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Lap Kei Engineering (Holdings) Limited

立基工程(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8369)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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 Lap Kei Engineering (Holdings) 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**”) is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2015 together with the comparative audited figures for the year ended 31 December 2014. The financial information has been approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	2	187,794	135,493
Cost of sales		(149,919)	(98,910)
Gross profit		37,875	36,583
Other income		244	378
Gain on disposal of leasehold land and buildings		8,269	–
Administrative expenses		(17,362)	(7,728)
Listing expenses		(10,054)	–
Finance costs		(89)	(193)
Profit before taxation		18,883	29,040
Income tax expense	5	(4,369)	(4,787)
Profit and total comprehensive income for the year	3	14,514	24,253
Earnings per share			
Basic (HK cents)	6	1.27	2.23

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,605	6,044
Deposit paid for a life insurance policy		1,118	1,117
		<u>2,723</u>	<u>7,161</u>
Current assets			
Inventories — raw materials and consumables		30	36
Amounts due from customers for contract work	7	54,355	23,646
Trade and other receivables	8	61,810	42,467
Amount due from a director		–	10,711
Pledged bank deposits		18,000	–
Bank balances and cash		4,021	34,651
		<u>138,216</u>	<u>111,511</u>
Current liabilities			
Amounts due to customers for contract work	7	1,585	1,668
Trade and other payables	9	46,624	46,546
Amount due to a related party		1	211
Tax payable		1,329	4,772
Bank borrowings		3,590	7,563
Bank overdrafts		5,311	586
		<u>58,440</u>	<u>61,346</u>
Net current assets		<u>79,776</u>	<u>50,165</u>
Net assets		<u>82,499</u>	<u>57,326</u>
Capital and reserve			
Share capital	10	12,800	610
Reserves		69,699	56,716
		<u>82,499</u>	<u>57,326</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied all the standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the Group’s financial year beginning 1 January 2015.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except for the above, the directors of the Company anticipate that the application of other new and revised standards and amendments will have no material impact on the consolidated financial statements of the Group.

2. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), being the directors of the Company, in order for CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- (i) Building services engineering work – provision of building services engineering work including ventilation and air-conditioning system, electrical system, plumbing and drainage system, fire system and other related works
- (ii) Maintenance, repair and other services – provision of maintenance and repair services for building services system and replacement of parts

The Group’s CODM makes decisions according to the operating results of each segment. No analysis of segment asset and segment liability is presented as the Group’s CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by operating segments:

For the year ended 31 December 2015

	Building services engineering work HK\$’000	Maintenance, repair and other services HK\$’000	Total HK\$’000
Segment revenue			
External sales	<u>165,703</u>	<u>22,091</u>	<u>187,794</u>
Segment results	<u>28,594</u>	<u>9,281</u>	37,875
Other income			244
Gain on disposal of leasehold land and buildings			8,269
Administrative expenses			(17,362)
Listing expenses			(10,054)
Finance costs			<u>(89)</u>
Profit before taxation			<u>18,883</u>

For the year ended 31 December 2014

	Building services engineering work <i>HK\$'000</i>	Maintenance, repair and other services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue			
External sales	118,360	17,133	135,493
Segment results	30,257	6,326	36,583
Other income			378
Administrative expenses			(7,728)
Finance costs			(193)
Profit before taxation			29,040

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results mainly represented gross profit earned by each segment.

Geographical information

The Group's revenue is solely generated from, and non-current assets are located in, Hong Kong, based on the location of the relevant entities' operation.

Information about major customers

Revenue from customers in respect of building services engineering work during the years ended 31 December 2015 and 2014 individually contributing over 10% of the Group's revenue is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Customer A	N/A ¹	21,491
Customer B	37,107	15,985
Customer C	26,360	N/A ¹
Customer D	21,294	N/A ¹

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

No single customer in respect of maintenance, repair and other services contributed 10% or more to the Group's revenue for each of the years ended 31 December 2015 and 2014.

3. PROFIT FOR THE YEAR

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Director's remuneration	4,784	1,768
Other staff costs:		
Salaries and other allowances	34,872	23,834
Retirement benefit scheme contributions	1,069	956
Total staff costs	<u>40,725</u>	<u>26,558</u>
Auditor's remuneration	930	700
Depreciation of property, plant and equipment	567	543
Bank interest income	(12)	(14)
Interest income on a deposit paid for a life insurance policy	<u>(1)</u>	<u>(13)</u>

4. DIVIDEND

During the year ended 31 December 2015, an interim dividend of HK\$22,000,000 (HK\$36.7 per share) (2014: HK\$5,100,000 (HK\$8.5 per share)) was recognised as distribution by Lap Kei Engineering Company Limited ("Lap Kei"), a subsidiary of the Company, to its then shareholders, namely Mr. Wong Kang Kwong ("Mr. Wong") and Ms. So Nui Ho ("Ms. So"), spouse of Mr. Wong. Before listing of the Company's shares on the Stock Exchange, another interim dividend of HK\$9,700,000 (HK\$9,700,000 per share) was paid to its then sole shareholder in September 2015.

5. INCOME TAX EXPENSE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Hong Kong Profits Tax		
— Current year	<u>4,369</u>	<u>4,787</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during both years.

The tax charge for the year ended 31 December 2015 can be reconciled to profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit before taxation	<u>18,883</u>	<u>29,040</u>
Tax at Hong Kong Profits Tax rate of 16.5%	3,116	4,792
Tax effect of expenses not deductible for tax purpose	1,857	—
Tax effect of tax losses not recognised	763	—
Tax effect of income not taxable for tax purpose	<u>(1,367)</u>	<u>(5)</u>
Income tax expense for the year	<u>4,369</u>	<u>4,787</u>

At the end of the reporting period, the Group has unused tax losses of approximately HK\$4,942,000 (2014: HK\$318,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the entire amount of tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2015 is based on the profit for the year of approximately HK\$14,514,000 (2014: HK\$24,253,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2015 of approximately 1,139,551,000 (2014: 1,088,000,000) on the assumption that the corporate reorganisation to rationalise the group structure in the preparation for the listing of the Company's shares on GEM of the Stock Exchange (the "Corporate Reorganisation"), and the Capitalisation Issue of shares as set out in note 10, had been completed on 1 January 2014. No diluted earnings per share is presented for both years as there was no potential ordinary share outstanding. Details of the Corporate Reorganisation are set out in the Company's prospectus dated 18 September 2015.

7. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	255,421	193,815
Add: Recognised profits less recognised losses	<u>85,552</u>	<u>63,602</u>
	340,973	257,417
Less: Progress billings	<u>(288,203)</u>	<u>(235,439)</u>
	<u>52,770</u>	<u>21,978</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	54,355	23,646
Amounts due to customers for contract work	<u>(1,585)</u>	<u>(1,668)</u>
	<u>52,770</u>	<u>21,978</u>

As at 31 December 2015, retention held by customers for contract work amounting to HK\$14,573,000 (2014: HK\$9,207,000) as set out in note 8. Advance received from customers at 31 December 2015 is HK\$7,383,000 (2014: HK\$15,975,000).

8. TRADE AND OTHER RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade receivables	42,472	31,609
Retention receivables (<i>note</i>)	14,573	9,207
Other receivables, deposits and prepayments	<u>4,765</u>	<u>1,651</u>
Total trade and other receivables	<u>61,810</u>	<u>42,467</u>

Note: Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 1 to 2 years from the date of the completion of the respective project.

The retention receivables are to be settled, based on the expiry of the defect liability period, at the end of each reporting period:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
On demand or within one year	13,275	5,549
After one year	1,298	3,658
	<u>14,573</u>	<u>9,207</u>

The Group allows a credit period of 30 days to its customers for its trade receivables.

The following is an aged analysis of trade receivables presented based on invoice dates at the end of each reporting period:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0–30 days	28,492	14,412
31–60 days	6,174	12,775
61–90 days	1,696	956
> 90 days	6,110	3,466
	<u>42,472</u>	<u>31,609</u>

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK\$13,980,000 (2014: HK\$17,197,000), which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 141 days (2014: 92 days).

Ageing of trade receivables which are past due but not impaired

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
31–60 days	6,174	12,775
61–90 days	1,696	956
> 90 days	6,110	3,466
	<u>13,980</u>	<u>17,197</u>

As at 31 December 2014, included in the Group's retention receivables balances are debtors with aggregate carrying amount of HK\$89,000, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The average age of these receivables is 246 days. The amounts of HK\$14,573,000 (2014: HK\$9,118,000) as at 31 December 2015 are not yet due. The Group does not hold any collateral over these balances.

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's trade receivables that are neither past due nor impaired related to customers for whom there was no recent history of default.

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

9. TRADE AND OTHER PAYABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade payables	20,314	15,515
Retention payables (<i>note</i>)	588	819
Accruals	17,107	14,237
Receipt in advance	8,615	15,975
	<hr/>	<hr/>
Total trade and other payables	46,624	46,546
	<hr/> <hr/>	<hr/> <hr/>

Note: Retention payables are interest-free and payable at the end of the defect liability period of individual contracts, ranging from 1 to 2 years from the completion date of the respective project.

The credit period on trade payables is 30 days.

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0–30 days	13,223	11,563
31–60 days	5,102	1,627
61–90 days	629	1,120
> 90 days	1,360	1,205
	<hr/>	<hr/>
	20,314	15,515
	<hr/> <hr/>	<hr/> <hr/>

The retention payables are to be settled within one year, based on the expiry of defect liability period, at the end of each reporting period.

10. SHARE CAPITAL

The issued capital of the Group as at 31 December 2014 represented the combined share capital of Lap Kei and Wealth E & M Limited.

The share capital at 31 December 2015 represented the share capital of the Company.

	<i>Notes</i>	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 29 April 2015 (date of incorporation)	<i>(a)</i>	38,000,000	380
Increase in authorised share capital	<i>(b)</i>	<u>3,962,000,000</u>	<u>39,620</u>
At 31 December 2015		<u><u>4,000,000,000</u></u>	<u><u>40,000</u></u>
Issued and fully paid			
Allotted and issued on 29 April 2015 (date of incorporation)	<i>(a)</i>	1	–
Capitalisation issue of shares	<i>(c)</i>	1,087,999,999	10,880
Issue of shares pursuant to the listing of the Company's shares	<i>(d)</i>	<u>192,000,000</u>	<u>1,920</u>
At 31 December 2015		<u><u>1,280,000,000</u></u>	<u><u>12,800</u></u>

The following changes in the share capital of the Company took place during the period from 29 April 2015 (date of incorporation) to 31 December 2015.

- (a) The Company was incorporated on 29 April 2015 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. Upon incorporation, one ordinary share was allotted and issued fully paid to an initial subscriber, which was transferred to Golden Luck Limited (“Golden Luck”) on the same day.
- (b) On 10 September 2015, the authorised share capital of the Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of the additional 3,962,000,000 new shares of HK\$0.01 each. These new shares rank pari passu in all respects with the existing shares.
- (c) Pursuant to the written resolution passed by all shareholders of the Company dated 10 September 2015, conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the Listing, the directors of the Company had authorised to allot and issue 1,087,999,999 ordinary shares of HK\$0.01 each of the Company, by way of capitalisation of the sum of approximately HK\$10,880,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholder of the Company appearing on the register of members of the Company (“Capitalisation Issue”). The Capitalisation Issue was completed on 25 September 2015.

- (d) On 25 September 2015, 192,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.25 by way of placing. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK\$1,920,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$46,080,000, before issuing expenses, were credited to share premium account.

11. OPERATING LEASE ARRANGEMENT

The Group as lessee had made minimum lease payments of HK\$595,000 (2014: HK\$432,000), under operating leases during the year ended 31 December 2015 in respect of warehouses and office premises.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with LKW Company Limited ("LKWC"), a wholly-owned subsidiary of Golden Luck, in respect of warehouses and office premises which fall due as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	933	–
In the second to fifth year inclusive	933	–
	1,866	–

Leases are negotiated for an average term of 2.5 years and rentals are fixed for an average of 2.5 years.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of engineering services for building services systems in Hong Kong. The Group undertakes building services engineering works which are mainly related to the supply, installation and maintenance of (i) mechanical ventilation and air-conditioning (“**MVAC**”) system; (ii) electrical system; (iii) plumbing and drainage system; and (iv) fire services system.

The contracts the Group entered into with its customers are categorised into two types, namely (i) building services engineering projects for existing building and new building; and (ii) maintenance, repair and other services (the “**maintenance projects**”) which mainly include provision of maintenance and repair services for building services system and replacement of parts.

For building services engineering projects, the Group is required to complete the engineering works in relation to the installation and/or upgrade of building services systems as set out in the scope of work under the contract. For maintenance projects, the Group is required to provide maintenance services for existing building services systems of a property or portfolio of properties over a fixed contract period. Such maintenance services include regular check and maintenance, and emergency call-out service for emergency repair.

Looking forward, the Directors consider that the future opportunities and challenges which the Group faces will be affected by the development of the property market in Hong Kong as well as factors affecting the labour costs and material costs. The Directors are of the view that the number of properties to be built and maintained in Hong Kong is the key driver for the growth of the Hong Kong building services industry.

With the Group’s experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) further developing our building services engineering business by making use of additional financial resources available from the listing (the “**Listing**”) of the shares of the Company on GEM of the Stock Exchange on 25 September 2015 (the “**Listing Date**”), which allows the Group to undertake more projects of larger scale that require the provision of surety bond; (ii) further expanding our service scope by application for additional licences, permits or qualifications which may be required and (iii) further strengthening the Group’s engineering department through recruiting additional qualified and experienced staff.

FINANCIAL REVIEW

Revenue

Our revenue increased from approximately HK\$135.5 million for the year ended 31 December 2014 to approximately HK\$187.8 million for the year ended 31 December 2015 (the “Year”), representing a growth of approximately 38.6%. Such increase was mainly due to the increase in both building services engineering projects and the maintenance projects provided by the Group as a result of the overall development in the construction industry in Hong Kong and the increase in number of contracting projects undertaken by the Group during the Year.

Cost of Sales

Our cost of sales increased from approximately HK\$98.9 million for the year ended 31 December 2014 to approximately HK\$149.9 million for the year ended 31 December 2015, representing an increase of approximately 51.6%. Such increase was mainly attributable to the increase in our subcontracting charges with the increase in the number of contracting projects undertaken by the Group during the Year.

Gross Profit

Gross profit of the Group increased by approximately 3.5% from approximately HK\$36.6 million for the year ended 31 December 2014 to approximately HK\$37.9 million for the year ended 31 December 2015. The increase was mainly driven by the increase in revenue for the year ended 31 December 2015 as discussed above.

The overall gross profit margin dropped from approximately 27.0% for the year ended 31 December 2014 to approximately 20.2% for the year ended 31 December 2015 as the extent of increase in subcontracting charges and direct labour costs is greater than that of increase in revenue for the year ended 31 December 2015.

Listing Expenses

During the year ended 31 December 2015, the Group recognised non-recurring listing expenses of approximately HK\$10.1 million (2014: Nil) as expenses in connection with the Listing.

Administrative Expenses

Administrative expenses of the Group increased by approximately 124.7% from approximately HK\$7.7 million for the year ended 31 December 2014 to approximately HK\$17.4 million for the year ended 31 December 2015. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to the increase in rental expenses, staff salary and bonus due to business expansion during the Year.

Income Tax Expense

Income tax expense for the Group decreased by approximately 8.7% from approximately HK\$4.8 million for the year ended 31 December 2014 to approximately HK\$4.4 million for the year ended 31 December 2015. The decrease was mainly due to the decrease in profit before tax, excluding the effect of non-deductible expenses, e.g. the listing expenses and non-chargeable other income items.

Profit and Total Comprehensive Income for the Year attributable to owners of the Company

Profit and total comprehensive income for the Year decreased by approximately 40.2% from approximately HK\$24.3 million for the year ended 31 December 2014 to approximately HK\$14.5 million for the year ended 31 December 2015. Such decrease was primarily attributable to the net effect of (i) the listing expenses incurred by the Group for the Listing during the year ended 31 December 2015; and (ii) the increase in revenue and gross profit for the year ended 31 December 2015. Excluding the one-off exceptional expenses for the Listing of the Company of approximately HK\$10.1 million (2014: Nil), profit and total comprehensive income for the year ended 31 December 2015 would reach approximately HK\$24.6 million (2014: approximately HK\$24.3 million), representing an increase of approximately 1.3% compared to the corresponding period ended 31 December 2014.

Liquidity and Financial Resources

As at 31 December 2015, the Group had total assets of approximately HK\$140.9 million (2014: approximately HK\$118.7 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$58.4 million (2014: approximately HK\$61.3 million) and approximately HK\$82.5 million (2014: approximately HK\$57.3 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2015 were approximately HK\$8.9 million (31 December 2014: approximately 8.1 million), and current ratio as at 31 December 2015 was approximately 2.4 times (31 December 2014: approximately 1.8 times).

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

Gearing Ratio

The gearing ratio of the Group as at 31 December 2015 was approximately 10.8% (31 December 2014: approximately 14.2%), which remained low as the Group was not in need of any material debt financing during the Year.

The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at the respective reporting date.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. 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.

Pledge of Assets

As at 31 December 2015, the Group pledged its bank deposits to a bank of approximately HK\$18.0 million as collateral to secure bank facilities granted to the Group.

As at 31 December 2014, the Group pledged its (i) property, plant and equipment and (ii) prepayment and deposit paid for a life insurance policy with an aggregate net book value of approximately HK\$5.5 million as collateral to secure bank facilities granted to the Group.

Save for the above disclosed, the Group did not have any charges on its assets.

Foreign Exchange Exposure

All of the revenue-generating operations and borrowings of the Group were transacted in Hong Kong Dollars which is the presentation currency of the Group. For the year ended 31 December 2015, there was no significant exposure to foreign exchange rate fluctuations and the Group had not maintained any hedging policy against the foreign currency risk. The management will consider hedging significant currency exposure should the need arise.

Capital Structure

The shares of the Company were successfully listed on GEM of the Stock Exchange on 25 September 2015. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2015, the Company's issued share capital was HK\$12,800,000 and the number of its issued ordinary shares was 1,280,000,000 of HK\$0.01 each.

Commitments

The contractual commitments of the Group were primarily related to the leases of its office premises and the Director's quarter. The Group's operating lease commitments amounted to approximately HK\$1.9 million as at 31 December 2015 (31 December 2014: Nil).

Segmental Information

Segmental information is presented for the Group as disclosed on note 2 to the consolidated financial statements.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus of the Company dated 18 September 2015 (the “**Prospectus**”) and this announcement, the Group did not have any plans for material investments or capital assets as of 31 December 2015.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the financial year ended 31 December 2015, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures saved for those related to the corporate reorganisation (as described in the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in the Prospectus).

Contingent Liabilities

As at 31 December 2015, the Group did not have any material contingent liabilities (31 December 2014: Nil).

Employees and Remuneration Policies

As at 31 December 2015, the Group employed a total of 100 employees (31 December 2014: 100 employees). The staff costs, including Directors’ emoluments, of the Group were approximately HK\$40.7 million for the year ended 31 December 2015 (2014: approximately HK\$26.6 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. Share options may also be granted to eligible employees by reference to the Group’s performance as well as individual contribution.

Significant Investments Held

Except for investment in its subsidiaries, the Group did not hold any significant investments during the year ended 31 December 2015.

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 Listing Date to 31 December 2015 is set out below:

Business strategies as stated in the Prospectus	Business objectives up to 31 December 2015 as stated in the Prospectus	Actual business progress up to 31 December 2015
Further development of the Group's building services engineering business	Undertake more projects for the building services engineering business should the Group be able to identify and secure suitable business opportunities by earmarking HK\$10.5 million for satisfying potential customers' requirements for surety bonds	The Group is in the progress of identifying suitable business opportunities with potential customers and the Group has also committed to undertake new construction projects. A deposit of HK\$18.0 million was required and has been paid during the Year (which was financed as to approximately HK\$10.5 million by the proceeds from the Listing and as to the remaining approximately HK\$7.5 million by the Group's internal resources)
Further expansion of service scope	Recruit two staff with relevant experience to prepare relevant submission documents to the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II) of the Specialist List in order to broaden the Group's business opportunities, and HK\$4.1 million is earmarked for increasing the paid-up share capital of Lap Kei Engineering Company Limited, an indirect wholly-owned subsidiary of the Company, from HK\$600,000 to a minimum of HK\$4.7 million, as one of the requirements for the application of approved contractor on the air-conditioning installation category (Group II) of the Specialist List	The Group is in the progress of recruiting more experienced and high caliber engineering staff.

Business strategies as stated in the Prospectus	Business objectives up to 31 December 2015 as stated in the Prospectus	Actual business progress up to 31 December 2015
Further strengthening the Group's engineering department	Sponsor the engineering staff to attend technical seminars and occupational health and safety courses organised by third parties	The Group has sponsored our engineering staff to attend technical seminars and occupational health and safety courses organised by third parties.

Use of Proceeds

The net proceeds from the Listing, after deducting listing related expenses, were approximately HK\$31.6 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

An analysis of the utilisation of the net proceeds from the Listing and the unused amount as at 31 December 2015 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2015	Actual use of net proceeds up to 31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Further development of the Group's building services engineering business	10,500	10,500
Further expansion of service scope	4,500	nil
Further strengthening the Group's engineering department	200	23
	<u> </u>	<u> </u>

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 the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2015.

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 improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

Since the Listing Date and up to 31 December 2015, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the “**Code of Conduct**”). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct since the Listing Date and up to 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities since the Listing Date and up to 31 December 2015.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) on 10 September 2015 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The primary duties of the Audit Committee are, among other things, to review and monitor the financial reporting process and the internal control and risk management systems of the Group, nominate and monitor external auditor and to monitor the integrity of the Company’s financial statements, annual reports and accounts. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming, Christopher, Mr. Fok Ka Chi and Mr. Tam Chun Chung, all being independent non-executive Directors of the Company. Mr. Tam Chun Chung currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements for the Year.

ANNUAL GENERAL MEETING

The first annual general meeting ("AGM") of the Company will be held on Friday, 20 May 2016, the notice of which shall be sent to the shareholders of the Company in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Wednesday, 18 May 2016 to Friday, 20 May 2016, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 17 May 2016.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2015 and up to the date of this announcement.

APPRECIATION

The Board would like to extend its sincere thanks to our shareholders, business partners and customers for their utmost support to the Group. We would also like to take this opportunity to thank all management members and staff for their hard work and dedication throughout the Year.

By Order of the Board
Lap Kei Engineering (Holdings) Limited
Wong Kang Kwong
Chairman and executive Director

Hong Kong, 23 March 2016

As at the date of this announcement, the executive Directors are Mr. Wong Kang Kwong and Ms. So Nui Ho; and the independent non-executive Directors are Mr. Chung Yuk Ming, Mr. Fok Ka Chi and Mr. Tam Chun Chung.

This announcement will remain on the GEM's website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.lapkeieng.com.