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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

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**”, and each the “**Director**”) 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.*

INTERIM RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2017 (the “**Relevant Period**”), together with the corresponding comparative figures of 2016, as follows:

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

For the three and six months ended 30 June 2017

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Revenue	3	103,182	43,200	160,333	106,490
Cost of sales		(81,031)	(34,878)	(124,030)	(86,855)
Gross profit		22,151	8,322	36,303	19,635
Other income		56	372	65	394
Administrative expenses		4,388	(2,748)	(8,047)	(5,747)
Finance costs		(154)	(8)	(154)	(57)
Profit before taxation	4	17,665	5,938	28,167	14,225
Income tax expense	5	(3,171)	(1,018)	(4,904)	(2,347)
Profit and total comprehensive income for the period		14,494	4,920	23,263	11,878
Earnings per share					
— Basic (HK cents)	7	1.13	0.38	1.82	0.93

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Non-current assets		
Property, plant and equipment	750	1,035
Deposit paid for a life insurance policy	1,121	1,120
	<u>1,871</u>	<u>2,155</u>
Current assets		
Inventories — raw materials and consumables	29	29
Amounts due from customers for contract work	55,634	24,919
Trade and other receivables	8 98,929	110,608
Pledged bank deposits	15,910	26,456
Bank balances and cash	34,594	7,059
	<u>205,096</u>	<u>169,071</u>
Current liabilities		
Amounts due to customers for contract work	2,955	2,382
Trade and other payables	9 51,020	55,459
Amount due to a related party	45	2
Tax payable	6,079	3,920
Bank borrowings	10 19,518	–
	<u>79,617</u>	<u>61,763</u>
Net current assets	<u>125,479</u>	<u>107,308</u>
Net assets	<u>127,350</u>	<u>109,463</u>
Capital and reserve		
Share capital	11 12,800	12,800
Reserves	114,550	96,663
	<u>127,350</u>	<u>109,463</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i> <i>(note)</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2017 (audited)	12,800	30,855	610	65,198	109,463
Profit and total comprehensive income for the Relevant Period	–	–	–	23,263	23,263
Dividend paid (<i>Note 6</i>)	–	–	–	(5,376)	(5,376)
	<u>12,800</u>	<u>30,855</u>	<u>610</u>	<u>83,085</u>	<u>127,350</u>
As at 30 June 2017 (unaudited)					
As at 1 January 2016 (audited)	12,800	30,855	610	38,234	82,499
Profit and total comprehensive income for the Relevant Period	–	–	–	11,878	11,878
As at 30 June 2016 (unaudited)	<u>12,800</u>	<u>30,855</u>	<u>610</u>	<u>50,112</u>	<u>94,377</u>

note: Merger reserve represented the difference between the aggregated share capital of the relevant subsidiaries (which were transferred from Mr. Wong Kang Kwong (“**Mr. Wong**”) and Ms. So Nui Ho (“**Ms. So**”) to LKW Enterprise Limited (“**LKW Enterprise**”) pursuant to the Reorganisation, as set out in Note 1) and the newly issued share capital of LKW Enterprise.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2017

	Six months ended	
	30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	<u>2,972</u>	<u>32,850</u>
Net cash generated from/(used in) investing activities	<u>10,575</u>	<u>(4,982)</u>
Net cash generated from/(used in) financing activities	<u>13,988</u>	<u>(3,220)</u>
Net increase in cash and cash equivalents	<u>27,535</u>	<u>24,648</u>
Cash and cash equivalents at the beginning of the period	<u>7,059</u>	<u>(1,290)</u>
Cash and cash equivalents at the end of the period, represented by cash at banks and on hand	<u><u>34,594</u></u>	<u><u>23,358</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 April 2015. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The headquarters and principal place of business of the Company in Hong Kong is located at Room 6, 6/F, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong.

The Company's issued ordinary shares of HK\$0.01 each have been listed and traded on GEM since 25 September 2015 (the "**Listing Date**").

Pursuant to the reorganisation of the Group (the "**Reorganisation**") in connection with the listing of the shares of the Company (the "**Shares**") on GEM (the "**Listing**"), the Company became the holding company of the companies comprising the Group on 18 May 2015. Details of the Reorganisation are set out in the prospectus of the Company dated 18 September 2015 (the "**Prospectus**") under the section headed "History, Reorganisation and Corporate Structure".

The principal activity of the Company is investment holding. The Group's principal activities are the provision of engineering services for building services systems in Hong Kong.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules.

The Group resulting from the Reorganisation is regarded as a continuing entity. The unaudited condensed consolidated financial statements have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting under common control combination" issued by the HKICPA. Accordingly, the financial information relating to the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 including the comparative figures for the six months ended 30 June 2016, are presented as if the current group structure had been in existence and remained unchanged throughout both periods, or since their respective dates of incorporation, where this is a shorter period.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period are consistent with those used in the audited financial statements of the Group for the year ended 31 December 2016.

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Relevant Period. There have been no significant changes to the accounting policies applied in these financial statements for the Relevant Period presented as a result of these developments.

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared under the historical cost convention.

The unaudited condensed consolidated financial statements for the Relevant Period have not been audited by the Company's independent auditor, but have been reviewed by the Company's audit committee.

The preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements of the Group for the Relevant Period are presented in Hong Kong dollars ("HK\$"), which is the same functional currency of the Company.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for services rendered by the Group to outside customers, less discount. Information reported to the Company's executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 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 services 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

	Three months ended 30 June		Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Building services engineering work	99,944	39,541	154,469	99,655
Maintenance, repair and other services	3,238	3,659	5,864	6,835
	<u>103,182</u>	<u>43,200</u>	<u>160,333</u>	<u>106,490</u>

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

For the six months ended 30 June 2017

	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	<u>154,469</u>	<u>5,864</u>	<u>160,333</u>
Segment results	<u>34,705</u>	<u>1,598</u>	36,303
Other income			65
Administrative expenses			(8,047)
Finance costs			<u>(154)</u>
Profit before taxation			<u><u>28,167</u></u>

For the six months ended 30 June 2016

	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	<u>99,655</u>	<u>6,835</u>	<u>106,490</u>
Segment results	<u>17,759</u>	<u>1,876</u>	19,635
Other income			394
Administrative expenses			(5,747)
Finance costs			<u>(57)</u>
Profit before taxation			<u><u>14,225</u></u>

4. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Profit for the period has been arrived at after charging (crediting):				
Directors' remuneration	792	699	1,587	1,398
Other staff costs:				
Salaries and other allowances	9,620	6,668	16,930	12,606
Retirement benefit scheme contributions	360	314	710	599
Total staff costs	10,772	7,681	19,227	14,603
Auditor's remuneration	250	302	500	535
Depreciation of property, plant and equipment	142	142	285	285
Bank interest income	(19)	(9)	(28)	(18)

5. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Hong Kong profits tax	3,171	1,018	4,904	2,347

Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profit of the Group for the period as stated above.

No deferred tax assets and liabilities have been provided in the financial statements as there is no material temporary differences arising between tax bases of assets and liabilities and their carrying amounts as at the reporting dates.

6. DIVIDEND

The Board resolved not to pay an interim dividend for the six months ended 30 June 2017.

During the six months ended 30 June 2017, a final dividend in respect of the year ended 31 December 2016 of HK\$5,376,000 (HK0.42 cents per Share) has been recognised as distribution by the Company.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the three months and six months ended 30 June 2016 and 2017 are based on the followings:

	Three months ended 30 June		Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Earnings:				
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<u>14,494</u>	<u>4,920</u>	<u>23,263</u>	<u>11,878</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,280,000</u>	<u>1,280,000</u>	<u>1,280,000</u>	<u>1,280,000</u>

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue (defined in Note 11) as described in the Prospectus had been effective on 1 January 2015.

No diluted earnings per share was presented as there was no potential ordinary shares in issue during the Relevant Period.

8. TRADE AND OTHER RECEIVABLES

	30 June 2017 <i>HK\$'000</i> (Unaudited)	31 December 2016 <i>HK\$'000</i> (Audited)
Trade receivables	74,653	87,395
Retention receivables (<i>note</i>)	19,321	17,058
Other receivables, deposits and prepayments	<u>4,955</u>	<u>6,155</u>
Total trade and other receivables	<u>98,929</u>	<u>110,608</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 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:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
0–30 days	21,495	61,227
31–60 days	33,739	13,180
61–90 days	1,125	1,171
> 90 days	18,294	11,817
	<u>74,653</u>	<u>87,395</u>

9. TRADE AND OTHER PAYABLES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade payables	33,112	30,206
Retention payables (<i>note</i>)	278	164
Accruals	13,315	18,652
Receipt in advance	4,315	6,437
	<u>51,020</u>	<u>55,459</u>

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:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
0–30 days	14,364	18,506
31–60 days	16,479	9,275
61–90 days	799	1,138
> 90 days	1,470	1,287
	<u>33,112</u>	<u>30,206</u>

10. BANK BORROWINGS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Bank borrowings — secured:		
Variable rate	<u>19,518</u>	—
	<u>19,518</u>	—
Carrying amounts repayable (<i>note</i>):		
On demand or within one year	<u>19,518</u>	—
Amount shown under current liabilities	<u><u>19,518</u></u>	<u>—</u>

note: All bank borrowings contain a repayment on demand clause and are shown under current liabilities. The amounts due are presented based on scheduled repayment dates set out in the loan agreements.

The variable rate bank borrowings as at 30 June 2017 carry interest at Hong Kong Interbank Offered Rate plus 2.75% and Hong Kong Dollars best lending rate minus 2.00%. The effective interest rates on borrowings (which are also equal to contracted interest rates) range from 3.00% to 3.34% per annum.

The Group's bank borrowings are denominated in HK\$. These bank borrowings are under banking facilities for drawing loans and issuing performance bonds. As at 30 June 2017, the banking facilities are secured by a fixed deposit amounting to HK\$15,910,000 held by the Group.

11. SHARE CAPITAL

The share capital of the Company as at 31 December 2016 and 30 June 2017 is as follows:

	<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, 30 June 2016 and 30 June 2017		<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, 30 June 2016 and 30 June 2017		<u><u>1,280,000,000</u></u>	<u><u>12,800</u></u>

note:

The following changes in the share capital of the Company took place during the period from 29 April 2015 (date of incorporation) to 30 June 2016.

- (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 (“**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 the then sole shareholder 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 were 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 Golden Luck (“**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.

12. OPERATING LEASE ARRANGEMENT

At 30 June 2017, 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:

	30 June 2017 HK\$’000 (Unaudited)	31 December 2016 HK\$’000 (Audited)
Within one year	609	1,066
In the second to fifth year inclusive	17	93
	626	1,159

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

13. RELATED PARTY DISCLOSURES

(i) Transactions

The Group entered into the following transactions with its related parties:

Related parties	Nature of transactions	Three months ended 30 June		Six months ended 30 June	
		2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Kin Kwan Decoration, Co (<i>note</i>)	Sub-contracting expense from building services engineering contracts	52	42	71	106
LKWC	Rental expense	117	117	233	233
Mr. Wong and Ms. So	Rental expense	117	117	234	234

note: Kin Kwan Decoration, Co is a sole proprietorship owned by Mr. Wong Kang Hong, being the younger brother of Mr. Wong, an executive Director and a controlling shareholder of the Company.

(ii) Compensation of key management personnel

	Three months ended 30 June		Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Salaries and other allowances	780	690	1,560	1,380
Retirement benefit scheme contributions	14	9	27	18
	<u>794</u>	<u>699</u>	<u>1,587</u>	<u>1,398</u>

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 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 the Group’s building services engineering business by making use of additional financial resources available from the Listing which allows the Group to undertake more projects of larger scale that require the provision of surety bond; (ii) further expanding the Group’s 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

The revenue increased from approximately HK\$106.5 million for the six months ended 30 June 2016 to approximately HK\$160.3 million for the six months ended 30 June 2017, representing a growth of approximately 50.6%. Such increase was mainly due to the increase in building services engineering 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 Relevant Period.

Cost of Sales

The cost of sales increased from approximately HK\$86.9 million for the six months ended 30 June 2016 to approximately HK\$124.0 million for the six months ended 30 June 2017, representing an increase of approximately 42.8%. Such increase was mainly attributable to the increase in the subcontracting charges and direct labour costs with the increase in the number of contracting projects undertaken by the Group during the Relevant Period.

Gross Profit

Gross profit of the Group increased by approximately 84.9% from approximately HK\$19.6 million for the six months ended 30 June 2016 to approximately HK\$36.3 million for the six months ended 30 June 2017. The increase was mainly driven by the increase in revenue for the six months ended 30 June 2017 as discussed above.

The overall gross profit margin increased from approximately 18.4% for the six months ended 30 June 2016 to approximately 22.6% for the six months ended 30 June 2017 as the extent of increase in revenue is greater than that of increase in subcontracting charges and direct labour costs for the six months ended 30 June 2017.

Administrative Expenses

Administrative expenses of the Group increased by approximately 40.0% from approximately HK\$5.7 million for the six months ended 30 June 2016 to approximately HK\$8.0 million for the six months ended 30 June 2017. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to the increase in rental expenses and staff salary due to business expansion as well as the professional fees incurred in relation to the application of proposed transfer of listing from GEM to the Main Board of the Stock Exchange during the Relevant Period.

Income Tax Expense

Income tax expense of the Group increased by approximately 108.9% from approximately HK\$2.3 million for the six months ended 30 June 2016 to approximately HK\$4.9 million for the six months ended 30 June 2017. The increase was mainly due to the increase in profit before tax, excluding the effect of non-deductible expenses.

Profit and Total Comprehensive Income

Profit and total comprehensive income for the Relevant Period increased by approximately 95.8% from approximately HK\$11.9 million for the six months ended 30 June 2016 to approximately HK\$23.3 million for the six months ended 30 June 2017. Such increase was primarily attributable to the net effect of (i) the increase in revenue and gross profit for the six months ended 30 June 2017; and (ii) the increase in administrative expenses for the six months ended 30 June 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had total assets of approximately HK\$207.0 million (31 December 2016: approximately HK\$171.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$79.6 million (31 December 2016: approximately HK\$61.8 million) and approximately HK\$127.4 million (31 December 2016: approximately HK\$109.5 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings) of the Group as at 30 June 2017 were approximately HK\$19.5 million (31 December 2016: nil), and current ratio as at 30 June 2017 was approximately 2.6 times (31 December 2016: approximately 2.7 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.

For further details regarding the borrowings, please refer to Note 10 to the unaudited condensed consolidated financial statements.

GEARING RATIO

The gearing ratio of the Group as at 30 June 2017 was approximately 15.3% (31 December 2016: nil), which was due to the raising of short-term interest-bearing bank borrowings under the bank facilities available to the Group during the Relevant Period.

The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings) 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 Relevant Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

PLEDGE OF ASSETS

As at 30 June 2017, the Group pledged its bank deposits to a bank of approximately HK\$15.9 million as collateral to secure bank facilities granted to the Group (31 December 2016: HK\$26.5 million).

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 six months ended 30 June 2017, there was no significant exposure to foreign exchange rate fluctuations and the Group has 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 ordinary shares.

As at 30 June 2017, 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 warehouses. The Group's operating lease commitments amounted to approximately HK\$0.6 million as at 30 June 2017 (31 December 2016: HK\$1.2 million). As at 30 June 2017, the Group did not have any capital commitment.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and in this announcement, the Group did not have other plans for material investments or capital assets as of 30 June 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2017, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed a total of 110 employees (31 December 2016: 110 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$19.2 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: approximately HK\$14.6 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 by the Company, the Group did not hold any significant investments during the six months ended 30 June 2017.

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 30 June 2017 is set out below:

Business strategies as stated in the Prospectus	Business objectives up to 30 June 2017 as stated in the Prospectus	Actual business progress up to 30 June 2017
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\$15.0 million for satisfying potential customers' requirements for surety bonds	The Group has been identifying suitable business opportunities with potential customers and the Group has also committed to undertaking new construction projects. A deposit of HK\$15.9 million was required and has been paid up to 30 June 2017 (which was financed as to approximately HK\$15.0 million by the proceeds from the Listing and as to the remaining approximately HK\$0.9 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 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 has recruited the staff with relevant experiences.
	Submit and completion of 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	The Group has submitted 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 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.

Business strategies as stated in the Prospectus	Business objectives up to 30 June 2017 as stated in the Prospectus	Actual business progress up to 30 June 2017
	Evaluate the need to obtain further licences, permits and/or qualifications to enhance the competitiveness of the Group	The Group is in the progress of evaluating the need to obtain further licences, permits and/or qualifications to enhance the competitiveness of the Group
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 its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties
	Recruit 5–9 additional middle to senior level engineering staff to cope with the business development and the plan to further develop the Group's building services engineering business	The Group has added 10 headcounts of middle to senior level engineering staff to cope with its business development and has paid additional staff costs for retaining such additional employees. The Group regularly reviews the need for further recruitments to cope with the 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 up to 30 June 2017 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 30 June 2017	Actual use of net proceeds up to 30 June 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Further development of the Group's building services engineering business	15,000	15,000
Further expansion of service scope	7,500	686
Further strengthening the Group's engineering department	5,000	3,375
	<u>17,500</u>	<u>19,061</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.

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the Shares

Name of Director	Capacity/ Nature of interest	Number of the Shares held/ interested in	Percentage of shareholding
Mr. Wong	Interest in controlled corporation (<i>note 1</i>)	653,000,000	51.02%
Ms. So	Interest of spouse (<i>note 2</i>)	653,000,000	51.02%

notes:

1. Mr. Wong beneficially owns 99% of the issued share capital of Golden Luck. By virtue of the SFO, Mr. Wong is deemed to be interested in the same number of the Shares held by Golden Luck.
2. Ms. So is the spouse of Mr. Wong. Under the SFO, Ms. So is deemed to be interested in the same number of the Shares in which Mr. Wong is interested.

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

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of the shares held/ interested in	Percentage of shareholding
Mr. Wong	Golden Luck	Beneficial owner	99	99%
Ms. So	Golden Luck	Beneficial owner	1	1%

Save as disclosed above, as at 30 June 2017, none of the Directors nor chief executive of the Company has registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as the Directors are aware, as at 30 June 2017, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest or short position in the Shares or underlying Shares or debentures of the Company which were required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of shareholder	Capacity/ Nature of interest	Number of the Shares held/interested in	Long/short position	Percentage of shareholding
Golden Luck	Beneficial owner	653,000,000	Long	51.02%

Save as disclosed above, as at 30 June 2017, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures" above, had notified the Company of an interest or short position in the Shares, underlying Shares or debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

COMPETING INTERESTS

During the Relevant Period, so far as the Directors are aware, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group, and the Directors are also not aware of any other conflict of interests which any such person has or may have with the Group.

INTEREST OF COMPLIANCE ADVISOR

As at 30 June 2017, as notified by the Company's compliance advisor, Messis Capital Limited (the "**Compliance Advisor**"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated on 17 September 2015, neither the Compliance Advisor nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 30 June 2017.

CORPORATE GOVERNANCE CODE

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 Relevant Period, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of provisions of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standards of dealings concerning securities transactions by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all the Directors, all the Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Relevant Period.

DIVIDEND

The Board resolved not to pay an interim dividend for the Relevant Period.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 10 September 2015 (the “**Scheme**”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2017.

Other than the Scheme, at no time during the six months ended 30 June 2017 and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 Rules 5.28 to 5.33 of the GEM Listing Rules and provisions C3.3 and C3.7 of the CG Code. The primary duties of the Audit Committee are to review and monitor the financial reporting process and the internal control and risk management systems of the Group, nominate and monitor external auditors and to oversee the continuing connected transactions of the Company. 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. Mr. Tam Chun Chung currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Relevant Period.

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

Hong Kong, 14 August 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.