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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 on Main Board: 1690)**

**(Stock Code on GEM: 8369)**

### **TRANSFER OF LISTING FROM THE GROWTH ENTERPRISE MARKET TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

**Financial adviser to the Company**

**MESSIS  大有融資**

**Messis Capital Limited**

On 13 April 2017, an application was made by the Company to the Stock Exchange for the transfer of listing of the Shares from GEM to the Main Board and such application was renewed on 20 November 2017. The Company has applied for the listing of, and permission to deal in, (i) the 1,280,000,000 Shares in issue; and (ii) any Shares which may be issued in respect of the additional share options which may be granted under the Share Option Scheme, on the Main Board by way of transfer of listing from GEM to the Main Board.

The approval-in-principle was granted by the Stock Exchange on 1 February 2018 for the Shares to be listed on the Main Board and de-listed from GEM. The last day of dealings in the Shares on GEM (stock code: 8369) will be 11 February 2018. It is expected that dealings in the Shares on the Main Board (stock code: 1690) will commence at 9:00 a.m. on 12 February 2018. The Board confirms that as at the date of this announcement, all pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the share registrars and transfer offices of the Company following the Transfer of Listing.

Reference is made to the announcement issued by the Company on 13 April 2017 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to the relevant provisions of the GEM Listing Rules and Main Board Listing Rules.

## **TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD**

On 13 April 2017, an application was made by the Company to the Stock Exchange for the Transfer of Listing and such application was renewed on 20 November 2017. The Company has applied for the listing of, and permission to deal in, (i) the 1,280,000,000 Shares in issue; and (ii) any Shares which may be issued in respect of the additional share options which may be granted under the Share Option Scheme, on the Main Board by way of transfer of listing from GEM to the Main Board. The approval-in-principle was granted by the Stock Exchange on 1 February 2018 for the Shares to be listed on the Main Board and de-listed from GEM. The Board confirms that as at the date of this announcement, all pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

## **REASONS FOR THE TRANSFER OF LISTING**

The Company has been listed on GEM since 25 September 2015. The Company is an investment holding company and its subsidiaries are principally engaged in the provision of engineering services for building services systems in Hong Kong. Further details of the principal activities of the Group are set out in the paragraph headed “Summary of the Group’s business”.

GEM has been positioned and perceived as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Main Board. Following the continuing development of the Group, the Directors believe the Transfer of Listing will enhance the profile of the Group and the attractiveness of the Shares to both institutional and retail investors. This will further strengthen the Group’s position in the industry and enhance the Group’s competitiveness in retaining and attracting the Group’s professional staff and customers.

The Directors also believe that the Main Board enjoys an enhanced status among investors which could result in a larger investor base leading to higher trading liquidity in the Shares. Considering the above, the Directors are of the view that the listing of the Shares on the Main Board will be beneficial to the Group’s future growth and business development as well as its financial flexibility, and it will create a long-term value to the Shareholders.

As at the date of this announcement, the Board has no immediate plans to change the nature of the business of the Group following the Transfer of Listing. The Transfer of Listing will not involve any issue of new Shares by the Company.

## **DEALINGS IN THE SHARES ON THE MAIN BOARD**

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS with effect from 25 September 2015, the date on which the Shares were first listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by

HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of the CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (stock code: 8369) will be 11 February 2018. It is expected that dealings in the Shares on the Main Board (stock code: 1690) will commence at 9:00 a.m. on 12 February 2018 and the Shares will be de-listed from GEM according to Rule 9A.09(6) of the Main Board Listing Rules.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in board lots of 10,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of the Company is Conyers Trust Company (Cayman) Limited and the Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of the Company following the Transfer of Listing.

## **SHARE OPTION SCHEME**

The Share Option Scheme was adopted by the Company on 10 September 2015. The Share Option Scheme will remain valid and effective following the Transfer of Listing and will be implemented in full compliance with the requirements of Chapter 17 of the Main Board Listing Rules.

As at the date of this announcement, no share option has been granted under the Share Option Scheme and there are no outstanding share options as at the date of this announcement. The listing of Shares to be issued pursuant to the Share Option Scheme will also be transferred to the Main Board pursuant to Rule 9A.10 of the Main Board Listing Rules.

As at the date of this announcement, the Company has not issued any other options, warrants or similar rights or convertible equity securities as at the date of this announcement.

## **SHAREHOLDING DISTRIBUTION**

The Company has made an enquiry into its shareholding. Based on the response received, it was suggested that as at 27 October 2017, the Controlling Shareholders held a total of 653,000,000 Shares, representing 51.02% of the issued Shares; and an aggregate of 627,000,000 Shares (representing approximately 48.98% of the issued Shares) were held by other public Shareholders. Among the public Shareholders, top 3 public Shareholders held an aggregate of 105,020,000 Shares, representing approximately 8.2% of the issued Shares; top 5 public Shareholders held an aggregate of 127,440,000 Shares, representing approximately 10.0% of the issued Shares; top 10 public Shareholders held an aggregate of 153,810,000 Shares, representing approximately 12.0% of the issued Shares; top 25 public

Shareholders held an aggregate of 194,910,000 Shares, representing approximately 15.2% of the issued Shares; and top 50 public Shareholders held an aggregate of 235,000,000 Shares, representing approximately 18.4% of the issued Shares.

## PLACING OF SHARES BY THE CONTROLLING SHAREHOLDERS

On 23 May 2016, Golden Luck Limited, one of the Controlling Shareholders, entered into a placing agreement with an independent placing agent with respect to the placing (the “**Placing**”) of, on a best effort basis, 307,000,000 Shares (the “**Placing Shares**”) of the Company held by it (representing approximately 24.0% of the then issued share capital of the Company as at the date thereof), to placees (the “**Placees**”) who were not connected with the Company and its connected persons. Completion of the Placing of 307,000,000 Placing Shares took place on 24 May 2016 and a voluntary announcement was made by the Company of even date.

The Placing Shares were placed to 7 Placees, each at the placing price of HK\$0.235 per Placing Share (the “**Placing Price**”), further details of which are set out below:

| <b>Placee</b> | <b>Number of<br/>Placing Shares<br/>subscribed<br/><i>No. of Shares</i></b> | <b>Consideration<br/>paid for the<br/>Placing Shares<br/><i>HK\$'000</i></b> | <b>Shareholding in<br/>the issued share<br/>capital of the<br/>Company<br/>immediately<br/>upon completion<br/>of the Placing<br/><i>Approximate %</i></b> |
|---------------|---|--|--|
| Placee A      | 62,500,000  | 14,688   | 4.9  |
| Placee B      | 62,500,000  | 14,688   | 4.9  |
| Placee C      | 40,000,000  | 9,400  | 3.1  |
| Placee D      | 15,000,000  | 3,525  | 1.2  |
| Placee E      | 7,000,000   | 1,645  | 0.5  |
| Placee F      | 62,000,000  | 14,570   | 4.8  |
| Placee G      | 58,000,000  | 13,630   | 4.5  |

*Note:* Placee C, Placee D, Placee E, Placee F and Placee G were ultimate placees of the Placing under sub-placing arrangement.

As confirmed by the Controlling Shareholders, the Placing Price was determined with reference to the then prevailing trading price of the Shares. The Placing Price of HK\$0.235 represents (i) a discount of approximately 8% to the closing price of the Share of HK\$0.255 per Share on 20 May 2016, being the last trading day preceding the date of the placing agreement for the Placing; and (ii) a discount of approximately 11% to the average closing price of the Share of HK\$0.265 per Share for the five trading days prior to and including 20 May 2016.

Each of the Controlling Shareholders, the Directors and the senior management members of the Company confirms that none of the Placees and their ultimate beneficial owners was referred by, or has had any past or present relationship or transactions (including fund transfers) with each of them or any of their respective close associates.

## **PUBLIC FLOAT**

The Directors confirm that at least 25% of the total issued share capital of the Company was held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

## **COMPETING BUSINESS**

As at the date of this announcement, none of the Directors or Controlling Shareholders or their respective close associates has any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group which needs to be disclosed pursuant to Rule 9A.09(10) of the Main Board Listing Rules.

## **GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 12 May 2017 to the Directors to allot and issue new Shares and repurchase Shares will continue to be valid and remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the applicable laws or the Articles to be held; or
- (c) the date on which such authority is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

## **PUBLICATION OF RESULTS**

Upon the Transfer of Listing, the Company will cease the practice of reporting financial results on a quarterly basis and will follow the relevant requirements of the Main Board Listing Rules, which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year ends, respectively. The Board is of the view that the investors and Shareholders will continue to have access to relevant information of the Company following the reporting requirements under the Main Board Listing Rules.

## **SUMMARY OF THE GROUP'S BUSINESS**

### **Principal activities**

The Company's subsidiaries are 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) MVAC system; (ii) electrical system; (iii) plumbing and drainage system; and (iv) fire services system.

The contracts entered into between the Group and 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 the provision of maintenance and repair services for building services system and replacement of parts. During the Track Record Period, the Group mainly obtained its building services engineering projects and maintenance projects by tendering. The duration of the projects undertaken by the Group during the Track Record Period generally ranges from around one month to 40 months.

The Directors confirm that as at the date of this announcement, the Company has no plan to acquire, or develop, any new business.

### **Building services engineering projects**

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.

The Group may be required to provide designs to certain building services systems, mainly MVAC systems. In some cases, the customers may provide preliminary designs on the building services systems with specific requirements, and the Group will base on such preliminary designs and requirements to provide detailed designs of the systems that can meet the customers’ requirements.

During the installation stage of the building services system, the Group will arrange for direct labour and subcontractors for the execution of the works and source the required equipment and components. In executing the building services engineering project for building services systems, the Group will ensure that such systems installed and the engineering works carried out for the installation comply with the customers’ requirements. The Group’s engineering team will supervise the site work and ensure compliance with the customers’ requirements.

Upon project completion, a certificate of practical completion is generally issued by the customer, certifying that the building services engineering works have been completed substantially to the satisfaction of the customer and handed-over. On-site inspection and certification of work are normally performed by the Group’s customers prior to issuance of practical completion certificate. Practical completion normally implies that the works as set out in the relevant contract have been completed substantially.

### **Maintenance projects**

Maintenance, repair and other services mainly include the provision of maintenance and repair services for building services system and replacement of parts.

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. Maintenance, repair and other services also include replacement of parts of building services systems and minor fitting-out services for properties in Hong Kong.

### Projects undertaken by the Group

The following table sets out the number of new contracts, with breakdown of building services engineering projects and maintenance projects, with contracts entered into during the Track Record Period:

|                      | Number of new contracts entered into |            |           | Nine months ended |
|----------------------|--------------------------------------|------------|-----------|-------------------|
|                      | Year ended 31 December               |            | 2016      | 30 September 2017 |
|                      | 2014                                 | 2015       | 2016      | 2017              |
| Building services    |                                      |            |           |                   |
| engineering projects | 35                                   | 36         | 26        | 16                |
| Maintenance projects | <u>66</u>                            | <u>70</u>  | <u>55</u> | <u>31</u>         |
| Total                | <u>101</u>                           | <u>106</u> | <u>81</u> | <u>47</u>         |

The following table sets out the number of projects, with breakdown of building services engineering projects and maintenance projects, with revenue contribution during the Track Record Period:

|                      | Number of projects with revenue contribution |            |            | Nine months ended |
|----------------------|--|------------|------------|-------------------|
|                      | Year ended 31 December                       |            | 2016       | 30 September 2017 |
|                      | 2014   | 2015       | 2016       | 2017              |
| Building services    |  |            |            |                   |
| engineering projects | 63   | 65         | 68         | 53                |
| Maintenance projects | <u>109</u>                                   | <u>83</u>  | <u>76</u>  | <u>46</u>         |
| Total                | <u>172</u>                                   | <u>148</u> | <u>144</u> | <u>99</u>         |

The following tables set out the top five projects with the highest revenue contribution to the Group for the Track Record Period:

For the year ended 31 December 2014

| <b>Rank</b> | <b>Contract number</b> | <b>Key scope of work</b>  | <b>Contract sum<br/>(Approximately<br/>HK\$ million)<br/>(Note)</b> | <b>Revenue recognised for the year ended<br/>31 December<br/>2014<br/>(Approximately<br/>HK\$ million)</b> | <b>Approximate % of the Group's total revenue for the year ended<br/>31 December<br/>2014</b> |
|-------------|------------------------|---|---|--|---|
| 1           | LK/P00771              | Engineering services for building services systems  | 66.9  | 21.5   | 15.9%   |
| 2           | LK/P00753              | Engineering services for building services systems and fitting-out works                      | 26.0  | 15.9   | 11.7%   |
| 3           | LK/P00702              | Renovation involving engineering services for building services systems and fitting-out works | 18.3  | 10.0   | 7.4%  |
| 4           | LK/P00766              | Engineering service for the MVAC system for tenants in a commercial building                  | 18.3  | 8.8  | 6.5%  |
| 5           | LK/P00777              | Renovation involving engineering services for building services systems and fitting-out works | 10.0  | 7.7  | 5.7%  |

For the year ended 31 December 2015

| <b>Rank</b> | <b>Contract number</b> | <b>Key scope of work</b>  | <b>Contract sum<br/>(Approximately<br/>HK\$ million)<br/>(Note)</b> | <b>Revenue recognised for the year ended<br/>31 December<br/>2015<br/>(Approximately<br/>HK\$ million)</b> | <b>Approximate % of the Group's total revenue for the year ended<br/>31 December<br/>2015</b> |
|-------------|------------------------|---|---|--|---|
| 1           | LK/P00771              | Engineering services for building services systems                  | 66.9  | 37.1   | 19.8%   |
| 2           | LK/P00790              | Engineering services for MVAC, electrical and fire services systems | 34.1  | 26.4   | 14.0%   |
| 3           | LK/P00779              | Engineering services for MVAC systems                               | 34.8  | 21.3   | 11.3%   |
| 4           | LK/P00794              | Engineering services for MVAC systems                               | 42.4  | 12.9   | 6.9%  |
| 5           | LK/P00796              | Engineering services for MVAC systems                               | 18.4  | 12.0   | 6.4%  |



For the year ended 31 December 2016

| <b>Rank</b> | <b>Contract number</b> | <b>Key scope of work</b>  | <b>Contract sum</b><br><i>(Approximately HK\$ million)</i><br><i>(Note)</i> | <b>Revenue recognised for the year ended 31 December 2016</b><br><i>(Approximately HK\$ million)</i> | <b>Approximate % of the Group's total revenue for the year ended 31 December 2016</b> |
|-------------|------------------------|---|---|--|---|
| 1           | LK/P00794              | Engineering services for MVAC systems                           | 42.4  | 22.2   | 9.4%  |
| 2           | LK/P00843              | Engineering services for electrical and mechanical system       | 25.0  | 22.1   | 9.4%  |
| 3           | LK/P00804              | Engineering services for the plumbing and drainage system       | 30.1  | 19.7   | 8.4%  |
| 4           | LK/P00833              | Engineering services for MVAC and plumbing and drainage systems | 31.1  | 18.4   | 7.8%  |
| 5           | LK/P00806              | Engineering services for MVAC systems                           | 11.2  | 11.2   | 4.7%  |

For the nine months ended 30 September 2017

| <b>Rank</b> | <b>Contract number</b> | <b>Key scope of work</b>  | <b>Contract sum</b><br><i>(Approximately HK\$ million)</i><br><i>(Note)</i> | <b>Revenue recognised for the nine months ended 30 September 2017</b><br><i>(Approximately HK\$ million)</i> | <b>Approximate % of the Group's total revenue for the nine months ended 30 September 2017</b> |
|-------------|------------------------|---|---|--|---|
| 1           | LK/P00842              | Engineering services for plumbing and drainage system           | 34.0  | 31.1   | 14.7%   |
| 2           | LK/P00848              | Engineering services for electrical and mechanical system       | 31.3  | 23.7   | 11.2%   |
| 3           | LK/P00845              | Engineering services for MVAC systems                           | 59.0  | 18.6   | 8.8%  |
| 4           | LK/P00828              | Engineering services for MVAC systems                           | 27.5  | 12.8   | 6.0%  |
| 5           | LK/P00833              | Engineering services for MVAC and plumbing and drainage systems | 31.1  | 12.3   | 5.8%  |

*Note:* The contract sum refers to the contract sum stated in the original contract, and include any adjustments made due to variation orders (if any) or adjustment in contract sum after the award of contract.

Set out below is the breakdown of new contracts entered into during the Track Record Period by range of contract sum:

|                                       | <b>Number of new contracts entered into</b> |             |             | <b>Nine months ended</b> |
|---------------------------------------|---|-------------|-------------|--------------------------|
|                                       | <b>Year ended 31 December</b>               |             |             | <b>30 September</b>      |
|                                       | <b>2014</b>                                 | <b>2015</b> | <b>2016</b> | <b>2017</b>              |
| HK\$10 million or above               | 5   | 4           | 8           | 2                        |
| HK\$5 million to below HK\$10 million | 2   | 4           | 4           | 1                        |
| HK\$1 million to below HK\$5 million  | 16  | 19          | 13          | 7                        |
| Below HK\$1 million                   | 78  | 79          | 56          | 37                       |
| <b>Total</b>                          | <b>101</b>                                  | <b>106</b>  | <b>81</b>   | <b>47</b>                |

### Projects in progress

As at 30 September 2017, the Group had 32 building services engineering projects and 23 maintenance projects in progress (including projects with contract sum confirmed but not yet completed). The following table sets out a breakdown of such projects in progress by business segment:

|  | <b>Number of projects in progress</b> | <b>Contract sum per project</b> |                 | <b>Aggregated contract sum of all projects in progress (including amounts recognised and expected to be recognised as revenue)</b> | <b>Corresponding amount of revenue expected to be recognised after 30 September 2017 (Note)</b> |
|--|---------------------------------------|---------------------------------|-----------------|--|---|
|  |                                       | <b>Maximum</b>                  | <b>Minimum</b>  | <b>HK\$'000</b>  | <b>HK\$'000</b>   |
|  |                                       | <i>HK\$'000</i>                 | <i>HK\$'000</i> | <i>HK\$'000</i>  | <i>HK\$'000</i>   |
| Building services engineering projects | 32                                    | 157,018                         | 303             | 615,120  | 284,216   |
| Maintenance projects                   | 23                                    | 3,439                           | 72              | 11,881   | 5,147   |
| <b>Total</b>                           | <b>55</b>                             | <b>N/A</b>                      | <b>N/A</b>      | <b>627,001</b>   | <b>289,363</b>  |

*Note:* Amount of revenue expected to be recognised for each project in progress is calculated by subtracting the amount of revenue recognised from the project as at 30 September 2017 from the contract sum.

## Project tendering success rate

For the Track Record Period, the number of tenders and quotations submitted by the Group were 361, 248, 233 and 231, respectively, with the success rates of attaining engagement for projects tendered and quoted as follows:

|  | For the year ended 31 December |              |             | For the nine months ended |
|--|--------------------------------|--------------|-------------|---------------------------|
|  | 2014                           | 2015         | 2016        | 30 September 2017         |
| Approximate success rate ( <i>Note</i> ) | <u>6.9%</u>                    | <u>10.5%</u> | <u>5.2%</u> | <u>4.3%</u>               |

*Note:* Success rate is calculated as to the number of tender submission/quotation with new contracts entered into during the year/period divided by the number of tender submission/quotation made to customers during the respective years/period.

Due to the Group's strategy to focus on projects with higher contract sum and subject to the Group's available resources and working capital from time to time, the Group submitted less tenders for projects with lower original contract sum since the year ended 31 December 2015, which has resulted in a decrease in the total number of tenders and quotations submitted by the Group during each of the two years ended 31 December 2016. Such focus could be reflected by the range of revenue recognised for building services engineering projects of the Group with revenue contribution during the three years ended 31 December 2016 set out in the section headed "Financial Information of the Group" below, the average revenue recognised per building services engineering project with revenue contribution increased from approximately HK\$1.9 million for the year ended 31 December 2014 to approximately HK\$2.5 million for the year ended 31 December 2015, and further increased to approximately HK\$3.2 million for the year ended 31 December 2016. During the nine months ended 30 September 2017, the Group continued its strategy to focus on projects with higher contract sum and submitted less tenders for projects with lower original contract sum, which could be reflected by the increase in average revenue recognised per building services engineering project from approximately HK\$2.7 million for the nine months ended 30 September 2016 to approximately HK\$3.8 million for the nine months ended 30 September 2017.

For tendering of projects which the tendering team assessed to be of relatively larger scale, higher complexity or with tight completion schedule, and therefore of higher risk, the Group would tender at a less competitive price to avoid cost overruns and aim to maintain the gross profit margin of such potential projects, in which case the Group may not be competitive enough to be awarded with the contract. Also, the Group may respond to tender notices or invitations by submitting tenders even at times when the Group may not have sufficient capacity to undertake more projects. Such strategy allows the Group to (i) maintain relationship with its customers; (ii) maintain the Group's presence in the market; and (iii) be informed of the latest market development and pricing trends which are useful to the Group in tendering for projects in the future. Due to abovementioned strategies and subject to the Group's available resources and working capital from time to time, the Group may submit tenders which are less competitive for certain projects, thereby leading to fluctuations in the Group's overall tender success rates during the Track Record Period.

## **BUSINESS OUTLOOK AND RECENT DEVELOPMENT**

The Directors expect that while the construction industry in Hong Kong is subject to certain factors, such as intense market competition in the market and rising construction labour and material costs, the overall market condition of the construction industry in Hong Kong is relatively stable with steady growth.

The Directors expect that the Group will continue to further develop its building services engineering business by undertaking more projects for building services engineering work to maintain healthy revenue stream of the Group and further strengthen the in-house team of professional staff in order to maintain the competitive edge of the Group over the competitors in the industry. The Group's qualified and experienced staff, including authorised person, authorised signatory and in-house engineers, can cope with the Group's business development for both building services engineering work and maintenance work by undertaking projects of larger scale and of higher complexity.

Looking forward, the Group plans to focus its resources on several material projects with contract entered into during the year ended 31 December 2016 and during the nine months ended 30 September 2017. During the year ended 31 December 2016, a building services engineering project for a hotel and office building development with contract sum of approximately HK\$150 million was entered into, which is expected to be completed in May 2019. Despite the number of new projects with contract entered into during the year ended 31 December 2016 decreased, the Group will focus its resources in carrying out building services engineering projects of larger scale. Such focus could be reflected by the range of revenue recognised for building services engineering projects of the Group with revenue contribution during the three years ended 31 December 2016 set out in the section headed "Financial Information of the Group" below, the average revenue recognised per building services engineering project with revenue contribution increased from approximately HK\$1.9 million for the year ended 31 December 2014 to approximately HK\$2.5 million for the year ended 31 December 2015, and further increased to approximately HK\$3.2 million for the year ended 31 December 2016. During the nine months ended 30 September 2017, the Group continued its strategy to focus its resources in carrying out building services engineering projects of larger scale, which could be reflected by the increase in average revenue recognised per building services engineering project from approximately HK\$2.7 million for the nine months ended 30 September 2016 to approximately HK\$3.8 million for the nine months ended 30 September 2017. The Group had 33 backlog projects of a total unbilled contract sum amounted to approximately HK\$190.5 million as at 31 December 2017. Subsequent to 31 December 2016 and up to 31 December 2017, the Group has been awarded 22 new contracts of building services engineering projects with an aggregate contract sum of approximately HK\$82.0 million. In addition, the Group has been awarded 40 new contracts of maintenance projects with an aggregate contract sum of approximately HK\$9.1 million during the said period. The Group has submitted an application for the promotion from Group I to Group II under the "Air-conditioning Installation" category in the List of Approved Suppliers of Materials & Specialist Contractors for Public Works on 25 January 2017. The Works Branch, Development Bureau is in progress of processing the Group's application and has conducted an on-site inspection of Lap Kei on 4 August 2017.

According to The 2017–18 Budget announced by the Financial Secretary of Hong Kong in February 2017, the estimated annual capital works expenditure on public sector projects has slightly increased by approximately 0.7% to approximately HK\$86.8 billion for investing in infrastructure in 2017–18 as compared to the revised estimated expenditure of previous financial year, indicating stable growth in the public sector in Hong Kong.

Looking forward, subject to the Group’s available resources and working capital from time to time, the Group will continue its strategy to focus on projects with higher contract sum. Subject to the successful promotion to Group II under the “Air-conditioning Installation” category in the List of Approved Suppliers of Materials & Specialist Contractors for Public Works, the Group intends to undertake public works involving air-conditioning installation of unlimited amount, thereby broadening the Group’s business opportunities in public works that the Group may tender for.

## MATERIAL ACQUISITIONS AND DISPOSALS

The Directors confirm that there were no material acquisitions or disposals of the Group since its listing on GEM and up to the Latest Practicable Date.

## LICENCES AND PERMITS

As at the date of this announcement, Lap Kei and Wealth E & M, subsidiaries of the Group, have the following registrations and licences that are material to the business operations of the Group in Hong Kong:

| <b>Registration/licences</b>  | <b>Governing authority</b>       | <b>Registrant/holder</b> | <b>Date of first registration/grant</b> | <b>Expiry date of current licences/registration</b> |
|---|----------------------------------|--------------------------|---|---|
| Registered Electrical Contractor ( <i>Note 1</i> )  | EMSD                             | Lap Kei                  | 23 February 1998                        | 22 February 2019                                    |
|   |                                  | Wealth E & M             | 22 May 2009                             | 21 May 2018   |
| Registered Specialist Contractor (Ventilation Works) ( <i>Note 2</i> )  | Buildings Department             | Lap Kei                  | 6 June 2002                             | 22 July 2020  |
| Registered Fire Service Installation Contractor — Classes 1 & 2 ( <i>Note 3</i> )   | Fire Services Department         | Lap Kei                  | 28 August 2001                          | —<br>( <i>Note 6</i> )                              |
| Approved Suppliers of Materials & Specialist Contractors for Public Works — Air-conditioning installation (Group I) ( <i>Note 4</i> ) | Works Branch, Development Bureau | Lap Kei                  | 15 August 2006                          | —<br>( <i>Notes 6 &amp; 7</i> )                     |

| <b>Registration/licences</b>  | <b>Governing authority</b> | <b>Registrant/holder</b> | <b>Date of first registration/grant</b> | <b>Expiry date of current licences/registration</b> |
|---|----------------------------|--------------------------|---|---|
| Registered Minor Works Contractor (Classes I, II and III) ( <i>Note 5</i> ) | Buildings Department       | Lap Kei                  | 11 April 2012                           | 11 April 2018                                       |

*Notes:*

1. Lap Kei and Wealth E & M are registered as Registered Electrical Contractors to carry out electrical work in Hong Kong.
2. Lap Kei is registered as Registered Specialist Contractor (Ventilation Works) to carry out ventilation works to which the Building (Ventilating Systems) Regulations apply.
3. Lap Kei is registered as Registered Fire Service Installation Contractor — Classes 1 & 2 to (i) as for Class 1 works, install, maintain, repair and inspect any fire service installation or equipment (other than portable equipment) which contains an electrical circuit or other apparatus for the detection of warning of smoke or fire; and (ii) as for Class 2 works, install, maintain, repair and inspect any fire service installation or equipment (other than portable equipment) which contains (a) pipes and fittings designed or adapted to carry water or some other fire extinguishing medium; or (b) any type of electrical apparatus other than those specified in Class 1.
4. Lap Kei is registered as an approved contractor on the air-conditioning installation category (Group I) of the Specialist List to undertake public works contracts/subcontracts for air-conditioning installation of value up to HK\$5.7 million. The Group had 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.
5. Save for Type A (Alteration and addition works) minor works, Type B (Repair works) minor works and Type F (Finishes works) minor works, which Lap Kei is registered under Classes II and III only, Lap Kei is registered under Classes I, II and III for carrying out all other types of minor works, including Type C (Works relating to signboards) minor works, Type D (Drainage works) minor works, Type E (Works relating to structures for amenities) minor works and Type G (Demolition works) minor works.
6. The relevant registration/qualification is not subject to any periodic renewal.
7. Lap Kei is subject to certain criteria for retention of the qualification. Please refer to the section headed “Regulatory overview” in the Prospectus for the retention requirement.

## **MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS**

### **Customers**

The Group’s customers mainly include main contractors who contract all or part of the engineering works for building services systems to other subcontractors, such as the Group, and landlords, or occasionally property developers (or its consultants). The Directors believe that customers may choose to engage the Group for its capability to provide one-stop integrated services from project planning, resources allocation, subcontractor management and material procurement to monitoring quality assurance.

Set out below is a breakdown of the Group's revenue attributable to the Group's top five customers for the Track Record Period:

**For the year ended 31 December 2014**

| <b>Customer</b>                            | <b>Principal business</b>         | <b>Paid-up<br/>share capital<br/>HK\$'000<br/>(Approximately)</b> | <b>Revenue<br/>recognised for<br/>the year ended<br/>31 December<br/>2014<br/>HK\$ million<br/>(Approximately)</b> | <b>Approximate %<br/>of the Group's<br/>total revenue for<br/>the year ended<br/>31 December<br/>2014<br/>%<br/>(Approximately)</b> |
|--|-----------------------------------|---|--|---|
| Customer A                                 | Contractor                        | 600   | 21.5   | 15.9  |
| Customer B                                 | Property investment               | N/A   | 15.9   | 11.8  |
| Customer C                                 | Operator of a private<br>hospital | N/A   | 11.3   | 8.4   |
| Customer D                                 | Contractor                        | 2,200   | 7.7  | 5.7   |
| Customer E                                 | Main contractor                   | 97,000  | <u>7.2</u>   | <u>5.3</u>  |
| <b>Five largest customers in aggregate</b> |                                   |   | 63.6   | 47.1  |
| All other customers                        |                                   |   | <u>71.9</u>  | <u>52.9</u>   |
| Revenue                                    |                                   |   | <u><u>135.5</u></u>  | <u><u>100.0</u></u>   |

**For the year ended 31 December 2015**

| <b>Customer</b>                            | <b>Principal business</b> | <b>Paid-up<br/>share capital<br/>HK\$'000<br/>(Approximately)</b> | <b>Revenue<br/>recognised for<br/>the year ended<br/>31 December<br/>2015<br/>HK\$ million<br/>(Approximately)</b> | <b>Approximate %<br/>of the Group's<br/>total revenue for<br/>the year ended<br/>31 December<br/>2015<br/>%<br/>(Approximately)</b> |
|--|---------------------------|---|--|---|
| Customer B                                 | Property investment       | N/A   | 37.1   | 19.8  |
| Customer F                                 | Main contractor           | 17,800  | 26.3   | 14.0  |
| Customer E                                 | Main contractor           | 97,000  | 21.3   | 11.3  |
| Customer G                                 | Property investment       | 0.1   | 12.9   | 6.9   |
| Customer H                                 | Main contractor           | 35,000  | <u>12.0</u>  | <u>6.4</u>  |
| <b>Five largest customers in aggregate</b> |                           |   | 109.6  | 58.4  |
| All other customers                        |                           |   | <u>78.2</u>  | <u>41.6</u>   |
| Revenue                                    |                           |   | <u><u>187.8</u></u>  | <u><u>100.0</u></u>   |



## For the year ended 31 December 2016

| Customer                                   | Principal business                | Paid-up<br>share capital<br><i>HK\$'000</i><br><i>(Approximately)</i> | Revenue<br>recognised for<br>the year ended<br>31 December<br>2016<br><i>HK\$ million</i><br><i>(Approximately)</i> | Approximate %<br>of the Group's<br>total revenue for<br>the year ended<br>31 December<br>2016<br>% |
|--|-----------------------------------|---|---|--|
| Customer G                                 | Property investment               | 0.1   | 22.2  | 9.4  |
| Customer I                                 | Main contractor                   | 18,800  | 22.1  | 9.4  |
| Customer J                                 | Property investment               | 10  | 19.7  | 8.4  |
| Customer K                                 | Main contractor                   | 1,000   | 18.4  | 7.8  |
| Customer C                                 | Operator of a private<br>hospital | N/A   | 11.2  | 4.7  |
| <b>Five largest customers in aggregate</b> |                                   |   | 93.6  | 39.7   |
| All other customers                        |                                   |   | 141.9   | 60.3   |
| Revenue                                    |                                   |   | 235.5   | 100.0  |

## For the nine months ended 30 September 2017

| Customer                                   | Principal business  | Paid-up<br>share capital<br><i>HK\$'000</i><br><i>(Approximately)</i> | Revenue<br>recognised for<br>the nine months<br>ended<br>30 September<br>2017<br><i>HK\$ million</i><br><i>(Approximately)</i> | Approximate %<br>of the Group's<br>total revenue for<br>the nine months<br>ended<br>30 September<br>2017<br>% |
|--|---------------------|---|--|---|
| Customer L                                 | Property investment | 0.1   | 54.8   | 25.8  |
| Customer N                                 | Property investment | 0.001   | 24.0   | 11.3  |
| Customer H                                 | Main contractor     | 35,000  | 13.3   | 6.3   |
| Customer M                                 | Property investment | 1,500   | 12.8   | 6.0   |
| Customer K                                 | Main contractor     | 1,000   | 12.3   | 5.8   |
| <b>Five largest customers in aggregate</b> |                     |   | 117.2  | 55.2  |
| All other customers                        |                     |   | 94.8   | 44.8  |
| Revenue                                    |                     |   | 212.0  | 100.0   |

## Suppliers

For each of the Track Record Period, the percentage of the total material and equipment costs attributable to the Group's top five suppliers amounted to approximately 50.7%, 42.1%, 29.7% and 43.5%, respectively. The percentage of total material and equipment costs attributable to the Group's largest supplier for each of the Track Record Period amounted to approximately 18.0%, 22.3%, 9.9% and 22.0%, respectively.

## **Subcontractors**

For each of the Track Record Period, the percentage of total subcontracting charges attributable to the Group's top five subcontractors amounted to approximately 53.8%, 51.8%, 39.7% and 55.3%, respectively. The percentage of total subcontracting charges attributable to the Group's largest subcontractor for each of the Track Record Period amounted to approximately 17.5%, 19.1%, 17.7% and 25.5%, respectively.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

**The Group's revenue is derived substantially from building services engineering projects, which are non-recurrent in nature, and the Group may achieve lower-than-expected revenue if it fails to maintain continuity of the Group's order book for its new projects**

The Group's revenue is substantially derived from building services engineering projects, which are non-recurrent in nature. For each of the Track Record Period, the Group's building services engineering projects accounted for approximately 87.4%, 88.2%, 93.7% and 95.7% of its total revenue, respectively. Typically, the Group's customers engage the Group on a project-by-project basis and the customers are under no obligation to award projects to the Group. As such, there is no guarantee that the Group will be able to secure new businesses from its existing customers.

The performance of the building services industry is cyclical and could be significantly affected by various factors, including but not limited to the fluctuations in economic conditions, the general conditions of property markets in Hong Kong, and other factors. There is no assurance that the number of building services engineering projects in Hong Kong will not decrease in the future. For instance, an economic downturn in Hong Kong where the Group operates may hold up the construction plans, as a result of which the Group's business, financial condition and results of operations could be materially and adversely affected.

The Group's future performance will also depend on, among other things, its ability to control its costs and will be subject to other risk factors as set out in this section. Profit margins for building services engineering projects and maintenance projects may vary from project to project due to factors such as the accuracy of the Group's estimation on the costs when committing to the amount of its fees and the complexity of the project.

**The Group is dependent on its senior management members and in-house engineers, inability to retain its staff may adversely affect the Group's business operations**

The Directors believe that the Group's success, to a large extent, is attributable to, among other things, the contribution of each of the executive Directors, senior management members and other in-house engineers. The Group relies on its executive Directors, senior management members and in-house engineers to execute both of its engineering and maintenance projects. The Group's ability to provide one-stop building services engineering services for its customers is mainly attributable to their professional knowledge, experience and expertise in consolidating the specifications of different parts of the building services systems, which comply with the relevant rules and regulations while meeting the customer's requirements.

The Group's Directors, senior management members and in-house engineers are also experienced with the assessment and preparation of tender which facilitate the Group in securing contracts in tendering process, and provide accurate cost estimations to reduce situations of cost overrun.

There could be an adverse impact on the Group's business operations should any of these key personnel terminates his/her service agreement or employment contract with the Group or otherwise cease to serve the Group and appropriate persons could not be found to replace them. There is no guarantee that the Group will be able to attract and retain its current staff or that they will not resign in the future. If the Group is unable to retain its staff in the future, the Group's business operations and financial performance may be diversely affected.

**Loss of authorised signatory and technical director for the Group's registrations maintained with the Buildings Department could materially and adversely affect the Group's business**

The Group maintained several registrations with the Buildings Department, which require the Group to have at least one authorised signatory to act for it for the purpose of the Buildings Ordinance and one technical director to carry out certain duties. As at the Latest Practicable Date, (i) for the registration of Registered Specialist Contractor (Ventilation Works), the roles of authorised signatory and technical director were collectively taken up by Mr. Lau Hing Cheong and Mr. Lee Man Kei, both being project manager of the Group; and (ii) for the registration of Registered Minor Works Contractor (Classes I, II, III), the roles of authorised signatory and technical director were taken up by Mr. Wong Kang Kwong. The Building Authority of the Government imposes certain requirements on the qualifications and experience of such authorised signatory and technical director. For further details, please refer to the section headed "Licences and permits" in this announcement.

Certain potential customers of the Group may consider the registrations maintained by the Group as a determining factor whether to award the project to the Group during the tendering process. The Group may also, without subcontracting such works to subcontractors, carry out certain building works to which the relevant registrations maintained with the Buildings Department apply. If the Group cannot retain its authorised signatories or technical director, it would potentially result in suspension of the Group's registrations maintained with the Buildings Department, in which case the Group must cease the relevant buildings works until the replacement of such authorised signatories/technical director. In the event that the Group fails to identify and engage suitable replacements for authorised signatories/technical director in a timely manner and at reasonable costs, the Group's competitiveness may be impaired and its business and performance could be adversely affected. If the Group fails to identify and apply for replacement of an alternative qualified authorised signatory or technical director in a timely manner and at reasonable costs, the Group's business operations and financial performance may be adversely affected.

**Failure to accurately estimate and control the costs of the Group's projects may adversely affect the Group's financial performance**

All of the Group's contracts signed during the Track Record Period are fixed-price contracts. Customers may request for variation in the scope of work which are to be accepted on the basis that a variation order is agreed upon. In general, the Group will perform an estimation of the costs of each project before submitting the relevant tender document to its customers.

The final price of a contract is determined with reference to the Group's bids and substantially agreed by the Group and its customer at the time a contract is awarded. Therefore, it is crucial to accurately estimate and control the costs of each project. However, there are several factors that may adversely affect the actual amount of costs incurred while completing a project, such as the changes in the price of equipment, materials and labour, unforeseen site conditions and accidents. In the event that the Group fails to estimate the costs of its projects accurately, the Group may achieve lower-than-expected profit or even incur losses on that project which in turn could adversely affect the Group's financial performance.

### **The Group may not be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted**

For each of the Track Record Period, the Group's success rate of attaining engagement of projects tendered and quoted were approximately 6.9%, 10.5%, 5.2% and 4.3% respectively.

The success rate of attaining engagement of projects tendered and quoted is dependent on a few factors, such as the number of invitation of tendering quotation in each year and the tender quotation offers submitted by the Group's competitors in each project. There is no assurance that the Group will be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted in the future. As a result, it may have material and adverse impact on the Group's revenue and business operations.

The Group's revenue is substantially derived from building services engineering projects, which are non-recurrent in nature. Typically, the Group's customers engage the Group on a project-by-project basis and the customers are under no obligation to award projects to the Group. As such, there is no guarantee that the Group will be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted and the Group's amount of revenue may vary significantly.

## **LEGAL COMPLIANCE**

The Directors confirm that the Group has complied with all material laws and regulations for its business and each of the subsidiaries of the Company had obtained all material licences, permits and approvals from the relevant regulatory authorities in relation to its establishment and business operations which are material to the Group's business operation during the Track Record Period and up to the Latest Practicable Date. Given such, the Directors are of the view that the Group has fully complied with applicable laws and regulations in relation to its business operations in all material aspects as at the Latest Practicable Date.

## **COMPLIANCE WITH THE GEM LISTING RULES**

To the best knowledge of the Directors, there has not been any disciplinary action or investigation by the Stock Exchange against the Company in respect of serious or potentially serious breach of any GEM Listing Rules since its listing on GEM and up to the Latest Practicable Date.

## BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company discloses below the biographical information of each Director and senior management members:

### Executive Directors

**Mr. Wong Kang Kwong** (黃鏡光) (“**Mr. KK Wong**”), aged 51, an executive Director, is the co-founder of the Group and one of the Controlling Shareholders. Mr. KK Wong was appointed as a Director of the Company on 29 April 2015 and was re-designated as an executive Director of the Company on 10 September 2015. He also serves as the chairman of the Board. He is primarily responsible for the overall business development, management and operation of the Group. Mr. KK Wong is also a director of Lap Kei. He is the spouse of Ms. So.

Mr. KK Wong has over 26 years of experience in building services engineering industry. He completed the course of cold storage and air-conditioning and the course of application design for air-conditioning and ventilation in the Hong Kong Institute of Air-conditioning in September 1983 and September 1990, respectively. In 1988, Mr. KK Wong established Lap Ki Engineering Works, a sole proprietorship established in Hong Kong, which is principally engaged in air-conditioning installation and repairing. In December 1997, Mr. KK Wong founded Lap Kei with Ms. So and he has been handling the Group’s business operation since then.

As at the date of this announcement, Mr. KK Wong is deemed to be interested in 653,000,000 Shares held through his 99% equity interest in Golden Luck Limited (representing 51.02% of the issued share capital of the Company) pursuant to Part XV of the SFO. Mr. KK Wong is the sole director of Golden Luck Limited.

Pursuant to the service agreement entered into between the Company and Mr. KK Wong, Mr. KK Wong was appointed as an executive Director for an initial term of three years commencing from 25 September 2015, subject to renewal and termination in accordance with the terms thereof. He is entitled to a fixed salary of HK\$1,800,000 per annum and, upon completion of every 12 months of service, a discretionary management bonus of an amount to be recommended by the remuneration committee and approved by the Board in accordance with the terms thereof. Such remuneration was determined in accordance with and covered by the said service agreement.

**Ms. So Nui Ho** (蘇女好) (“**Ms. So**”), aged 47, an executive Director, is the co-founder of the Group and one of the Controlling Shareholders. Ms. So was appointed as a Director of the Company on 19 May 2015 and was re-designated as an executive Director of the Company on 10 September 2015. She is primarily responsible for the overall management of the Group’s financial and administrative matters. Ms. So is also a director of Lap Kei and Wealth E & M. She is the spouse of Mr. KK Wong.

Ms. So completed her secondary education and participated in the Hong Kong Certificate of Education Examination in 1988. She obtained a business studies diploma from Hong Kong School of Commerce in June 1989. Ms. So completed a one-year part-time evening post-secondary 5 course at Kwai Chung Technical Institute and was awarded a certificate in

higher accounting in July 1991. She was awarded a certificate for passing accounting (third level) examination from the London Chamber of Commerce and Industry Examinations Board in 1992.

Ms. So has over 20 years of experience in accounting, financing and administration. Prior to joining the Group, she served in the finance and administration department of an insurance company in Hong Kong from August 1993 to December 1996 and her last position held was an assistant supervisor. In December 1997, Ms. So founded Lap Kei with Mr. KK Wong and she has been handling the Group's financial and administrative matters since then.

As at the date of this announcement, Ms. So, as the spouse of Mr. KK Wong, is deemed to be interested in the same number of the Shares in which Mr. KK Wong is interested pursuant to Part XV of the SFO.

Pursuant to the service agreement entered into between the Company and Ms. So, Ms. So was appointed as an executive Director for an initial term of three years commencing from 25 September 2015, subject to renewal and termination in accordance with the terms thereof. She is entitled to a fixed salary of HK\$600,000 per annum and, upon completion of every 12 months of service, a discretionary management bonus of an amount to be recommended by the remuneration committee and approved by the Board in accordance with the terms thereof. Such remuneration was determined in accordance with and covered by the said service agreement.

**Mr. Wong Chi Kei (黃志奇) (“Mr. CK Wong”)**, aged 45, was appointed as an executive Director of the Company on 7 June 2016. Mr. CK Wong holds a bachelor's degree of Industrial Engineering from University of Toronto in Canada. He has extensive experience in corporate management, business development, brand development and management, property development and distributorship business, and has been engaged in these sectors for over 21 years. He is the founder and managing director of a company principally engaged in the provision of brand management solutions and distributorship business of food and beverage products and he is also the founder and managing director of a company principally engaged in property development in Hong Kong.

As at the date of this announcement, Mr. CK Wong does not have any interest in the Shares within the meaning of Part XV of the SFO.

Pursuant to the service agreement entered into between the Company and Mr. CK Wong, Mr. CK Wong was appointed as an executive Director for an initial term of one year commencing from 7 June 2016, subject to renewal and termination in accordance with the terms thereof. He is entitled to a fixed salary of HK\$360,000 per annum. Such remuneration was determined in accordance with and covered by the said service agreement.

### **Independent non-executive Directors**

**Mr. Chung Yuk Ming, Christopher (鍾育明) (“Mr. Chung”)**, aged 44, was appointed as an independent non-executive Director of the Company on 10 September 2015. He has been a project director of Fruit Design & Build Limited, a company that provides construction-related consulting services in Hong Kong, since September 2014.



Mr. Chung has over 20 years of experience in developer and contractor role in the real estate and construction industry. He obtained a bachelor's degree of science in building surveying from City University of Hong Kong in November 1995, a master's degree of science in urban planning from the University of Hong Kong in December 1999 and a bachelor's degree of laws from Manchester Metropolitan University, the United Kingdom, (a distance learning course) in July 2006. Mr. Chung has been a Registered Construction Manager of the Hong Kong Institute of Construction Managers since February 2016, a member of the Hong Kong Institute of Directors since October 2015, a professional member of the Royal Institution of Chartered Surveyors since August 2015, a member of the Royal Town Planning Institute since January 2009 and a member of the Hong Kong Institute of Construction Managers since August 2005.

Mr. Chung was an executive director of FDB Holdings Limited (stock code: 1826), the holding company of Fruit Design & Build Limited, from August 2016 to January 2018. He worked in China International Fund Limited from April 2007 to August 2010 and from October 2012 to March 2014, Right Year Investment Limited from September 2010 to August 2012 and Penta Ocean Construction Co., Ltd. from August 1995 to July 2005 with the last position being held as construction manager.

As at the date of this announcement, Mr. Chung does not have any interest in the Shares within the meaning of Part XV of the SFO.

Pursuant to the letter of appointment entered into between the Company and Mr. Chung, he was appointed as an independent non-executive Director for a fixed term of one year commencing from 25 September 2015, subject to renewal and termination in accordance with the terms thereof. Mr. Chung is entitled to a remuneration of HK\$120,000 per annum. Such remuneration was determined in accordance with and covered by the said letter of appointment.

**Mr. Fok Ka Chi** (霍嘉誌) (“**Mr. Fok**”), aged 36, was appointed as an independent non-executive Director of the Company on 10 September 2015. He is currently practicing as a barrister-at-law in Hong Kong and is also a member of the Hong Kong Bar Association.

Mr. Fok has experience in the areas of commercial and property litigations. He obtained a bachelor's degree of laws (LLB) and a postgraduate certificate in laws (PCLL) from City University of Hong Kong in November 2006 and July 2007, respectively. Mr. Fok was admitted as a Barrister in Hong Kong in 2008. He was an independent non-executive director of AID Partners Technology Holdings Limited (formerly known as AID Partners Capital Holdings Limited) (stock code: 8088) from May 2013 to September 2013.

As at the date of this announcement, Mr. Fok does not have any interest in the Shares within the meaning of Part XV of the SFO.

Pursuant to the letter of appointment entered into between the Company and Mr. Fok, he was appointed as an independent non-executive Director for a fixed term of one year commencing from 25 September 2015, subject to renewal and termination in accordance with the terms thereof. Mr. Fok is entitled to a remuneration of HK\$120,000 per annum. Such remuneration was determined in accordance with and covered by the said letter of appointment.



**Mr. Tam Chun Chung** (譚振忠) (“**Mr. Tam**”), aged 45, was appointed as an independent non-executive Director of the Company on 10 September 2015. He has been the joint company secretary of China Railway Group Limited (stock code: 390) since November 2007 and an independent non-executive director of Huiyin Smart Community Co., Ltd. (formerly known as Huiyin Household Appliances (Holdings) Co., Ltd.) (stock code: 1280) since March 2010.

Mr. Tam has more than 20 years of experience in the fields of accounting, auditing and compliance matters of listed companies in Hong Kong. He obtained a bachelor’s degree of business administration from the Chinese University of Hong Kong in December 1994. Mr. Tam was admitted as a member of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in December 1997 and a fellow of the Association of Chartered Certified Accountants since November 2002.

Prior to joining China Railway Group Limited (stock code: 390), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 549) from September 2005 to November 2007. During January 2000 to May 2005, he worked in the finance department in China Motion Telecom International Limited (currently known as Ground Properties Company Limited and was then listed on the Stock Exchange (stock code: 989)) as an assistant manager, and was subsequently promoted to the position as a senior manager. Mr. Tam worked for KPMG from September 1994 to January 2000 and his last position held was an assistant manager.

As at the date of this announcement, Mr. Tam does not have any interest in the Shares within the meaning of Part XV of the SFO.

Pursuant to the letter of appointment entered into between the Company and Mr. Tam, he was appointed as an independent non-executive Director for a fixed term of one year commencing from 25 September 2015, subject to renewal and termination in accordance with the terms thereof. Mr. Tam is entitled to a remuneration of HK\$120,000 per annum. Such remuneration was determined in accordance with and covered by the said letter of appointment.

Save as disclosed above, none of the Directors (i) has held any other position with the Group and any directorship in any other listed companies in Hong Kong or overseas in the last three years; (ii) as at the date of this announcement, has any interest in the Shares which is required to be disclosed under Part XV of the SFO; (iii) has any relationships with any Directors, senior management, substantial Shareholders or Controlling Shareholders of the Company; and (iv) has any other information which needs to be brought to the attention of the Shareholders or is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Main Board Listing Rules and the Board is not aware of any other matter that needs to be brought to the attention of the Shareholders in relation to their directorships.

### **Senior management**

**Mr. Lau Kai Sum** (劉啓森), aged 61, is a senior project manager of the Group. He joined the Group on 2 October 2010 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding to the building services projects of the Group. Mr. Lau has over 35 years of experience in the building services industry. He obtained a higher certificate in mechanical engineering from the Hong Kong

Polytechnic (currently known as the Polytechnic University) in November 1986. Prior to joining the Group, Mr. Lau worked in several engineering companies and was involved in numerous building services projects. Immediately before joining the Group, Mr. Lau was the chief engineer at Shinryo (Hong Kong) Limited from December 2009 to September 2010 where he was responsible for planning, organising, supervising, controlling and coordinating building services installation activities. Mr. Lau has not held any directorship in any public listed company during the three years immediately preceding the date of this announcement.

**Mr. Lee Man Kei** (李文基), aged 39, is a project manager of the Group. He joined the Group on 14 October 2004 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding to the building services projects of the Group. Mr. Lee has over 12 years of experience in the building services industry. He obtained a higher diploma in building services engineering from the Hong Kong Institute of Vocational Education in July 2002. Mr. Lee also obtained a bachelor's degree of engineering in building services engineering and a master of science in fire and safety engineering from the Hong Kong Polytechnic University in October 2008 and October 2011, respectively. Mr. Lee first joined the Group as an assistant engineer and was subsequently promoted to the position as an engineer, a senior engineer, an assistant project manager and his current position as a project manager. Mr. Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this announcement.

**Mr. Chan Chi Sing** (陳志成), aged 42, is a project manager of the Group. He joined the Group on 1 March 1998 and he is primarily responsible for the tendering work of the building services projects of the Group. Mr. Chan has over 19 years of experience in the building services industry. He obtained a higher diploma in building services engineering and a bachelor's degree of engineering in building services engineering from the Hong Kong Polytechnic University in November 1997 and October 2014, respectively. Mr. Chan joined the Group as an engineer, and was subsequently promoted to the position as a senior engineer, an assistant project manager and his current position as a project manager. Mr. Chan has not held any directorship in any public listed company during the three years immediately preceding the date of this announcement.

**Mr. Lau Hing Cheong** (劉慶昌), aged 39, is a project manager of the Group. He joined the Group in May 2004 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding to the building services projects of the Group. He has over 13 years of experience in the building services industry. He obtained a higher diploma in building services engineering, a bachelor's degree of engineering in building services engineering and a master of science in fire and safety engineering from the Hong Kong Polytechnic University in November 2000, October 2013 and September 2016, respectively. Mr. Lau has not held any directorship in any public listed company during the three years immediately preceding the date of this announcement.

**Mr. Chan Chun Sing** (陳振聲), aged 38, is the chief financial officer and company secretary of the Group who joined the Group on 23 February 2015. He is primarily responsible for the financial reporting, financial planning, treasury, financial control matters and company secretarial matters of the Group. He has been an independent non-executive

director of Lai Si Enterprise Holding Limited (stock code: 2266) and Winson Holdings Hong Kong Limited (stock code: 8421) since 18 January 2017 and 21 February 2017, respectively.

Mr. Chan has over 15 years of experience in the fields of accounting, auditing and compliance matters of listed companies in Hong Kong. He obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in 2001. Mr. Chan has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since April 2006. He is also an associate member of the Hong Kong Institute of Directors since March 2013. Mr. Chan worked for Deloitte Touche Tohmatsu from September 2001 to July 2011 and his last position held was a senior manager in the audit department. Mr. Chan also served as an independent non-executive director of Northern New Energy Holdings Limited (formerly known as Noble House (China) Holdings Limited) (stock code: 8246) from December 2011 to October 2013. He joined a private company as the chief financial officer from July 2013 to February 2014 and was appointed as an executive director from March 2014 to April 2015. Save as disclosed above, Mr. Chan has not held any directorship in any public listed company during the three years immediately preceding the date of this announcement.

## **REMUNERATION POLICIES**

The executive Directors, the independent non-executive Directors and senior management members receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the Directors and senior management, as well as the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the Group's operations. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management members by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of the Directors and performance of the Group.

The Group promotes individuals based on their performance and potential development 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.

Referring to the above remuneration policy, bonuses may be paid with reference to the Group's performance as well as individual's performance. Therefore, any changes in the level of bonuses paid will be in line with the Group's performance and will have no material adverse effects on the Group's net profit.

## FINANCIAL INFORMATION OF THE GROUP

The table below sets forth the selected information of the Group's audited consolidated financial statements for the three years ended 31 December 2016 and the Group's unaudited condensed consolidated financial information for the nine months ended 30 September 2016 and 2017:

|  | Year ended 31 December |                      |                      | Nine months ended<br>30 September |                      |
|--|------------------------|----------------------|----------------------|-----------------------------------|----------------------|
|  | 2014                   | 2015                 | 2016                 | 2016                              | 2017                 |
|  | HK\$'000               | HK\$'000             | HK\$'000             | HK\$'000                          | HK\$'000             |
|  | (audited)              | (audited)            | (audited)            | (unaudited)                       | (unaudited)          |
| Revenue  | 135,493                | 187,794              | 235,487              | 149,143                           | 211,976              |
| Cost of sales  | <u>(98,910)</u>        | <u>(149,919)</u>     | <u>(190,840)</u>     | <u>(119,962)</u>                  | <u>(167,096)</u>     |
| Gross profit   | 36,583                 | 37,875               | 44,647               | 29,181                            | 44,880               |
| Other income   | 378                    | 244                  | 466                  | 412                               | 66                   |
| Gain on disposal of leasehold land<br>and buildings                  | —                      | 8,269                | —                    | —                                 | —                    |
| Administrative expenses  | (7,728)                | (17,362)             | (12,663)             | (8,791)                           | (11,245)             |
| Listing expenses   | —                      | (10,054)             | —                    | —                                 | —                    |
| Financial cost   | <u>(193)</u>           | <u>(89)</u>          | <u>(196)</u>         | <u>(130)</u>                      | <u>(260)</u>         |
| Profit before tax  | 29,040                 | 18,883               | 32,254               | 20,672                            | 33,441               |
| Income tax expense   | <u>(4,787)</u>         | <u>(4,369)</u>       | <u>(5,290)</u>       | <u>(3,411)</u>                    | <u>(5,783)</u>       |
| <b>Profit and total comprehensive<br/>income for the year/period</b> | <u><u>24,253</u></u>   | <u><u>14,514</u></u> | <u><u>26,964</u></u> | <u><u>17,261</u></u>              | <u><u>27,658</u></u> |

## Revenue

Set out below is the breakdown of the Group's revenue for the three years ended 31 December 2016:

|  | Year ended 31 December |              |                 |              |                 |              |
|--|------------------------|--------------|-----------------|--------------|-----------------|--------------|
|  | 2014                   |              | 2015            |              | 2016            |              |
|  | <i>HK\$'000</i>        | %            | <i>HK\$'000</i> | %            | <i>HK\$'000</i> | %            |
| Building services engineering projects | 118,360                | 87.4         | 165,703         | 88.2         | 220,600         | 93.7         |
| Maintenance projects                   | <u>17,133</u>          | <u>12.6</u>  | <u>22,091</u>   | <u>11.8</u>  | <u>14,887</u>   | <u>6.3</u>   |
| Total                                  | <u>135,493</u>         | <u>100.0</u> | <u>187,794</u>  | <u>100.0</u> | <u>235,487</u>  | <u>100.0</u> |

Sets out below is the range of revenue recognised of 63, 65 and 68 building services engineering projects with revenue contribution during the three years ended 31 December 2016, respectively:

|         | Revenue recognised during the year per building services engineering project with revenue contribution during the year ended 31 December |                 |                 |
|---------|--|-----------------|-----------------|
|         | 2014   | 2015            | 2016            |
|         | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Maximum | 21,492   | 37,107          | 22,244          |
| Minimum | 1  | 2               | 4               |
| Average | 1,879  | 2,549           | 3,244           |

Sets out below is the range of revenue recognised of 109, 83 and 76 maintenance projects with revenue contribution during the three years ended 31 December 2016, respectively:

|         | Revenue recognised during the year per maintenance project with revenue contribution during the year ended 31 December |                 |                 |
|---------|--|-----------------|-----------------|
|         | 2014   | 2015            | 2016            |
|         | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Maximum | 2,166  | 2,105           | 2,684           |
| Minimum | 1  | 2               | 2               |
| Average | 157  | 266             | 196             |

The Group's revenue for the year ended 31 December 2015 amounted to approximately HK\$187.8 million, representing an increase of approximately HK\$52.3 million or 38.6% as compared to that of approximately HK\$135.5 million for the year ended 31 December 2014. Such increase was mainly due to the increase in both building services engineering projects and the maintenance projects provided by the Group as a result of (i) the overall development in the construction industry in Hong Kong; (ii) the increase in the number of contracting projects undertaken by the Group during the year ended 31 December 2015; and (iii) the increase in average revenue recognised per project during the year ended 31 December 2015. For building services engineering project, the average revenue recognised per project increased from approximately HK\$1.9 million for the year ended 31 December 2014 to approximately HK\$2.5 million for the year ended 31 December 2015. Given that the number of projects with revenue contribution increased for the year end 31 December 2015, the total revenue also increased for the year end 31 December 2015.

The Group's 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, representing a growth of approximately 25.4%. Such increase was mainly due to the increase in the building services engineering projects provided by the Group as a result of (i) the overall development in the construction industry in Hong Kong; (ii) the increase in the number of contracting projects undertaken by the Group during the year ended 31 December 2016; and (iii) the increase in average revenue recognised per project during the year ended 31 December 2016. Despite the total number of projects with revenue contribution decreased for the year ended 31 December 2016, the average revenue recognised per project increased for the year ended 31 December 2016. For building services engineering project, the average revenue recognised per project increased from approximately HK\$2.5 million for the year ended 31 December 2015 to approximately HK\$3.2 million for the year ended 31 December 2016.

The table below sets forth the breakdown of the Group's revenue for the nine months ended 30 September 2016 and 2017:

|  | <b>Nine months ended 30 September</b> |                     |                       |                     |
|--|---------------------------------------|---------------------|-----------------------|---------------------|
|  | <b>2016</b>                           |                     | <b>2017</b>           |                     |
|  | <i>HK\$'000</i>                       | %                   | <i>HK\$'000</i>       | %                   |
|  | (unaudited)                           |                     | (unaudited)           |                     |
| Building services engineering projects | 138,473                               | 92.8                | 202,901               | 95.7                |
| Maintenance projects                   | <u>10,670</u>                         | <u>7.2</u>          | <u>9,075</u>          | <u>4.3</u>          |
| Total                                  | <u><u>149,143</u></u>                 | <u><u>100.0</u></u> | <u><u>211,976</u></u> | <u><u>100.0</u></u> |

Set out below is the range of revenue recognised of 52 and 53 building services engineering projects with revenue contribution during the nine months ended 30 September 2016 and 2017, respectively:

|         | <b>Revenue recognised during<br/>the period per building<br/>services engineering<br/>project with revenue<br/>contribution during the<br/>nine months ended<br/>30 September</b> |                 |
|---------|---|-----------------|
|         | <b>2016</b>   | <b>2017</b>     |
|         | <i>HK\$'000</i>   | <i>HK\$'000</i> |
| Maximum | 21,989  | 31,096          |
| Minimum | 18  | 2               |
| Average | 2,663   | 3,828           |

Set out below is the range of revenue recognised of 70 and 46 maintenance projects with revenue contribution during the nine months ended 30 September 2016 and 2017, respectively:

|         | <b>Revenue recognised during<br/>the period per maintenance<br/>project with revenue<br/>contribution during the<br/>nine months ended<br/>30 September</b> |                 |
|---------|---|-----------------|
|         | <b>2016</b>   | <b>2017</b>     |
|         | <i>HK\$'000</i>   | <i>HK\$'000</i> |
| Maximum | 1,704   | 1,664           |
| Minimum | 1   | 3               |
| Average | 152   | 197             |

The Group's revenue increased from approximately HK\$149.1 million for the nine months ended 30 September 2016 to approximately HK\$212.0 million for the nine months ended 30 September 2017, representing an increase of approximately 42.1%. Such increase was mainly due to (i) 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; (ii) the increase in number of building services engineering projects undertaken by the Group during the nine months ended 30 September 2017; and (iii) the increase in average revenue recognised per building services engineering project from approximately HK\$2.7 million for the nine months ended 30 September 2016 to approximately HK\$3.8 million for the nine months ended 30 September 2017.



## Gross profit and gross profit margin

Set out below is the breakdown of the Group's gross profits and gross profit margins by building services engineering projects and maintenance projects for the three years ended 31 December 2016:

|  | Year ended 31 December   |                             |                          |                             |                          |                             |
|--|--------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|  | 2014                     |                             | 2015                     |                             | 2016                     |                             |
|  | Gross profit<br>HK\$'000 | Gross profit<br>margin<br>% | Gross profit<br>HK\$'000 | Gross profit<br>margin<br>% | Gross profit<br>HK\$'000 | Gross profit<br>margin<br>% |
| Building services engineering projects | 30,257                   | 25.6                        | 28,594                   | 17.3                        | 38,934                   | 17.6                        |
| Maintenance projects                   | 6,326                    | 36.9                        | 9,281                    | 42.0                        | 5,713                    | 38.4                        |
| Total/overall                          | <u>36,583</u>            | <u>27.0</u>                 | <u>37,875</u>            | <u>20.2</u>                 | <u>44,647</u>            | <u>19.0</u>                 |

Sets out below is the percentage of subcontracting charges and direct labour costs to cost of sales for the three years ended 31 December 2016:

|                        | Year ended 31 December |              |                |              |                |              |
|------------------------|------------------------|--------------|----------------|--------------|----------------|--------------|
|                        | 2014                   |              | 2015           |              | 2016           |              |
|                        | HK\$'000               | %            | HK\$'000       | %            | HK\$'000       | %            |
| Total costs of sales   | <u>98,910</u>          | <u>100.0</u> | <u>149,919</u> | <u>100.0</u> | <u>190,840</u> | <u>100.0</u> |
| Subcontracting charges | 49,167                 | 49.7         | 72,902         | 48.6         | 88,443         | 46.3         |
| Direct labour costs    | 22,967                 | 23.2         | 30,463         | 20.3         | 27,056         | 14.2         |

The Group's gross profit increased by approximately HK\$1.3 million or 3.5% from approximately HK\$36.6 million for the year ended 31 December 2014 to approximately HK\$37.9 million for the year ended 31 December 2015. The increase was mainly driven by the increase in revenue for the year ended 31 December 2015. The Group's overall gross profit margin dropped from approximately 27.0% for the year ended 31 December 2014 to approximately 20.2% for the year ended 31 December 2015 as the extent of increase in subcontracting charges and direct labour costs is greater than that of increase in revenue for the year ended 31 December 2015. The increase in subcontracting changes was mainly caused by the size increase of the contracting projects undertaken by the Group during the year. The increase in direct labour costs was mainly due to a discretionary bonus paid to direct labours during the year ended 31 December 2015 which amounted to approximately HK\$9.0 million.

The Group's gross profit increased by approximately HK\$6.7 million or 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

Group's 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. Such greater increase in subcontracting charges was mainly driven by the increase in the size of contracting projects undertaken by the Group during the year.

Set out below is the breakdown of the Group's gross profits and gross profit margins by building services engineering projects and maintenance projects for the nine months ended 30 September 2016 and 2017:

|  | Nine months ended 30 September<br>2016         |                             | 2017   |                             |
|--|--|-----------------------------|--|-----------------------------|
|  | Gross profit<br><i>HK\$'000</i><br>(unaudited) | Gross profit<br>margin<br>% | Gross profit<br><i>HK\$'000</i><br>(unaudited) | Gross profit<br>margin<br>% |
| Building services engineering projects | 25,399   | 18.3                        | 41,449   | 20.4                        |
| Maintenance projects                   | <u>3,782</u>                                   | <u>35.4</u>                 | <u>3,431</u>                                   | <u>37.8</u>                 |
| Total/overall                          | <u><u>29,181</u></u>                           | <u><u>19.6</u></u>          | <u><u>44,880</u></u>                           | <u><u>21.2</u></u>          |

Set out below is the percentage of subcontracting charges and direct labour costs to cost of sales for the nine months ended 30 September 2016 and 2017:

|                        | Nine months ended 30 September<br>2016 |              | 2017            |              |
|------------------------|--|--------------|-----------------|--------------|
|                        | <i>HK\$'000</i>                        | %            | <i>HK\$'000</i> | %            |
| Total costs of sales   | <u>119,962</u>                         | <u>100.0</u> | <u>167,096</u>  | <u>100.0</u> |
| Subcontracting charges | 52,305                                 | 43.6         | 89,509          | 53.6         |
| Direct labour costs    | 19,263                                 | 16.1         | 24,687          | 14.8         |

The Group's gross profit increased by approximately HK\$15.7 million or 53.8% from approximately HK\$29.2 million for the nine months ended 30 September 2016 to approximately HK\$44.9 million for the nine months ended 30 September 2017. The increase in gross profit margin for building services engineering projects for the nine months ended 30 September 2017 was mainly attributable to a building services engineering project related to installation of electrical system for a residential development which had a higher gross profit margin of over 35% for the nine months ended 30 September 2017.

## **Profit and total comprehensive income for the year**

The Group's profit and total comprehensive income amounted to approximately HK\$24.3 million, HK\$14.5 million and HK\$27.0 million for each of the three years ended 31 December 2016 respectively, representing a decrease of approximately HK\$9.8 million or 40.2% during the year ended 31 December 2015 as compared to that of the year ended 31 December 2014, and an increase of approximately HK\$12.5 million or 85.8% during the year ended 31 December 2016 as compared to the year ended 31 December 2015.

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

The increase in the year ended 31 December 2016 as compared to the year ended 31 December 2015 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. The decrease in administrative expenses for the year ended 31 December 2016 was mainly due to a one-off discretionary bonus paid to employees during the year ended 31 December 2015. The one-off discretionary bonus to staff was to incentivise their contribution to the Group following the Listing of the Company and the continuing business development of the Group. The total amount of bonus paid to administrative staff during the year ended 31 December 2015 amounted to approximately HK\$4.9 million, while total bonus paid to administrative staff amounted to approximately HK\$0.8 million during the year ended 31 December 2016.

Profit and total comprehensive income increased by approximately HK\$10.4 million or 60.2% from approximately HK\$17.3 million for the nine months ended 30 September 2016 to approximately HK\$27.7 million for the nine months ended 30 September 2017. Such increase was primarily attributable to the net effect of (i) the increase in revenue and gross profit for the nine months ended 30 September 2017; and (ii) the increase in administrative expenses for the nine months ended 30 September 2017. The increase in administrative expenses of approximately HK\$2.5 million for the nine months ended 30 September 2017 was mainly 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.

## OTHER FINANCIAL INFORMATION OF THE GROUP

Set out below is a consolidated statement of financial position as at the dates indicated:

|  | As at 31 December |                |                | As at          |
|--|-------------------|----------------|----------------|----------------|
|  | 2014              | 2015           | 2016           | 30 September   |
|  | HK\$'000          | HK\$'000       | HK\$'000       | 2017           |
|  | (audited)         | (audited)      | (audited)      | (unaudited)    |
| <b>Current assets</b>                        |                   |                |                |                |
| Inventories — raw materials and consumables  | 36                | 30             | 29             | 29             |
| Amounts due from customers for contract work | 23,646            | 54,355         | 24,919         | 42,322         |
| Trade and other receivables                  | 42,467            | 61,810         | 110,608        | 95,692         |
| Amount due from a director                   | 10,711            | —              | —              | —              |
| Pledged bank deposits                        | —                 | 18,000         | 26,456         | 15,787         |
| Bank balances and cash                       | 34,651            | 4,021          | 7,059          | 31,926         |
|  | <u>111,511</u>    | <u>138,216</u> | <u>169,071</u> | <u>185,756</u> |
| <b>Current liabilities</b>                   |                   |                |                |                |
| Amounts due to customers for contract work   | 1,668             | 1,585          | 2,382          | 2,565          |
| Trade and other payables                     | 46,546            | 46,624         | 55,459         | 44,678         |
| Amount due to a related party                | 211               | 1              | 2              | —              |
| Tax payable                                  | 4,772             | 1,329          | 3,920          | 6,958          |
| Bank borrowings                              | 7,563             | 3,590          | —              | 1,541          |
| Bank overdrafts                              | 586               | 5,311          | —              | —              |
|  | <u>61,346</u>     | <u>58,440</u>  | <u>61,763</u>  | <u>55,742</u>  |
| <b>Net current assets</b>                    | <u>50,165</u>     | <u>79,776</u>  | <u>107,308</u> | <u>130,014</u> |

The net current assets of the Group as at 31 December 2015 increased to approximately HK\$79.8 million from approximately HK\$50.2 million as at 31 December 2014, representing an increase of approximately HK\$29.6 million or 59.0%. Such increase was mainly contributed by the net proceeds from the placing of approximately HK\$ 31.6 million. The net current assets further increased by approximately HK\$27.5 million or 34.5% to approximately HK\$107.3 million as at 31 December 2016. Such increase was mainly contributed by the profit for the year of approximately HK\$27.0 million. The net current assets further increased by approximately HK\$22.7 million or 21.2% to approximately HK\$130.0 million as at 30 September 2017. Such increase was mainly contributed by the profit for the nine-month period ended 30 September 2017 of approximately HK\$27.7 million, net with the payment of the final dividend of approximately HK\$5.4 million in respect of the year ended 31 December 2016 during the nine months ended 30 September 2017.

The amounts due from customers for contract work arises as a result of the timing difference between incurred cost and cost attributable to revenue, whereas both revenue and costs are recognised with reference to the stage of completion of the projects at the end of each financial year. Amounts due to customers for contract work represents building services engineering projects in progress where the Group's progress billings exceed costs incurred plus recognised profits less recognised losses. Conversely, if costs incurred plus recognised profits less recognised losses exceed progress billings, an amount due from customers for contract work will be recognised as the Group's current assets.

The net amounts due from (to) customers for contract work increased by approximately HK\$17.3 million from approximately HK\$22.5 million as at 31 December 2016 to approximately HK\$39.8 million as at 30 September 2017, which was mainly attributable to the execution of the Group's projects that commenced in late 2016 or early 2017 and continued through the nine months ended 30 September 2017 with considerable start-up costs incurred, including subcontracting charges, material and equipment costs and labour costs, while works completed had not been applied for certification/under certification by customer as at 30 September 2017. As at 30 September 2017, the top five projects that contributed to the amounts due from customers for contract work amounted to approximately HK\$24.6 million.

Subsequent to 30 September 2017 and up to 31 December 2017, approximately 78.9% of the amounts due from customers for contract work as at 30 September 2017 had been subsequently recognised.

The Group's trade and other receivables mainly comprise trade receivables and retention receivables. Trade receivables represent receivables from the Group's customers arising from the provision of engineering services and maintenance services for building services systems. Retention receivables represent retention money withheld by some of the Group's customers which usually amounted to around 5% to 10% of each fee payment. Retention receivables are released by the customers in accordance with the respective agreements entered into with the customers, which is released at the end of the defect liability period, a 12-month period in general.

The Group's trade and other receivables increased from approximately HK\$42.5 million as at 31 December 2014 to approximately HK\$61.8 million as at 31 December 2015, representing an increase of approximately 45.5%. Such increase was mainly driven by the increase in trade receivables by approximately HK\$10.9 million and the increase in retention receivables by approximately HK\$5.4 million as compared to those as at 31 December 2014 as a result of the improvement in revenue of the Group for the year ended 31 December 2015. The trade receivables turnover days for the year ended 31 December 2015 remained stable at 72 days, as compared to 75 days for the year ended 31 December 2014.

The Group's trade and other receivables increased from approximately HK\$61.8 million as at 31 December 2015 to approximately HK\$110.6 million as at 31 December 2016, representing an increase of approximately 78.9%. Such increase was mainly due to the increase in trade receivables by approximately HK\$44.9 million, or 105.8%, from approximately HK\$42.5 million as at 31 December 2015 to approximately HK\$87.4 million as at 31 December 2016 as a result of (i) the increase in total revenue for the Group for the year ended 31 December 2016; and (ii) higher amount of work done has been certified and

billed to its customers in the fourth quarter for the year ended 31 December 2016. The revenue for the fourth quarter for the year ended 31 December 2016 amounted to approximately HK\$86.3 million, which was higher than the average quarterly revenue of approximately HK\$49.7 million for the first three quarters of the year ended 31 December 2016. Accordingly, the trade receivables turnover days increased from approximately 72 days for the year ended 31 December 2015 to approximately 101 days for the year ended 31 December 2016.

The Group's trade receivable turnover days during the Track Record Period were generally longer than the Group's credit terms of 30 days during the Track Record Period, including but not limited to, some of the Group's customers, being main contractors, required the settlement of progress payment due to the Group on a back-to-back basis, i.e. the main contractor would settle the progress payment due by it to the Group only after such main contractor receiving the corresponding progress payment due by the project's employer. Also, some project employers may undergo internal procedure for making payment pursuant to the certificate issued by the consultant of the project. These factors usually prolong the timing of settlement which the Directors consider such factors is a common practice in the industry.

As at the Latest Practicable Date, approximately 56.5% of the trade receivables as at 30 September 2017 had been subsequently settled.

### Cash flows

The following table sets forth selected cash flows data from the Group's unaudited condensed consolidated statements of cash flows for the periods indicated:

|   | <b>Nine months ended</b> |                      |
|---|--------------------------|----------------------|
|   | <b>30 September</b>      |                      |
|   | <b>2016</b>              | <b>2017</b>          |
|   | <i>HK\$'000</i>          | <i>HK\$'000</i>      |
|   | (unaudited)              | (unaudited)          |
| Net cash generated from operating activities  | <u>39,262</u>            | <u>18,265</u>        |
| Net cash generated (used in)/from investing activities  | <u>(5,405)</u>           | <u>10,697</u>        |
| Net cash used in financing activities   | <u>(3,720)</u>           | <u>(4,095)</u>       |
| Net increase in cash and cash equivalents   | <u>30,137</u>            | <u>24,867</u>        |
| Cash and cash equivalents at the beginning of the period  | <u>(1,290)</u>           | <u>7,059</u>         |
| Cash and cash equivalents at the end of the period,<br>represented by cash at banks and on hand | <u><u>28,847</u></u>     | <u><u>31,926</u></u> |



For the nine months ended 30 September 2017, the Group recorded net cash from operating activities of approximately HK\$18.3 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$34.1 million and decrease in trade and other receivables of approximately HK\$14.9 million, which is partly offset by decrease in trade and other payables of approximately HK\$10.8 million, increase in net amounts due from customers for contract work of approximately HK\$17.2 million and income tax paid of approximately HK\$2.7 million. The net cash generated from operating activities decreased from approximately HK\$39.3 million for the nine months ended 30 September 2016 to approximately HK\$18.3 million for the nine months ended 30 September 2017. This was mainly due to the execution of certain projects for the nine months ended 30 September 2017, with works completed but had not been applied for certification/under certification by customer as at 30 September 2017. As at 30 September 2017, the top five projects that contributed to the amounts due from customers for contract work amounted to approximately HK\$24.6 million.

The Group recorded higher profit before taxation of approximately HK\$33.4 million for the nine months ended 30 September 2017 than that of approximately HK\$20.7 million for nine months ended 30 September 2016. Nevertheless, the Group recorded lower net cash generated in operating activities for the nine months ended 30 September 2017 mainly because of the decrease in trade and other payables and increase in amounts due from customers for contract work.

For the nine months ended 30 September 2016, the Group recorded net cash used in investing activities of approximately HK\$5.4 million, which mainly represents placement of pledged bank deposits. For the nine months ended 30 September 2017, the Group recorded net cash from investing activities of approximately HK\$10.7 million, primarily as a result of net release from pledged bank deposits.

For the nine months ended 30 September 2016, the Group recorded net cash used in financing activities of approximately HK\$3.7 million, primarily as a result of net repayment of bank borrowings of approximately HK\$3.6 million and interest paid of approximately HK\$130,000. For the nine months ended 30 September 2017, the Group recorded net cash used in financing activities of approximately HK\$4.1 million, primarily as a result of net short-term bank borrowings raised of approximately HK\$1.5 million, which is partly offset by the dividend paid of approximately HK\$5.4 million and interest paid of approximately HK\$260,000.

## **TREASURY POLICY**

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

The bank borrowings of the Group as at 30 September 2017 increased to approximately HK\$1.5 million from nil as at 31 December 2016. In April 2017, the Group obtained a banking facility of HK\$38 million specifically for a building services engineering project for a hotel and office building development with contract sum of approximately HK\$150 million. The bank borrowings of approximately HK\$1.5 million as at 30 September 2017 was a result of the utilisation of such banking facility. As at 30 September 2017, the Group had unutilised banking facilities of approximately HK\$83.9 million, which could be utilised if the need arises. The Directors view that in considering the scale of the aforesaid project with contract sum of approximately HK\$150 million, the utilisation of the banking facility specifically for the aforesaid project would allow the Group to manage its funds more effectively.

As at 1 January 2016, the Group recorded cash and cash equivalents of approximately HK\$(1.3 million), due to the net effect of bank balances and cash of approximately HK\$4.0 million and bank overdrafts of approximately HK\$5.3 million. This was mainly due to the execution of the Group's projects, with considerable startup costs incurred, including subcontracting charges, material and equipment costs and labour costs, while works completed had not been applied for certification/under certification by customer as at 31 December 2015, as shown by the amounts due from customers for contract work of approximately HK\$54.4 million as at 31 December 2015. Such bank overdrafts of approximately HK\$5.3 million was of a temporary nature and was fully settled during January 2016. As at 31 January 2016, the bank balances and cash amounted to approximately HK\$6.2 million (unaudited) with no bank overdrafts being drawn.

It is the Group's treasury policy to maintain a healthy liquidity position and to minimise liquidity risk. The Directors consider that the bank borrowings of approximately HK\$1.5 million as at 30 September 2017 and the bank overdrafts of approximately HK\$5.3 million as at 31 December 2015 were merely part of the Group's cash management to reduce exposure to liquidity risks and confirm that there have been no changes in the Group's treasury policy since the listing of the Shares of the Company on GEM.

## **WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the Group's internal resources and existing facilities available to the Group, the Group has sufficient working capital for its requirements for at least next 12 months from the date of this announcement.

## **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that subsequent to the Track Record Period and up to the date of this announcement, there has been no material adverse change in the financial or trading position or prospects of the Group and there have been no trends or developments which may have a material adverse impact on the Group's business operations or financial performance.

## USE OF PROCEEDS

The net proceeds from the placing, after deducting listing related expenses, were approximately HK\$31.6 million. As at 30 September 2017, the Group has used up approximately HK\$21.3 million of the net proceeds in accordance with the proposed usage set out in the section headed “Statement of business objectives and use of proceeds — Reasons for the placing and use of proceeds” in the Prospectus. An analysis of the utilisation of the net proceeds from placing as at 30 September 2017 is set out below:

|  | <b>Planned use of<br/>net proceeds as<br/>stated in the<br/>Prospectus up<br/>to 31 December<br/>2017<br/>HK\$'000</b> | <b>Actual use of<br/>net proceeds up<br/>to 30 September<br/>2017<br/>HK\$'000</b> |
|--|--|--|
| Further development of the Group's building services<br>engineering business | 16,500   | 15,787   |
| Further expansion of service scope   | 8,500  | 761  |
| Further strengthening the Group's engineering<br>department                  | 6,600  | 4,766  |

The remaining net proceeds of approximately HK\$10.3 million which had not yet been utilised is expected to be applied in accordance with the future plans and use of proceeds as set out in the Prospectus from 1 October 2017 onwards.

As at the date of this announcement, the Group does not intend to have material changes on its future plans and use of proceeds.

### Comparison of business objectives with actual business progress

The analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from 25 September 2015, the date on which the Shares were first listed on GEM, to 30 June 2017 is set out in the interim report of the Company for the six months ended 30 June 2017.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the respective websites of the Company at [www.lapkeieng.com](http://www.lapkeieng.com) and of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk):

- (a) the Articles and the memorandum of association of the Company;
- (b) the Directors' report and annual report of the Company for the year ended 31 December 2016;

- (c) the circulars of the Company dated 19 April 2016 and 6 April 2017 in relation to the proposals involving general mandates to issue new Shares and repurchase Shares, re-election of Directors and notice of annual general meeting;
- (d) the third quarterly report of the Company for the nine months ended 30 September 2017;
- (e) the interim report of the Company for the six months ended 30 June 2017;
- (f) the first quarterly report of the Company for the three months ended 31 March 2017; and
- (g) each of the announcements and other corporate communications made by the Company prior to the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

## DEFINITIONS

In this announcement, the following terms shall have the meanings set opposite them unless the context requests otherwise:

|                              |   |
|------------------------------|---|
| “Articles”                   | the articles of association of the Company adopted on 10 September 2015 and as amended from time to time  |
| “Board”                      | the board of Directors  |
| “Buildings Department”       | the Buildings Department of the Government  |
| “Buildings Ordinance”        | the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “building services”          | the types of building related systems in relation to (i) air-conditioning system; (ii) electrical system; (iii) fire services system; and (iv) plumbing and drainage system |
| “CCASS”                      | the Central Clearing and Settlement System established and operated by HKSCC  |
| “close associate(s)”         | has the meaning ascribed to it under the Main Board Listing Rules   |
| “Company”                    | Lap Kei Engineering (Holdings) Limited (立基工程(控股)有限公司), a company incorporated in the Cayman Islands and the Shares of which are listed on GEM                               |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Main Board Listing Rules   |
| “Development Bureau”         | the Development Bureau of the Government  |

|                            |   |
|----------------------------|---|
| “Director(s)”              | the director(s) of the Company  |
| “EMSD”                     | the Electrical and Mechanical Services Department of the Government   |
| “Fire Services Department” | the Fire Services Department of the Government  |
| “GEM”                      | the Growth Enterprise Market of the Stock Exchange  |
| “GEM Listing Rules”        | the Rules Governing the Listing of Securities on GEM  |
| “Government”               | the government of Hong Kong   |
| “Group”                    | the Company and its subsidiaries  |
| “HK\$”                     | Hong Kong dollar(s), the lawful currency of Hong Kong   |
| “HKSCC”                    | Hong Kong Securities Clearing Company Limited   |
| “Hong Kong”                | the Hong Kong Special Administrative Region of the People’s Republic of China   |
| “Lap Kei”                  | Lap Kei Engineering Company Limited (立基冷氣工程有限公司), a company incorporated in Hong Kong with limited liability on 22 December 1997 and an indirect wholly-owned subsidiary of the Company   |
| “Latest Practicable Date”  | 26 January 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this announcement   |
| “Listing”                  | the listing of Shares on GEM of the Stock Exchange since 25 September 2015  |
| “Main Board”               | the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM |
| “Main Board Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “MVAC”                     | mechanical ventilation and air-conditioning   |
| “Prospectus”               | the listing document of the Company dated 18 September 2015   |
| “SFO”                      | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |

|                       |   |
|-----------------------|---|
| “Share(s)”            | ordinary share(s) of HK\$0.01 in the capital of the Company   |
| “Share Option Scheme” | the share option scheme conditionally approved and adopted by the Company on 10 September 2015  |
| “Shareholder(s)”      | shareholder(s) of the Company   |
| “Stock Exchange”      | The Stock Exchange of Hong Kong Limited   |
| “Track Record Period” | the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017   |
| “Transfer of Listing” | the transfer of listing of the Shares from GEM to the Main Board  |
| “Wealth E & M”        | Wealth E & M Limited (和富機電有限公司), a company incorporated in Hong Kong with limited liability on 30 April 2004 and an indirect wholly-owned subsidiary of the Company |
| “Works Branch”        | the Works Branch of the Development Bureau  |
| “%”                   | per cent  |

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

Hong Kong, 2 February 2018

*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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Main Board Listing Rules and GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this 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.*

*This announcement will remain on the GEM’s website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting, on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.lapkeieng.com](http://www.lapkeieng.com).*