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 2016

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 2016 together with the comparative audited figures for the year ended 31 December 2015. 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 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*2*	**235,487**	187,794
Cost of sales		**(190,840)**	(149,919)
Gross profit		**44,647**	37,875
Other income		**466**	244
Gain on disposal of leasehold land and buildings		**–**	8,269
Administrative expenses		**(12,663)**	(17,362)
Listing expenses		**–**	(10,054)
Finance costs		**(196)**	(89)
Profit before taxation		**32,254**	18,883
Income tax expense	*5*	**(5,290)**	(4,369)
Profit and total comprehensive income for the year	*3*	**26,964**	14,514
Earnings per share			
Basic (HK cents)	*6*	**2.11**	1.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**1,035**	1,605
Deposit paid for a life insurance policy		**1,120**	1,118
		2,155	2,723
Current assets			
Inventories — raw materials and consumables		**29**	30
Amounts due from customers for contract work	*7*	**24,919**	54,355
Trade and other receivables	*8*	**110,608**	61,810
Pledged bank deposits		**26,456**	18,000
Bank balances and cash		**7,059**	4,021
		169,071	138,216
Current liabilities			
Amounts due to customers for contract work	*7*	**2,382**	1,585
Trade and other payables	*9*	**55,459**	46,624
Amount due to a related party		**2**	1
Tax payable		**3,920**	1,329
Bank borrowings		**–**	3,590
Bank overdrafts		**–**	5,311
		61,763	58,440
Net current assets		**107,308**	79,776
Net assets		**109,463**	82,499
Capital and reserve			
Share capital	*10*	**12,800**	12,800
Reserves		**96,663**	69,699
		109,463	82,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[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 HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$1,159,000 as disclosed in note 11. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The Company has not yet applied the new and revised HKFRSs that have been issued but are not yet effective. Other than the above, the directors of the Company anticipate that the application of new and revised HKFRSs will have no material impact on the results and the financial position of the Company.

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, in order for the 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 2016

	Building services engineering work *HK$'000*	Maintenance, repair and other services *HK$'000*	Total *HK$'000*
Segment revenue			
External sales	**220,600**	**14,887**	**235,487**
Segment results	**38,934**	**5,713**	**44,647**
Other income			**466**
Administrative expenses			**(12,663)**
Finance costs			**(196)**
Profit before taxation			**32,254**

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	165,703	22,091	187,794
Segment results	28,594	9,281	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			(89)
Profit before taxation			18,883

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 2016 and 2015 individually contributing over 10% of the Group's revenue is as follows:

	2016 **HK$'000**	2015 *HK$'000*
Customer A	**N/A**[1]	37,107
Customer B	**N/A**[1]	26,360
Customer C	**N/A**[1]	21,294

[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 2016 and 2015.

3. PROFIT FOR THE YEAR

	2016 *HK$'000*	2015 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Director's remuneration	**3,922**	4,784
Other staff costs:		
Salaries and other allowances	**27,255**	34,872
Retirement benefit scheme contributions	**1,220**	1,069
Total staff costs	**32,397**	40,725
Auditor's remuneration	**980**	930
Depreciation of property, plant and equipment	**570**	567
Bank interest income	**(37)**	(12)
Interest income on a deposit paid for a life insurance policy	**(2)**	(1)

4. DIVIDEND

During the year ended 31 December 2015, an interim dividend of HK$22,000,000 (approximately HK$36.7 per share) was recognised as distribution by Lap Kei Engineering Company Limited, an indirect wholly-owned 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 the 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.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK0.42 cents (2015: Nil) per ordinary share, in an aggregate amount of HK$5,376,000 (2015: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

5. INCOME TAX EXPENSE

	2016 *HK$'000*	2015 *HK$'000*
Hong Kong Profits Tax		
— Current year	**5,316**	4,369
Overprovision in prior years:		
— Hong Kong	**(26)**	–
	5,290	4,369

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 2016 can be reconciled to profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	HK$'000	*HK$'000*
Profit before taxation	**32,254**	18,883
Tax at Hong Kong Profits Tax rate of 16.5%	**5,322**	3,116
Overprovision in prior year	**(26)**	–
Tax effect of expenses not deductible for tax purpose	**99**	1,928
Tax effect of tax losses not recognised	**–**	763
Utilisation of tax losses previously not recognised	**(95)**	–
Tax effect of income not taxable for tax purpose	**(10)**	(1,438)
Income tax expense for the year	**5,290**	4,369

At the end of the reporting period, the Group has unused tax losses of approximately HK$4,368,000 (2015: HK$4,942,000) available for an 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 2016 is based on the profit for the year of approximately HK$26,964,000 (2015: HK$14,514,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2016 of approximately 1,280,000,000 (2015: 1,139,551,000) 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 defined in note 10, had been completed on 1 January 2015. 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

	2016	2015
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	**269,136**	255,421
Add: Recognised profits less recognised losses	**86,386**	85,552
	355,522	340,973
Less: Progress billings	**(332,985)**	(288,203)
	22,537	52,770
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**24,919**	54,355
Amounts due to customers for contract work	**(2,382)**	(1,585)
	22,537	52,770

As at 31 December 2016, retention receivables held by customers for contract work amounted to HK$17,058,000 (2015: HK$14,573,000) as set out in note 8. Advances received from customers at 31 December 2016 were HK$6,437,000 (2015: HK$8,615,000).

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**87,395**	42,472
Retention receivables *(Note)*	**17,058**	14,573
Other receivables, deposits and prepayments	**6,155**	4,765
Total trade and other receivables	**110,608**	61,810

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:

	2016	2015
	HK$'000	*HK$'000*
On demand or within one year	**10,662**	13,275
After one year	**6,396**	1,298
	17,058	14,573

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

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

	2016	2015
	HK$'000	*HK$'000*
0–30 days	**61,227**	28,492
31–60 days	**13,180**	6,174
61–90 days	**1,171**	1,696
> 90 days	**11,817**	6,110
	87,395	42,472

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$26,168,000 (2015: HK$13,980,000), which were past due at the end of the reporting period for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated considering credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of these trade receivables. The Group does not hold any collateral over these balances. The average age of these receivables is 31 days (2015: 141 days).

Ageing of trade receivables which were past due but not impaired

	2016 *HK$'000*	2015 *HK$'000*
31–60 days	**13,180**	6,174
61–90 days	**1,171**	1,696
> 90 days	**11,817**	6,110
	26,168	13,980

The Group's retention receivables balances with aggregate carrying amount of HK$17,058,000 as at 31 December 2016 (2015: HK$14,573,000) 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 were 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

	2016 *HK$'000*	2015 *HK$'000*
Trade payables	**30,206**	20,314
Retention payables *(Note)*	**164**	588
Accruals	**18,652**	17,107
Receipt in advance	**6,437**	8,615
Total trade and other payables	**55,459**	46,624

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 ageing analysis of trade payables presented based on the invoice dates at the end of each reporting period:

	2016 *HK$'000*	2015 *HK$'000*
0–30 days	**18,506**	13,223
31–60 days	**9,275**	5,102
61–90 days	**1,138**	629
> 90 days	**1,287**	1,360
	30,206	20,314

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

	Notes	Number of ordinary share of HK$0.01 each **2016**	2015	Share capital **2016** *HK$'000*	2015 *HK$'000*
Authorised					
At beginning of year/ 29 April 2015 (date of incorporation)	*(a)*	**4,000,000,000**	38,000,000	**40,000**	380
Increase in authorised share capital	*(b)*	**–**	3,962,000,000	**–**	39,620
At end of year		**4,000,000,000**	4,000,000,000	**40,000**	40,000
Issued and fully paid					
At beginning of year/ allotted and issued on 29 April 2015 (date of incorporation)	*(a)*	**1,280,000,000**	1	**12,800**	–
Capitalisation issue of shares	*(c)*	**–**	1,087,999,999	**–**	10,880
Issue of shares pursuant to the listing of the Company's shares	*(d)*	**–**	192,000,000	**–**	1,920
At end of year		**1,280,000,000**	1,280,000,000	**12,800**	12,800

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, issued and fully paid to an initial subscriber, which was then transferred to Golden Luck Limited 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 ranked pari passu in all respects with the existing shares.

(c) Pursuant to the written resolutions 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 shareholders of the Company appearing on the register of members of the Company (the "**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 has made minimum lease payments of HK$1,000,000 (2015: HK$595,000) under operating leases during the year ended 31 December 2016 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, a wholly-owned subsidiary of Golden Luck Limited, in respect of warehouses and office premises which fall due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**1,066**	933
In the second to fifth year inclusive	**93**	933
	1,159	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 (the "**building services engineering projects**"); 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 facing the Group will continue to be affected by the development of the property market in Hong Kong as well as factors affecting the labour costs and material costs. The Directors are of the view that the number of properties to be built and maintained in Hong Kong remains to be the key driver for the growth of the Hong Kong 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 (the "**Shares**") 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$187.8 million for the year ended 31 December 2015 to approximately HK$235.5 million for the year ended 31 December 2016 (the "**Year**"), representing a growth of approximately 25.4%. Such increase was mainly due to the increase in both of the 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$149.9 million for the year ended 31 December 2015 to approximately HK$190.8 million for the year ended 31 December 2016, representing an increase of approximately 27.3%. Such increase was mainly attributable to the increase in our subcontracting charges with the increase in the number of contracting projects undertaking by the Group during the Year.

Gross Profit

Gross profit of the Group increased by approximately 17.9% from approximately HK$37.9 million for the year ended 31 December 2015 to approximately HK$44.6 million for the year ended 31 December 2016. The increase was mainly driven by the increase in revenue for the year ended 31 December 2016 as discussed above.

The overall gross profit margin slightly dropped from approximately 20.2% for the year ended 31 December 2015 to approximately 19.0% for the year ended 31 December 2016 as the extent of increase in subcontracting charges and direct labour costs is greater than that of the increase in revenue for the year ended 31 December 2016.

Listing Expenses

During the year ended 31 December 2015, the Group recognised non-recurring listing expenses of approximately HK$10.1 million as expenses in connection with the Listing. No such expenses was recognised by the Group for the year ended 31 December 2016.

Administrative Expenses

Administrative expenses of the Group decreased by approximately 27.1% from approximately HK$17.4 million for the year ended 31 December 2015 to approximately HK$12.7 million for the year ended 31 December 2016. Administrative expenses primarily consist of rental expenses and staff costs. The decrease was attributable to the overall cost control by the Group and the decrease in staff bonus during the Year.

Income Tax Expense

Income tax expense for the Group increased by approximately 21.1% from approximately HK$4.4 million for the year ended 31 December 2015 to approximately HK$5.3 million for the year ended 31 December 2016. The increase was mainly due to the increase 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 increased by approximately 85.8% from approximately HK$14.5 million for the year ended 31 December 2015 to approximately HK$27.0 million for the year ended 31 December 2016. Such increase was primarily attributable to the combined effect of (i) the increase in revenue and gross profit for the year ended 31 December 2016; (ii) the fact that no listing expenses was recognised for the year ended 31 December 2016; and (iii) the decrease in administrative expenses for the year ended 31 December 2016.

Liquidity and Financial Resources

As at 31 December 2016, the Group had total assets of approximately HK$171.2 million (2015: approximately HK$140.9 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$61.8 million (2015: approximately HK$58.4 million) and approximately HK$109.5 million (2015: approximately HK$82.5 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2016 were nil (31 December 2015: approximately 8.9 million), and current ratio as at 31 December 2016 was approximately 2.7 times (31 December 2015: approximately 2.4 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 2016 was nil (31 December 2015: approximately 10.8%) as the Group has no outstanding loans and borrowings nor bank overdrafts at the end of the report period.

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 2016, the Group pledged its bank deposits of approximately HK$26.5 million (2015: 18.0 million) to banks 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 2016, there was no significant exposure to foreign exchange rate fluctuations and the Group has not maintained any hedging policy against 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 2016, 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 operating lease commitments of the Group were primarily related to the leases of its office premises and the warehouses. The Group's operating lease commitments amounted to approximately HK$1.2 million as at 31 December 2016 (31 December 2015: HK$1.9 million).

Segmental Information

Segmental information is presented for the Group as disclosed on note 2 to this announcement.

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 2016.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the financial year ended 31 December 2016, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities (31 December 2015: Nil).

Employees and Remuneration Policies

As at 31 December 2016, the Group employed a total of 110 employees (31 December 2015: 100 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK$32.4 million for the year ended 31 December 2016 (2015: approximately HK$40.7 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

The Group did not hold any significant investments during the year ended 31 December 2016.

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 2016 is set out below:

Business objectives	Actual business progress up to 31 December 2016
Further development of the Group's building services engineering business	The Group is in the progress of identifying suitable business opportunities with potential customers and the Group has also committed to undertaking new construction projects. A deposit of HK$17.9 million was required and has been paid up to 31 December 2016 (which was financed as to approximately HK$13.5 million by the proceeds from the Listing and as to the remaining approximately HK$4.4 million by the Group's internal resources).
Further expansion of service scope	The Group has used HK$0.4 million for recruiting staff with relevant experiences and during the Year, the Group is in the progress of preparing the application 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. Subsequent to the end of the Year, an application 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 has been submitted by the Group in January 2017. An increase of HK$4.1 million in the paid-up share capital of Lap Kei Engineering Company Limited from HK$600,000 to HK$4.7 million, as one of the minimum requirements for the registration, will be made before the approval of the aforesaid application by the Works Branch of Development Bureau.
Further strengthening the Group's engineering department	The Group has sponsored its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties. The Group has used HK$1.3 million for adding 10 headcount of middle to senior level engineering staff to cope with its business development and has paid additional staff costs for retaining such additional employees during the Year. The Group regularly reviews the need for further recruitments to cope with its business development.

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 2016 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2016	**Actual use of net proceeds up to 31 December 2016**
	HK$'000	*HK$'000*
Further development of the Group's building services engineering business	13,500	13,500
Further expansion of service scope	6,500	418
Further strengthening the Group's engineering department	3,400	1,252

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 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 2016.

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.

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. During the year ended 31 December 2016, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

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 5.46 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the year ended 31 December 2016.

PURCHASE, SALE OR 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.

DIVIDEND

The Board recommends the payment of a final dividend of HK0.42 cents per share of the Company for the year ended 31 December 2016 to the shareholders of the Company whose names are on the register of members of the Company on Friday, 26 May 2017 subject to the approval by the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 12 May 2017 and compliance with the laws of the Cayman Islands and other relevant rules and regulations.

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 annual general meeting ("**AGM**") of the Company will be held on Friday, 12 May 2017, 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 Tuesday, 9 May 2017 to Friday, 12 May 2017, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company 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 Monday, 8 May 2017.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is Friday, 26 May 2017. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 25 May 2017 to Friday, 26 May 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at its address set out above for registration not later than 4:30 p.m. on Wednesday, 24 May 2017. The payment of final dividend will be made on or about Friday, 9 June 2017.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2016 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, 14 March 2017

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