decrease in our gross profit was primarily due to the decrease in our gross profit margin from approximately 23.8% for the year ended 31 December 2019 to approximately 18.8% for the year ended 31 December 2020. The decrease in our gross profit margin was mainly attributable to the decrease in the amount of our works in the project located at Shatin (under which the Group could charge a higher premium due to a tight construction schedule imposed by the customer) and another project located at Taipa in Macau (under which the Group charged a higher premium due to variation orders performed by the Group during year ended 31 December 2019). Contribution from projects located at Shatin and Taipa in Macau to the Group's total revenue have decreased from 40.5% and 8.6% respectively for the year ended 31 December 2019 to 6.5% and 0.08% respectively for the year ended 31 December 2020.

Administrative Expenses

Our administrative expenses decreased by approximately HK\$2.2 million, or approximately 12.6%, from approximately HK\$17.5 million for the year ended 31 December 2019 to approximately HK\$15.3 million for the year ended 31 December 2020, mainly attributable to the decrease in the staff costs such as the Directors' remuneration.

In view of the economic downturn in the second half 2020 which was mainly due to the successive waves of COVID-19, the Group has adopted various measures to strengthen its cost control to maintain its competitiveness in the market. After comprehensive assessment, our Executive Directors, namely Mr. Chung Chi Keung (“**Mr. Chung**”) and Ms. Lai Suk Fan, agreed to reduce their remuneration as one of the temporary cost control measures.

Expenses in Relation to the Transfer of Listing

During the year ended 31 December 2020, our Group recognised non-recurring professional service fees of approximately HK\$4.4 million in connection with the Proposed Transfer of Listing. No such expense was recognised for the year ended 31 December 2019.

Income Tax Expense

Income tax expense for the Group decreased by approximately 36.7% from approximately HK\$4.9 million for the year ended 31 December 2019 to approximately HK\$3.1 million for the year ended 31 December 2020. The decrease was mainly due to the increase in other income not subject to tax.

Profit for the Year

As a result of the foregoing, our profit for the year recorded a modest increase by approximately HK\$1.3 million from approximately HK\$21.3 million for the year ended 31 December 2019 to approximately HK\$22.6 million for the year ended 31 December 2020. Excluding the one-off expenses incurred during the year ended 31 December 2020 for the Proposed Transfer of Listing, our adjusted profit increased by approximately HK\$5.7 million or approximately 26.8% from approximately HK\$21.3 million for the year ended 31 December 2019 to approximately HK\$27.0 million for the year ended 31 December 2020.

Liquidity and Financial Resources

As at 31 December 2020, the Group had total assets of approximately HK\$216.6 million (2019: approximately HK\$140.7 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$91.8 million (2019: approximately HK\$38.6 million) and approximately HK\$124.8 million (2019: approximately HK\$102.1 million), respectively.

The total interest-bearing borrowings (including bank borrowings and bank overdrafts) of the Group increased from approximately HK\$6.5 million as at 31 December 2019 to approximately HK\$38.2 million as at 31 December 2020 which was mainly attributable to the drawdown of revolving loans and bank overdrafts, partially offset by the repayment of a bank borrowing. Current ratio decreased from 3.7 times as at 31 December 2019 to approximately 2.3 times as at 31 December 2020.

The Group's borrowing and bank balances are mainly denominated in Hong Kong dollars and there was no significant exposure to foreign exchange rate fluctuations during the year.

The Group's gearing ratio, which is calculated by dividing the total interest-bearing borrowings and lease liabilities by total equity at the year-end date, increased from approximately 7.1% as at 31 December 2019 to approximately 31.7% as at 31 December 2020, primarily due to (i) the increase in the total interest-bearing borrowings which was due to the drawdown of revolving loans and bank overdrafts during the year; and (ii) the increase in total equity resulting from the increase in retained earnings attributable to recording a net profit for the year ended 31 December 2020.

Capital Structure

The shares of the Company (the "Shares") were successfully listed on GEM of the Stock Exchange on 27 February 2018. Immediately upon Listing, the total issued share capital of the Company was HK\$5,740,000 divided into 574,000,000 Shares of par value of HK\$0.01 each. There has been no change in the capital structure of the Group since then. The share capital of the Group comprises only ordinary shares.

As at 31 December 2020 and 2019, the Company's issued share capital was HK\$5,740,000 divided into 574,000,000 ordinary Shares of par value of HK\$0.01 each.

Capital Commitments

As at 31 December 2020 and 2019, the Group did not have any capital commitments contracted but not provided for.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus of the Company dated 12 February 2018 (the “Prospectus”) and this announcement, the Group did not have any plans for material investments or capital assets as at 31 December 2020.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2020, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Contingent Liabilities

Save as disclosed in Note 14 of the notes to the consolidated financial information, as at 31 December 2020 and 31 December 2019, the Group did not have other material contingent liabilities.

Foreign Exchange Exposure

The Group’s revenue generating operations are mainly transacted in Hong Kong dollars and MOP. The Directors consider the impact of foreign exchange exposure to the Group is minimal and the Group did not engage in any derivatives agreements nor commit to any financial instrument to hedge its foreign exchange exposure during the year ended 31 December 2020.

Pledge of Assets

Save as disclosed in Note 10 of the notes to the consolidated financial information, as at 31 December 2020 and 2019, the Group did not have other pledge of assets.

Employees and Remuneration Policies

As at 31 December 2020, the Group employed a total of 527 (31 December 2019: 170) employees, of whom 458 (31 December 2019: 116) were labour workers nominated by subcontractors. The increase in the number of employees was mainly attributable to the increase of labour workers nominated by subcontractors in respect of a new project located at Chek Lap Kok which was commenced and completed in 2020. The relevant cost of employing the labour workers nominated by subcontractors was classified as subcontracting charges and the staff costs, including Directors’ emoluments, of the Group were approximately HK\$23.7 million for the year ended 31 December 2020 (2019: approximately HK\$24.3 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees’ performance, qualification and experience). On top of basic

salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses.

Events after the Reporting Period

No significant events have taken place subsequent to 31 December 2020 and up to the date of this announcement.

COMPETING INTEREST

The Directors are not aware of any business or interest of the Directors or the Controlling Shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective close 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 2020.

CORPORATE GOVERNANCE CODE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to enhance the accountability system and transparency of the Group, protect the interests of the Company's stakeholders and create value for shareholders of the Company.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. Throughout the year ended 31 December 2020, the Company has adopted and complied with, where applicable, the CG Code to ensure that the Group's business activities and decision making processes are regulated in a proper and prudent manner, except for code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Chung is currently the chairman of the Board and the chief executive officer of the Company, responsible for formulating the overall business strategies and overseeing the business and operation of the Group. Considering that Mr. Chung has been responsible for the overall management and operation of the Group since its inception, the Board believes that it is in the best interest of the Group to have Mr. Chung taking up both roles for effective management and business development.

Save as disclosed above, the Board considered that the Company has complied with the CG Code during the year ended 31 December 2020.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group 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 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and all Directors confirmed that they had complied with the required standard of dealings regarding securities transactions during the year ended 31 December 2020. 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 2020.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the date of the Listing to 31 December 2020 is set out below:

Business strategies as stated in the Prospectus	Implementation plan as stated in the Prospectus	Actual business progress up to 31 December 2020
Employment of additional staff and provision of relevant training	Payroll for newly employed staff	During the year ended 31 December 2020, the Group recruited 6 new junior to senior level engineering staff. Taking into account the new recruits in 2018 and 2019, the Company has incurred staff costs of approximately HK\$11.6 million as at 31 December 2020 for all 19 new headcounts in our project team and one administrative staff recruited by the Group since the Listing.
	Sponsor project team to attend technical seminars and occupational health and safety courses	As at 31 December 2020, the Group has paid approximately HK\$7,000 to sponsor its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties.

Business strategies as stated in the Prospectus	Implementation plan as stated in the Prospectus	Actual business progress up to 31 December 2020
	Purchase building information modeling BIM software	As at 31 December 2020, the Group acquired BIM software in the amount of approximately HK\$36,000.
	Provide training to staff for the BIM software	As at 31 December 2020, the Group has paid approximately HK\$18,000 to sponsor its engineering staff to attend training for BIM software.
Leasing of a new office and employment of additional staff in Macau	Rental for new Macau office	The Group has leased a new office located in Cotai, Macau in May 2018 and has utilised approximately HK\$0.5 million for the relevant rental expenses as at 31 December 2020.
	Payroll for newly employed administrative staff in Macau	The Group has hired two administrative staff in Macau thereby incurring additional staff cost of approximately HK\$0.6 million as at 31 December 2020.
	Purchase leasehold improvement, purchase of furniture and fixtures for the new Macau office	As at 31 December 2020, the Group has purchased furniture and fixtures in the amount of approximately HK\$0.2 million for the new Macau office.

USE OF PROCEEDS

The Shares were listed on GEM on 27 February 2018 pursuant to the initial public offering of the Company. The net proceeds from the Listing (after deducting the underwriting fees and expenses related to the Listing) amounted to approximately HK\$27.2 million.

Up to 31 December 2020, the net proceeds had been utilised as follows:

	Allocation of total net proceeds up to 31 December 2020 in the manner as stated in the Prospectus <i>HK\$ million</i>	Actual use of net proceeds up to 31 December 2020 <i>HK\$ million</i>	Unutilised net proceeds as at 31 December 2020 (the “Unutilised Proceeds”) <i>HK\$ million</i>	Expected use of the Unutilised Proceeds up to 31 December 2021 30 June 2022 <i>HK\$ million</i>	
Acquisition of performance bond for new projects	7.2	7.2	—	—	—
Employment of additional staff and provision of relevant training	17.4	11.7	5.7	5.7	—
Leasing of a new office and employment of additional staff in Macau	2.4	1.3	1.1	0.8	0.3
Working capital	0.2	0.2	—	—	—
Total	<u>27.2</u>	<u>20.4</u>	<u>6.8</u>	<u>6.5</u>	<u>0.3</u>

During the year ended 31 December 2020, the Group has applied the net proceeds according to the plans disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus despite experiencing certain delay when compared to the planned timeframe. While the Group continues to look for new recruits, the Group has encountered continuous difficulty in hiring experienced project management staff with the required MVAC system services industry knowledge. However, in light of the uncertain market conditions, the Company will continue to adopt a prudent approach in its recruitment policy and monitor the use of its proceeds to ensure it is able to execute its business strategies and cope with changing market conditions.

As at 31 December 2020, unutilised proceeds of approximately HK\$6.8 million were deposited in licensed banks in Hong Kong and Macau.

PRINCIPAL RISKS AND UNCERTAINTIES

Other than the potential impact of the COVID-19 pandemic on the local and global economy and the operation and financial performance of the Group as mentioned under the paragraph headed “Management Discussion and Analysis — Business Review and Outlook” above, the management considers that the followings are the principal risks and uncertainties faced by the Group:

- (i) the business of the Group relies on successful tenders and any failure of the Group to secure tender contracts would affect the operations and financial results of the Group;
- (ii) erroneous or inaccurate estimation of project duration and the costs involved for the determination of tender price may adversely affect the profitability and financial performance of the Group;
- (iii) the Group’s historical revenue and profit margin may not be indicative of its future revenue and profit margin; and
- (iv) any delay or defects of the works of the suppliers and subcontractors of the Group would adversely affect its operations and financial results.

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

PUBLIC FLOAT

As previously disclosed, the Shares held by the public had fallen below 25% of all issued Shares, being the minimum prescribed public float under Rule 11.23 of the GEM Listing Rules, during the period from 6 November 2019 to 31 March 2020. For details of the relevant event, please refer to the announcement of the Company dated 28 July 2020 and the third quarterly results announcement of the Company dated 4 November 2020. Saved as disclosed above, based on the information that is publicly available to the Company and to the best knowledge, information and belief of the Directors, the Company has maintained the prescribed minimum public float under the GEM Listing Rules for the year ended 31 December 2020 and at any time up to the date of this announcement.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2020.

DIVIDENDS

The Board did not recommend the payment of a final dividend in respect of both years ended 31 December 2020 and 2019.

AUDIT COMMITTEE

The Group has established an audit committee of the Board (the “**Audit Committee**”) in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to make recommendations to the Board on appointment or re-appointment and removal of external auditor; review financial statements of our Company and judgments in respect of financial reporting; and oversee the effectiveness of the procedures of the risk management and internal control procedures of the Group.

The Audit Committee currently consists of all three of our independent non-executive Directors, namely Mr. Choy Hiu Fai Eric, Mr. Lei For and Mr. Lai Wai Ming. Mr. Choy Hiu Fai Eric is the chairman of the Audit Committee and holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The audited consolidated financial statements of the Group for the year ended 31 December 2020 and this announcement had been reviewed by the Audit Committee, which was of the opinion that the audited consolidated financial statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements.

REVIEW OF THE ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers (“**PwC**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this preliminary announcement.

INTEREST OF THE COMPLIANCE ADVISER

As at the date of this announcement, except for (i) the participation of TC Capital International Limited (“**TC Capital**”) as the sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and TC Capital dated 21 April 2017, neither TC Capital nor any of its directors, employees or close associates had any interests in relation to the Group which are required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

ANNUAL GENERAL MEETING AND PUBLICATION OF ANNUAL REPORT

The annual general meeting (“AGM”) for the financial year 2020 of the Company is scheduled to be held on Tuesday, 8 June 2021, the notice of the AGM together with the 2020 Annual Report will be published on the Company’s website at www.wingfunggroup.com and the GEM website at www.hkgem.com and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 3 June 2021 to Tuesday, 8 June 2021, both days inclusive, for the purposes of determining the entitlements of the shareholders of the Company to attend and vote at the AGM. During this closure period, no transfer of the Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration by no later than 4:30 p.m. on Wednesday, 2 June 2021.

By order of the Board
Wing Fung Group Asia Limited
Chung Chi Keung
*Chairman, Chief Executive Officer and
Executive Director*

Hong Kong, 9 March 2021

As at the date of this announcement, the executive Directors are Mr. Chung Chi Keung and Ms. Lai Suk Fan; and the independent non-executive Directors are Mr. Choy Hiu Fai Eric, Mr. Lei For and Mr. Lai Wai Ming.

This announcement will remain on the “Latest Listed Company Information” page of GEM website at www.hkgem.com for at least seven days from the date of its posting. This announcement will also be published and remained on the Company’s website at www.wingfunggroup.com.